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# **MULTINATIONAL CORPORATIONS' HUMAN RESOURCES ARCHITECTURES: A NEW CONCEPTUAL MODEL BEYOND EXPATRIATION**

## **Abstract**

Much research in international human resource management has focussed almost exclusively on the concept of expatriation and the international transfer. This paper presents a theoretical model of a multinational corporation's workforce and the human resources architectures that are applied to that workforce. This approach seeks to account for an array of emerging issues that have remained largely outside the scope of traditional expatriate research. By redefining the key outcome in terms of strategic goals for the organization, the model allows for the consideration of new influences such as different forms of mobility, new employment relationships at the domestic level and the interaction between expatriates and local employees. In particular, this paper will suggest a typology for establishing both stocks and flows of resources in the model, and suggest outcomes for the development of MNCs human resources architectures.

## INTRODUCTION

While the growth in internationalisation of economic systems is being mirrored by the amount of attention being paid to issues of international human resource management (IHRM) research, there has been an almost-exclusive focus on international transfers, considered in terms of a traditional expatriate assignment of a parent country national to a host country. As organisations face competitive pressures, the continued use of international assignments has been questioned (Forster, 1997). At the same time, the increasing application of communications technologies is enabling the rise of virtual work, such as the emerging use of global virtual teams (Jarvenpaa & Leidner, 1999; Maznevski & Chudoba, 2000).

The narrow focus on physical location vis-à-vis the MNC headquarters as the defining variable for conceptualising an MNCs workforce in terms of host country nationals, parent country nationals and third country nationals has masked the complex array of issues facing organizations in global labour markets. In reality, organizations use a variety of approaches to allocate human capital, and often use these forms simultaneously (Davis-Blake & Uzzi, 1993).

Reconceptualizing a MNC workforce as a whole is used as a starting point to develop a new theoretical framework will lead to a more comprehensive understanding of an MNCs HR architecture. In turn, this will lead to a more meaningful understanding of the use of the many types of employees within a MNC and how these employees co-exist in various combinations. This framework suggests a complexity for the MNC staffing choices that is overly simplified by the exclusive focus on HR practices as they apply to international transfers.

## DEVELOPING A NEW MODEL

In the domestic HR literature Lepak and Snell (1999) highlight the problem that most HRM researchers have tended to take a holistic view of employment and human capital, focussing on the extent to which a set of practices is used across all employees of an organization. By ignoring the possible existence of different employment practices for different employee groups within an organization, this approach appears monolithic. It may be inappropriate to simplify the nature of human capital investments and suggest that there exists a single optimal HR architecture for managing all employees. The proposed model uses Lepak and Snell's (1999) theory of HR architectures to better understand the HR architecture of a MNC.

### Construction of the Model

The proposed model is a two-by-two matrix that identifies four groups of employees in an MNC: international careerists, core employees, transient employees and free agents.

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INSERT FIGURE 1 HERE  
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**Organizational Factors** From the perspective of the MNC, there are two primary criteria for the allocation and deployment of its human capital: resource development (internal or external) and

resource focus (single-geography and multi-geography). The intersection of these criteria determines the specific HR mode that is applied to each group.

The resource development spectrum is drawn from the extensive literature on the resource-based view of the firm that argues that resources are valuable when they enable a firm to enact strategies that improve efficiency and effectiveness, exploit market opportunity and/or neutralise potential threats (Barney, 1991; Porter, 1986; Wright, Dunford, & Snell, 2001). Based on this assessment, a firm has both core and peripheral assets (Barney, 1991). Core assets are vital to the competitive advantage of an organization (Porter, 1985), and often, core assets require continual internal development. The outsourcing of these skills might jeopardise the competitive advantage of the firm by eroding its stock of core skills (Bettis, Bradley, & Hamel, 1992).

Another major differentiation between the domestic and international HR literature is the geographical dispersion of a headquarters and subsidiaries. Therefore, this model proposes the use of single-geography focussed and multi-geography focussed as a distinction between the roles of employees. Importantly, this conceptualisation removes the previously used categories of HCN, PCN and TCN and defines the MNC employees in terms of their relativity to their own geography and the scope of their role rather than the previously used HQ/subsidiary classification. For example, theoretically the role of an employee working in the US headquarters for a US MNC is the same as that of an Australian working in Australia for that same US MNC. Strategically, they deliver the same outcomes in terms of a local performing a role that focuses entirely within their home location.

**Individual Factors** Correspondingly, the employees of the MNC are characterised by two primary criteria: their commitment to the organization (internal or external) and their strategic focus (single-geography and multi-geography). Each group of employees will in turn have a unique perspective of their relationship with the MNC based on the intersection of their commitment versus their mobility.

The literature on organizational commitment provides the basis for the distinction between internal and external commitment to the organization (Meyer & Allen, 1997; Mowday, Porter, & Steers, 1982; Mowday, Steers, & Porter, 1979; Rousseau, 1995; Rousseau & Wade-Benzoni, 1995).

This differentiation between single-geography focus and multi-geography focus has been manifested in the expatriate literature as the problem of dual identification between the organization as a whole and the local subsidiary. It has been shown that managerial employees of MNCs draw a distinction between the local subsidiary and the global organization in a way similar to that drawn between the sub-unit and the wider organization in a domestic context (Gregersen & Black, 1992; Reade, 2001).

**Research Questions** Therefore, this model provides for a unique opportunity to examine the following research questions:

1. What are the strategic requirements for allocating and deploying human resources in MNCs?
2. What are the individual characteristics, employment relationship and HR practices of those human resources?
3. What are the consequences of using this HR architecture for the individual and the organization?

## HYPOTHESIS DEVELOPMENT

### Stocks in the Model

**Group One: International Careerists** International Careerists are defined as those employees whose primary job function relates to more than one geography within the MNC. As a departure from the current literature, this would include employees that are on international assignment with the MNC (host country nationals, parent country nationals and third country nationals) as well as employees who work in regional or global roles, including virtual teams, covering many geographies. It is important to note that these employees may be physically located in their home country. Rather than differentiating between the various types of expatriates or physical location of the employee, for the purposes of this model they all share similar characteristics as far as the strategic objectives of the MNC are concerned in terms of the resource development and focus.

Typically, these employees are drawn from the core workforce on the merit of technical skills demonstrated, or may transfer from the free agent segment through a change in the employment contract to a more permanent basis. There has been much research into the selection process of expatriates. In general, much research has been focussed on the more visible aspects of the process, such as the criteria used in selection decisions. Studies by Black (1988), Black and Mendenhall (1990), Ronen (1989), Mendenhall and Oddou (1986) and Tung (1981) bring together the dimensions of expatriate success, identifying five attributes to success: job factors, relational dimensions, motivational state, family situation and language skills.

*Hypothesis 1: International careerists are highly committed to the organization and their strategic focus is multi-geography.*

**Group Two: Core Employees** The 'core' employees are those employees with a single-geography focus in their primary role and have a regular and permanent employment relationship with the organization. These workers are highly trained, skilled and committed to the organization and represent the largest proportion of an MNCs workforce.

Firms have both strategic and financial incentives to internally develop this form of human capital. Firm specific skills are non-transferable, therefore, the value of any employee's human capital will be less with any other firm, and internal development will be less likely to result in capital loss. This segment typically represents the largest proportion of an MNCs workforce.

*Hypothesis 2: Core employees are highly committed to the organization and their strategic focus is a single-geography.*

**Group Three: Transient Employees** Transient employees are defined as those workers with only a single-geography orientation who have a short-term or temporary employment relationship with the organization. Employers may hire some workers directly on a temporary basis; either for a short time on fixed-term contracts (which have a fixed ending point, determined by completion of task or date) or an on-call basis.

Given the transactional nature of contract work, HR activities need only focus on securing compliance with the terms and conditions of the contract versus executing broader responsibilities

and assuming organizational roles. To ensure compliance, firms likely will concentrate on enforcing rules and regulations, upholding specific provisions regarding work protocol and ensuring conformance to preset standards. Organizations that rely on the external labour market to contract work rarely invest in training and development activities for those people.

*Hypothesis 3: Transient employees have a low organizational commitment and their strategic focus is a single-geography.*

**Group Four: Free Agents** Free agent employees are self-employed; they have neither an employer nor a wage contract and are responsible for their own tax arrangements. Unlike employees, whose work is usually defined in terms of labour expended, Free agent employees are generally given specifications for the final product or result and they decide how best to accomplish it.

Such employees move from employer to employer, doing essentially the same work in each job. Jobs where the tasks are self-contained, short term and are common across organizations fit this model. Many free agent employees can be classified as knowledge workers, and are only interested in undertaking assignments of limited duration so that they can enhance their portfolio of skills and experience and move more easily between different employers rather than building a career in one organization. This reflects not only an orientation towards their expertise but also a realistic assessment that the longevity of organizations is uncertain. Yet most employers still wish to retain a certain core of knowledge workers for a longer duration so that the organization is not depleted of skills and experience.

In a study of occupational commitment of knowledge workers in large organizations, Tam, Korczynski and Frenkel (2002) surveyed a total of 134 employees, consisting of system developers in a telecommunications company and dealers in a financial services company who provided advice and undertook transactions in money markets for corporate and institutional fund managers. This study found that there was a lack of formal human resource management policies for these employees and an absence of internal career ladders (Tam et al., 2002: 788). The responsibility for employee development was on the dealers and the developers themselves. They had to seek their own learning opportunities, instead of relying on management initiatives. Performance-related pay was a main feature of the market-based HR approach. Employees in one of the companies studied encouraged work effort by the use of performance-based pay. Bonuses made up a substantial proportion of the total pay of employees (Tam et al., 2002).

*Hypothesis 4: Free agent employees have a low organizational commitment (and a high occupational commitment) and their strategic focus is multi-geography.*

## **Flows in the Model**

Changes in the composition of employees in each segment can occur in several ways. This section explores the flows in the model and proposes several hypotheses.

**How do resources enter the model?** The diagram below illustrates the possible entry points into the MNC from the external market. These are shown by the arrows.

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INSERT FIGURE 2 HERE

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It is important to note that there is no external entry point for Group 1. This is supported by the extensive literature on the recruitment and selection of expatriates that largely concurs that this represents a closed-system (Brewster, 1991; Brewster & Scullion, 1997).

Core employees enter into the MNC via established standard recruitment practices within the MNC. Transient employees enter the MNC through agency-based recruitment. The need for transient employees is identified by the line manager and then sent to the agency contact to procure the resource. The recruitment of free agent employees is the most problematic due to the more sporadic nature of this form of employment. It is proposed that this type of entry into the MNC is based on personal contact and word of mouth, normally predicated upon prior experience with the MNC either as an employee, client or supplier. This practice represents a highly informal and opportunistic system often based on rapidly emerging business needs.

*Hypothesis 5: Employees will enter the MNC in Groups 2, 3 and 4 but not in Group 1.*

**What is the movement of resources between each segment?** Theoretically speaking, it is possible that resources can move from any group to any other group in any number of combinations. However, by examining the characteristics of each segment it is logical to assume that not all paths will be possible, and that several dominant flows will exist between each group.

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INSERT FIGURE 3 HERE

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The dominant flows that have been hypothesised between Groups 1 and 2, and Group 2 and 3. The gate between Groups 1 and 2 is open, established and most importantly, supported by extensive HR policies and practices. This is evidenced in the extensive literature looking at expatriation (a move from Group 2 to Group 1) and repatriation (a move from Group 1 to group 2). Much research has demonstrated that the most likely source of recruitment for expatriation is existing employees, and this concurs with the notion that international assignments are used as a career development tool (Brewster, 1991; Mendenhall, Dunbar, & Oddou, 1989; Scullion, 1993; Tung, 1988).

However, as this model separates the notion of a physical relocation from the strategic function of the role being performed, it is also vital to consider the move between roles that focus solely on a single-geography to those that focus on multi-geographies. For example, the shift from a domestic role to a regionally based role, or the move from a domestic project team to a regional or global project team. Such examples do not require the physical relocation that is necessitated by expatriation and repatriation, but they do represent a shift from Group 2 to Group 1. However, these transitions have not been researched extensively in the HR literature to date. An important issue for investigation therefore is to compare the relative changes for employees and ascertain the HR practices and policies that are applied to each.

The other major gate that exists within this model of an MNC's workforce is between Groups 2 and 3. The flow of resources from Group 3 into Group 2 is well evidenced, and the temporary hire literature demonstrates that the use of this type of employment is an entry point for employees into

organisations (Cappelli, 1999, 2001; Kalleberg, 2001; Kalleberg et al., 1997). At the same time this group of employees provides organisations with a fertile pool of talent for recruiting.

Two emerging flows have been identified for testing. The first is the shift of resources from Group 2 into group 3. This flow from being a core employee to a transient employee is providing MNCs with an opportunity to retain experienced resources in non-traditional forms of employment. Examples where this retention strategy may be used by the MNC is in retaining the mature workforce through transitioning to retirement and the provision for work-family balance arrangements based on contract employment for specific periods of time. Legislative changes in employment relations in Australia have enabled organizations to make better use of these provisions and therefore retain valuable resources.

Lastly, the ability to capture Free Agents as a permanent resource in the MNC is a critical flow that needs to be examined further. Many theorists have commented on the availability of employees to go on international assignment, specifically due to the issue of dual-career couples (Brewster et al., 1997; Harvey, 1985; Harvey, Buckley, Novicevic, & Wiese, 1999). As with both expatriates and employees who work across multiple geographies, retaining employees with international experience and the ability to work in different cultures is necessarily a strategic HR priority.

*Hypothesis 6: There exist two primary gates for movements within an MNC. The gates are between groups 1 and 2, and between Groups 2 and 2. These gates are represented by established and supported HR practices and policies that enable the movements.*

*Hypothesis 7: Two emerging flows of employees will be essential to an MNCs strategy: recruiting from Group 4 into group 1, and enabling group 2 employees to change their employment status to enter Group 3.*

## **METHODOLOGY**

The methodology is based on a case study of a multinational IT company, being conducted over 12 months from mid-2005 to mid-2006. The model will be tested using a stocks and flow approach. The fieldwork will incorporate a series of questionnaires (employees perspective), corporate data collection and policy documentation (HR mode) and supplemented with interviews for each of the four groups of employees. Online surveys of employees across 4 professional categories will be used to establish the stocks in the model. In-depth interviews will be conducted to establish the flows in the model.

## **CONCLUSIONS**

Advancing our knowledge of an MNCs labour utilisation strategy depends on our ability to develop models of the relationship between international and domestic employees, and to specify the conditions under which an MNC will establish various combinations of both. This project will advance our theoretical and empirical understanding of globalisation and mobile workforces, in four main ways.

Most importantly this project will help us to understand the issue of physical, psychological and employment mobility in the workforce as a series of more complex inter-relationships. Rather than the simplistic understanding of expatriate assignments, MNCs will understand their total workforce

as being fluid and dynamic. Secondly, the project will extend our knowledge and understanding of the operational aspects of MNCs in facilitating these fluid workforces. It will provide an empirically grounded study of how employees move between segments, through 'gates' and how these gates can be facilitated by HR processes. It will also demonstrate how employees can enter into the MNC through various segments as an important recruitment and retention strategy.

Another important policy implication of this project is to demonstrate how this model can be used by MNCs to managed their entire workforce at different stages in the business cycle. The dynamic nature of the model allows for employees to be moved between segments to cater for peak demand times, skills shortages and times when there is a need to reduce the contingent workforce. Finally, the project will develop our understanding of the everyday experiences of the MNC workforce in the Asia Pacific region.

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**FIGURE 1**

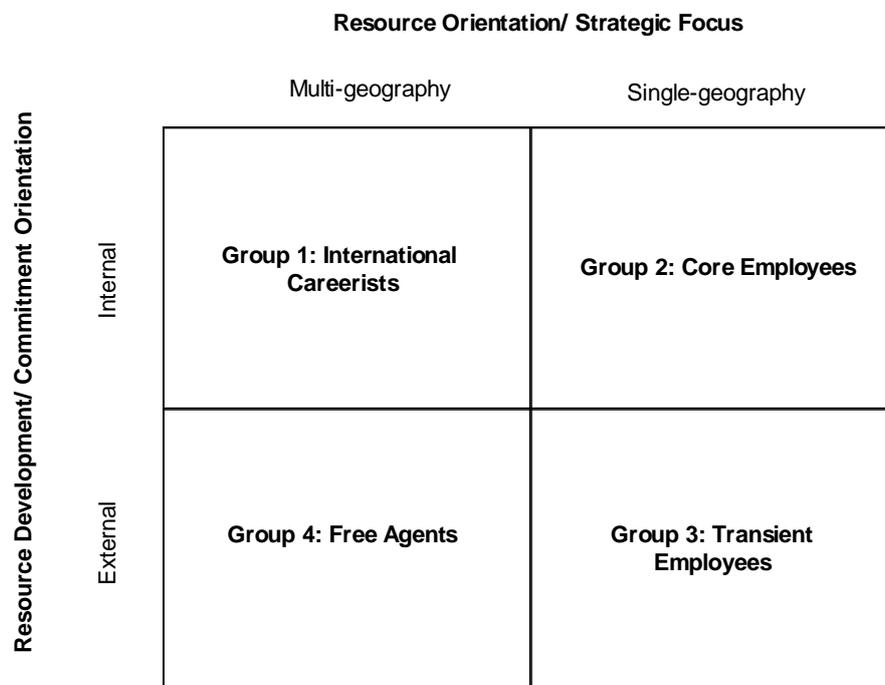


FIGURE 2

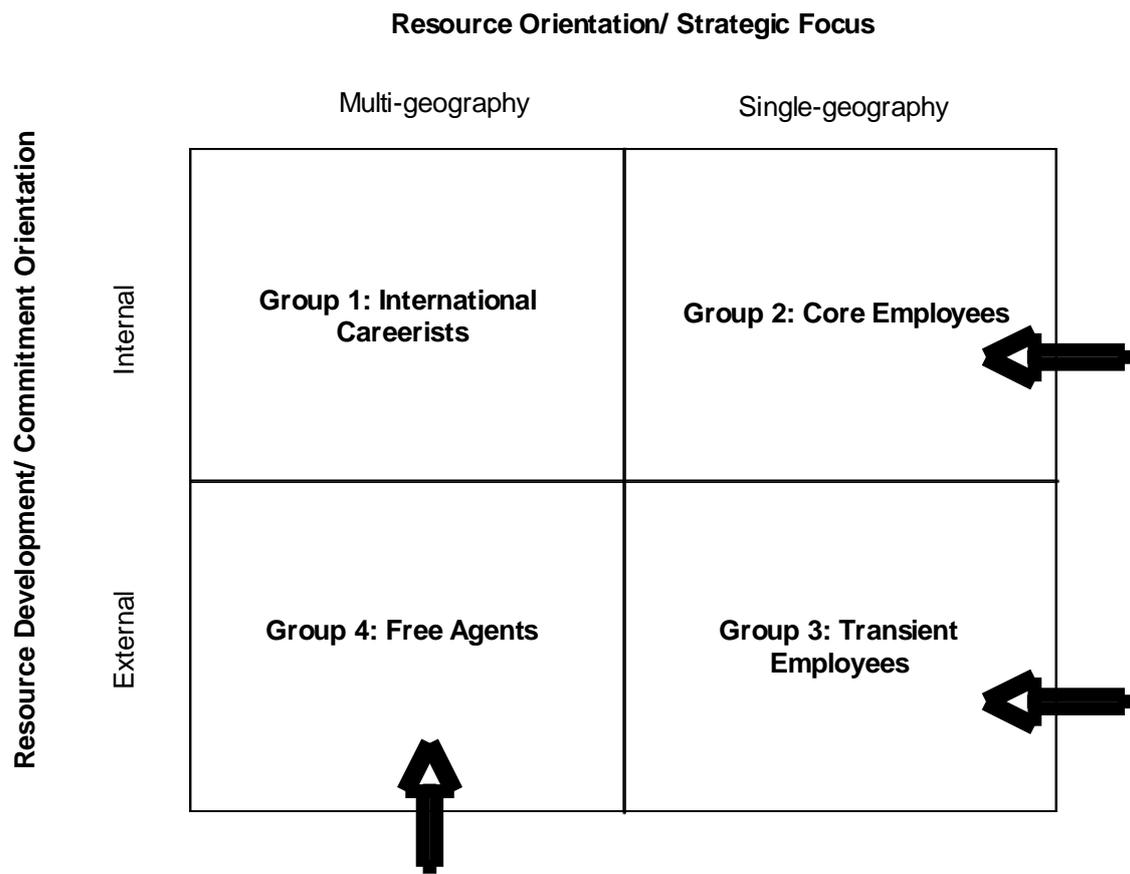


FIGURE 3

