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Chinese expatriate management in emerging markets: A competitive advantage perspective

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ABSTRACT

Recent research draws attention to the large number of expatriates sent abroad by Chinese multinational corporations (CMNCs), especially to emerging markets. It is generally assumed that their large number, and any competitive advantage this generates, relate predominantly to their low cost, compared to other MNCs' expatriates and/or locally available labour. Our research uses an integrative perspective drawing on the resource-based view (RBV), international human resource management (IHRM) and "country of origin" literature and extensive case-study research on 27 CMNCs in 12 emerging markets. This reveals that the competitive advantage created by Chinese expatriates is closely related to the use of expatriates at both managerial and operational levels. It is achieved through human resource management that exploits their relatively lower cost, higher productivity and hardship tolerance (compared to host or third country counterparts) and their knowledge/resource reconfiguration capability, through a centralised and collective expatriation management system. These together enhance CMNCs' competitive advantage through not only offering cost effective and differentiated products but also transferring the reconfiguration knowledge. This study enhances understanding of the competitiveness of emerging market multinationals (EMNCs) by showing how the competencies, combination and management of their expatriates create a distinct source of competitive advantage. It also advances IHRM research on expatriates by investigating their use from a competitive advantage perspective.

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1. Introduction

Chinese multinational corporations (CMNCs) are notable for their extensive use of expatriates. According to official Chinese data, at the end of 2013 over one million Chinese expatriates were employed by about 15,000 CMNCs, alongside 967,000 employees from the workforces of host countries (MOC, 2014). Based on this figure, CMNCs' expatriate ratio (the percentage of expatriates to total employees overseas) was over 50%. This seems significantly higher than that of other MNCs including Japanese MNCs (Oki, 2013). CMNCs' use of large numbers of expatriates has caused tensions and occasional violent incidents against them (e.g. BBC, 6 Oct, 2010; The Guardian, 6 Feb, 2011). The negative image is reinforced by the impression that expatriates are brought in mainly to exploit cheap labour, and by the unusual extent to which CMNCs deploy their own workers as well as managers to overseas operations. "While the existing literature on managing people in MNCs primarily focuses on the challenges of managing locals and a relatively

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small number of skilled expatriates, Chinese MNCs have increasingly brought semi- and unskilled labor with them into developing countries in Africa; this development has far-reaching organizational, developmental, political, and even demographic dimensions” (Wilkinson et al., 2014, p. 836). Despite this observation, there has been little research exploring potential motives for CMNCs’ heavy use of expatriates, and especially their use of semi- and unskilled workers, and how they assist management in creating competitive advantage.

The widely applied resource based view of the firm posits that, for a MNC to attain lasting competitive advantage, it must take with it hard-to-imitate strategic assets. Competitive advantage can be derived from a variety of country-of-origin and host-country contextual factors (Kothari et al., 2013; Luo and Zhang, 2016). As DMNCs’ most important strategic resource is perceived to be their cutting-edge knowledge and best management practice (Edwards and Rees, 2016), expatriates contribute to firms’ competitive advantage through transferring such technology. DMNCs use strategic HRM to promote this expatriate role. EMNCs have become important global market players in the last decade, contributing 42% of global total FDI and playing an even more important role in emerging markets (UNCTAD, 2015). They have long been regarded as lacking any important strategic resource, or as attaining this only through lower cost (Rui and Yip, 2008; Thite et al., 2014). IHRM research has identified a role for expatriates in acquiring knowledge for the MNC or contributing to lower cost by substituting cheaper labor for host country nationals (HCNs) (Zhang and Edwards, 2007; Jackson, 2014). However, it has been recognized that EMNCs have upgraded their advantage from lower cost based to the “optimum configuration of people, processes, and technology” (Thite et al., 2014, p. 921). There is little research to date that explores changes in EMNC expatriate characteristics and management as their sources of competitive advantage evolve.

To address the gap in both IB and IHRM research, this paper examines whether and how expatriates contribute to EMNCs’ competitive advantage. It uses an integrative perspective drawing on the resource based view (RBV) of a firm, IHRM and country of origin literature, and develops these using extensive case-study research on CMNCs in emerging markets. While the RBV and country of origin perspective suggest EMNCs must turn their country-of-origin related strategic resources into “hard to imitate” assets, they also need to devise IHRM strategies for expatriate management to meet host-country requirements and challenges.

Chinese MNCs are an important source of evidence on this, as the major external players in emerging markets (UNCTAD, 2015). The basis of CMNCs’ competitive advantage has been observed as moving from lower cost to composition capability (Luo and Child, 2015). Composition capability – configuring and using generally-available resources more effectively than competitors – can be leveraged to CMNCs’ overseas operations (Rui et al., 2016). The same CMNCs tend to deploy a large number of expatriates; but there has been no direct investigation of whether and how these expatriates and their management generate competitive advantage for CMNCs. “The approach of Chinese MNEs to IHRM has become an urgent area of management study” (Shen and Edwards, 2004, p. 814).

Drawing on empirical evidence from 131 interviews with 27 CMNCs in 12 emerging markets, we find that CMNCs’ competitive advantage is derived from deploying managerial and operational expatriates with unique competencies, and making them work closely as an integrated team. This achieves cost reduction, differentiation and enhancement in delivery, and transfer of internal knowledge, all ultimately contributing to competitive advantage. Our study advances the understanding of EMNCs’ competitiveness, empirically identifying the direct contribution of their use of expatriates. It also extends the IHRM focus from DMNCs’ (mainly managerial) expatriates to those of EMNCs, which extensively use expatriates both at managerial and operational levels. This is also the most detailed empirical research to date exploring CMNCs’ expatriates, especially at operational level, and their role in creating CMNCs’ competitive advantage.

This paper is organised as follows. Section 2 reviews existing literature on the relation between MNCs’ competitive advantage and their use and management of expatriates. This then frames our research questions. Section 3 explains our research methods. Section 4 presents findings on the main characteristics and management of CMNCs’ expatriates, and how these contribute to competitive advantage. Section 4.1 discusses the specific reasons for our findings, especially relating them to China’s country of origin factors. Section 4.2 assesses theoretical and practical implications, and limitations of the research.

2. Literature review: MNCs’ competitive advantage and expatriates

Competitive advantage is the difference between two competitors on any dimension that allows one to create customer value better than another (Ma, 2000, p. 18). The resource-based view (RBV) of the firm (e.g. Barney, 1991) emphasizes that firms develop sustained competitive advantage in terms of hard-to-imitate strategic resources. Country of origin and host-country contextual factors both contribute to MNCs’ strategic resources (Thite et al., 2014). While cutting edge technology and best management practice are widely considered as such resources for DMNCs, EMNCs have more often been viewed as relying on lower cost production. A MNC must have differentiated IHRM strategy to allocate expatriates with suitable competencies and management support to ensure successful transfer of “competitive advantage generated from its country of origin” to an overseas operation (Gibson et al., 2015; Bender and Fish, 2000).

Hence, expatriates can promote competitive advantage through transferring their MNCs’ strategic resources from the home country to the overseas operation. They can also constitute in themselves a resource conferring sustainable competitive advantage, because of the unique competency held by individual employees and effective team-working that can be difficult to imitate or substitute (Colakoglu et al., 2009). Effectively managing human resources with a range of competencies can enhance a firm’s competitive advantage (compared with competitors that lack such HRM) through a number of channels. These include higher productivity, lower employee turnover, higher product quality, lower production costs, and more rapid acceptance and implementation of corporate strategy, all of which can confer higher profitability and/or enhanced market position (Wernerfelt, 1995).

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