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THE POLITICS OF GLOBALIZING EXPATRIATE ASSIGNMENTS: A TRANSACTION COST ANALYSIS

U ovom članku autori analiziraju političke i ekonomske aspekte zasebnih oblika iseljeničkih asignacija u više domaćih i globalnih organizacija i naglašavaju različite opasnosti po pravičnost iseljenika u tim organizacijama, te raspravljaju i o rezultirajućoj razgranjenosti za hrvatsku iseljeničku politiku.

Introduction

In a recent review of human resource management (i.e. HRM) research issues, Ferris, Hochwarter, Buckley, Horell-Cook & Frink (1999) examine the foundation bases for the potential of human resource management to influence organizational policies and outcomes. In this foundation assessment, two distinct aspects dominate the field of HRM: economic and political aspects. While it seems intuitive to correlate the efficiency logic of economics with the functional aspects of HRM, it appears intuitively less appealing to relate organizational policies and outcomes to the symbolic aspects of HRM. This line of reasoning is congruent with the past views of political science researchers, such as Moe's (1997) contention of inherent inefficiency of politics and North's (1990) assumption of zero transaction cost in politics. However, Williamson (1999, 309) has recently persuasively shown that the economic "efficiency reasoning can and does apply to politics." Specifically, Williamson argues that transaction cost analysis (i.e. TCA) represents the integrative analytical framework for political and economic aspects of comparative institutional analysis.

Building on Williamson's insight and applying the suggested method, we examine both political and economic aspects of expatriation policy and practice in

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multinational corporations (i.e. MNCs) in a coherent analytical manner. Our objectives in this paper are to: 1) examine the latest revisions of transaction cost analysis and explain its applicability to analysis of expatriation transaction; 2) analyze hazards and governance mechanisms related to specific structural alternatives in expatriate assignments; and 3) introduce the political transaction value variable of probity and apply it to devise a governance mechanism for expatriate assignments in MNCs.

Transaction Cost Analysis of Expatriate Assignments

The theory of transaction cost analysis is grounded in the “combined ramifications of bounded rationality and opportunism in conjunction with a condition of asset specificity” (Williamson, 1985, 42). The combined ramifications are related to the specification of appropriate governance form necessary to efficiently channel transactions (Williamson, 1991). How specific discrete governance forms will be determined depends on the interaction between asset specificity-related holdup (i.e. behavioral uncertainty) and the uncertainty in the environment (i. e. natural uncertainty) (Williamson, 1991, Williamson, 1996).

This complex nature of this interaction can be captured in transaction cost analysis by analyzing the three common transaction attributes - asset specificity, uncertainty and frequency. The variations in these attributes cause undesired effects, which entail increased transaction costs. Economizing on transaction costs leads to discrete alternative modes of governance, which support different kinds of adaptation. For example, the market mode supports autonomous adaptation encouraging independence and enterprise of exchange parties. In contrast, hierarchy supports internal cooperation encouraging compliance and task/mission orientation (Milgram & Roberts, 1988, Milgram & Roberts, 1992). In summary, transaction cost economics provides a framework for comparative institutional analysis to design efficient governance structures, which secure order and prevent conflict in exchange, thus creating opportunity for the exchange parties to realize mutual gains (Williamson & Masten, 1995).

The seeming inherent deficiency in application of TCA in past international management research relative to comparative institutional analysis has been the asymmetric assumption that “failure” of the structural alternative of hierarchy is less likely than that of market (Tece, 1986). To address this shortcoming, a symmetric assumptions of equal likelihood of hierarchy and market failure is introduced in the latest revision of TCA because “efficiency needs to be assessed in terms of a common transaction” (Williamson, 1999, 310), when comparing “social arrangements which are all more or less failures” (Coase, 1992, 717). The symmetric assumption implies that the discrete structural alternatives should not be compared

in absolute terms, but rather using a “remediableness criterion,” suggested by Williamson. Per this criterion, a surviving mode of organization is presumed efficient if no superior alternative can be devised and implemented in comparative institutional competition. The introduction of this criterion extends TCA beyond the static choice among alternative modes of organization toward analyzing the dynamic transaction costs to capture additional organizational purposes (i.e. economizing) and additional instruments (i.e. governance), as the organization “moves” (Williamson, 1998). In sum, the use of the remediableness criterion implies that no more real markets are compared to ideal hierarchies, but real markets to real hierarchies (Coase, 1964).

The remediableness criterion of TCA can be used to examine the efficiency of expatriating individuals from domestic organization, as the continuing mode of international assignments. Expatriation is used extensively in multinational corporations (i.e. MNCs) in their international human resource management (i.e. IHRM) practice. In the analysis performed in this study, we view an expatriate as a firm’s cross-border agent who works under specific incentive and adjustment systems. We adopt a widespread agreement that the form of an international assignment is defined by the assignee’s employment relationship relative to the home country (i. e. domestic) organization (Dowling, Schuler & Welch, 1999). In general, expatriates can be parent country nationals (i. e. PCNs) and third-country nationals (i. e. TCNs).

There is an ample body of past IHRM research that has produced mixed findings about the efficiency of the expatriation programs in particular and the corporate HR expatriate policies in general (Kobrin, 1988, Oddou & Mendenhall, 1991, Hartzing, 1995, Sargent & Matthews, 1998, Beamish & Inkpen, 1998). However, these researchers may have ignored the point that alternative modes might have been considered, but not ratified by the MNC’s top management team (i. e. TMT). The reason for not endorsing the alternative staffing options was that the TMT’s political interests were not perceived as being advanced. To analyze how specific expatriate assignment practices are addressed in MNCs, we need to examine both political and economic attributes of the transactions associated with various modes of expatriate assignments. Also, we need to assess how the attributes of these transactions differ between organizations operating in a multi-domestic context from those operating in a global context (Prahalad & Oostervald, 1999).

In this examination, it is important to bear in mind that the corporate HR function in a multinational organization is primarily policy-oriented (i.e. with emphasis on HR dependability, relevant for the legitimacy market) and secondarily strategy-oriented (i.e. with emphasis on HR competence, relevant to the product and labor markets) (Laurent, 1986). The primary aspect of the HR function is deliberately crafted to be administrative and protect TMT from any legalistic threats

that may arise from employment relationships in multiple institutional environments. The secondary aspect of the HIZ function is to devise efficient use of human resources in the organization (Pucik, 1992). In this dual capacity, the corporate HR may be thought of as not having real market for its services because the corporate HR contractual relationships are non-standard and non-competitive (Ferris, Perrew, Anthony & Gilmore, 2000). The transactions evolving within such a mixed political and economic relationship are referred to as sovereign transactions (Wilson, 1989). Of particular interest for this study, are the dualities of corporate relationships with foreign subsidiaries that involve the IHRM-specific sovereign transactions associated with various forms of expatriate assignments (Evans & Doz, 1992). Both in multi-domestic and global organizations, these transactions are exposed to not only economic but also political hazards (Gregerson, Hite & Black, 1996).

Political Hazards to Transactions Associated with Expatriate Assignment In MNCs

In multi-domestic organizations, the boundaries between subsidiaries and between the associated expatriate assignments are often rigid and non-permeable (Birkinshaw & Morrison, 1995). The exchange monitored and facilitated by expatriates is predominantly vertical in nature (i. e. occurring between the domestic headquarters and foreign subsidiaries) (Birkinshaw & Hood, 1998). These activities, characterized by sovereign transactions, may be exposed to specific contractual hazards (Rugman & Verbeke, 1992). The most salient contractual hazards that affect sovereign transactions in the domestic organization-foreign subsidiary exchange, beyond the standard economic hazards associated with asset specificity and operating costs of expatriation (i.e. specialized non traditional training and development through unique social conditioning), are the so far unexamined political hazards. Williamson's (1999) argues that the most relevant political hazards are those to probity. Probity is an attribute specific to sovereign transactions, which refers to the assignee's integrity and rectitude in accomplishing missions (Wilson, 1989, Williamson, 1993).

Probity implies a high standard of individual expatriate's integrity when accomplishing the task assigned relative to a foreign country with professional excellence and in concert with the policies of the corporate TMT. This means that the expatriate assignees should exhibit a reliable responsiveness to the TMT's demands and accomplish such assigned tasks in a goal-congruent, timely, competent, yet not over-zealous manner. The relevance of probity comes from the "small-number but yet high-impact" possibility that an expatriate, with an assigned responsibility for a strategically important country market, may cause such a high level of damage to the multi-domestic organization's reputation that cannot be

prevented by any comparable design of punishment. In other words, expatriate assignments are often associated with the provision and use of delicate information, the leakage of which to competitors/customers/third parties (i.e. such as government agencies) could have enormous organizational costs and decrease the bargaining power of the MNC in the host country markets.

When devising and administrating expatriate assignment modes to channel these sovereign transactions, corporate HRM in a multi-domestic organization should be aware of the associated twifying principles of probity relative to expatriate assignments. The unifying principles of probity include: (1) abiding respect for the mission of the assignment; (2) reliable and non-zealous responsiveness to TMT initiatives; and (3) accurate communication to the counterparts associated with the mission of the assignment (Williamson, 1999). Based on these principles, the history of socialization (i.e. social conditioning), preparatory training, and formal reporting procedures are designed as the safeguards to mitigate the hazards to probity in expatriate assignments. In addition, the formal TMT power and the informal HR power to appoint and remove expatriates are explicitly stated in corporate policies to ensure proper attention and responsiveness of candidates to their expatriate assignments (Murphy & Stroh, 1997).

Hazards to probity could manifest themselves if (1) the corporate TMT and HRM lacked confidence in the reliability of the information and assessments that were provided by expatriates (i.e. expatriates are not considered dependable to accomplish the task) and/or (2) if assignees are perceived incompetent to implement corporate initiatives in local country markets in a quality manner (Kobrin, 1988; Gregersen & Black, 1995). In particular, an expatriate's opportunistic behavior (i.e. in terms of "dual" commitment to both the headquarters and the foreign subsidiary) may arise when the TMT's long-term general interests and expatriate short-term specific interests in corporate or subsidiary initiatives are inconsistent (Black, Morrison & Gregersen, 2000).

If there is concern about the possible lack of competence and/or dependability of expatriate candidates to execute the assigned task, the selection process poses a particular hazard to probity of human assets in international assignments (Black, Gregersen, Mendenhall & Stroh, 1998). This uncertainty naturally arises from the idiosyncratic nature of the expatriate assignment transaction in a multi-domestic organization, for which *ex ante* probity is very important: 1) long duration of an average assignment (i.e. 3 years); and 2) dependence on a candidate's undivided loyalty in the face of challenges imposed by the local subsidiary and lucrative offers from the organization's competitors (Black, Gregersen, Mendenhall & Stroh, 1999). These challenges are particularly tempting to the horizontally expatriated TCNs. The TCNs often develop cognitive specialization and reputation working in difficult markets, while facing much lower exit barriers than PCNs (Boyacigiller,

1990). An ideal, yet not very realistic way to deal with this possibility of the breach of contract of probity is to enact a strong corporate culture as an institutional framework in which such a breach is viewed as a corporate betrayal publicized to jeopardize the opportunistic candidate's reputation in internal and external labor markets (Daniels & Insch, 1998). If such symbolic and coercive measures are devised, they are likely to work only for PCNs.

Proposition 1. The greater the ex ante probity requirements for international assignments in MNCs the more likely the focus on PCNs rather than on TCNs for expatriate assignment in spite of the higher operating costs.

In view of the contractual hazards to probity that are a PCN expatriate assignment specific, the corporate IHRM function must devise appropriate governance mechanisms to channel these sovereign transactions. In general, standard organizational mechanisms of expatriate governance are described in terms of (1) incentive intensity; (2) administrative controls; and (3) employment relationship (Williamson, 1985). The appropriate governance mechanism for sovereign corporate HR transactions relative to the PCN expatriation, includes: (1) low powered incentives to deter expatriate enterprise and zeal for myopic actions; (2) formalized administrative protocols to ensure probity and communicate credibility; and (3) employment contract that favors termination for cause over termination at will (Williamson, 1996). When this insight to the politics of PCN expatriate assignments in multi-domestic organizations is examined in more detail, it implies that the appropriate governance of these sovereign transactions involves salaried compensation, protocol-driven communication, and secure employment for expatriates. In other words, because the headquarters politics "rules" in multi-domestic organizations, the "ethnocentric" expatriate assignments become very prestigious and privileged positions in the organization. In such internal environment, expatriate assignees favor "local" rather than cosmopolitan career orientation. In doing so, the expatriates earn the "red badge of courage" for their successful completion of a foreign assignment (Novičević & Harvey, 2000). Thus, the formal and substantive aspects of the expatriate assignment merge, and are viewed as a "whole" by TMT and corporate IHRM. As a result, expatriates will enact generally cautious actions over autonomous directives benefiting the subsidiary and in general, consensus-building activities over specific local issue advocacy. Therefore, in political multi-domestic environments, expatriates are reluctant to expand their responsibility in the course of the assignment beyond executing the originally executing the original established by the IHRM. This type of corporate environment and expatriate attitude is common in multi-domestic organizations because subsidiary interdependence is low and the initiatives to integrate international assignees into global teams or to expand their mandates are seldom put in place.

Political Hazards to Transactions Associated with Expatriate Assignments In Global Organizations

As the MNC increases the degree of integration of its worldwide activities, which requires the development of a global management mindset, the need for decentralization of corporate authority increases changing the nature of corporate intent for expatriate assignments (Marschan, Welch & Welch, 1997). In particular, the globalization processes engender an increased number of assignments and shift the focus of performance appraisal for expatriate assignments toward outcomes, thus influencing the processes in the IHRM assignment-related politics (Spender, 1992). As a result, no longer promotions are awarded only to those expatriates that excel as passive controllers patiently working within the rules (i.e. long-term expatriates). Rather, an international assignee of a global organization needs to be more a “player” (i.e. a risk-taking decision-maker) because greater responsiveness and greater entrepreneurship in the local market context are more valued (Welch & Welch, 1993). Therefore, expatriates in a global organization are no longer primarily viewed as members of an elitist group representing the legitimate power of the headquarters. Rather, their ex ante probity (i.e. political integrity) to the mission of the assignment becomes less important than their ex post probity (i.e. political expediency) to get the things done in the local context (i.e. political skills rather than political traits are required as they have to know more in terms of competence and control less in terms of dependability).

As the extent of globalization of the organization’s business activities increases, its knowledge bases become more dispersed and its growth shifts toward emerging markets. As a result, the corporate TMT is less in a position to impose ex ante political rules and procedures from the home country headquarters because: (1) it lacks the experience with horizontal coordination and with doing business in emerging markets; (2) it is imperfectly informed about the interdependencies affecting local needs; (3) it faces a turbulent rate of change taking place in multiple markets, competitive strategies, and technologies; (4) it is exposed to a political risk of formulating inappropriate strategies for knowledge transfer and emerging markets thus creating a negative goodwill and reducing the likelihood for success of future actions; and (5) it encounters sheer ignorance of how to develop local relationships in emerging markets in transition because of scarce social capital to instantiate such relationships (O’Driscoll & Rizo, 1995, Holm, Johanson & Thilenius, 1995, Harvey & Novičević, 2000). Therefore, the task of the traditional expatriate assignment has to be changed, as well as the mechanisms of internal governance in order to align the associated transactions accordingly. In global organizations dispersing knowledge capital globally and entering emerging markets, the governance shifts toward: (1) greater incentive intensity to stimulate the risk-taking behavior of expatriates; (2) less complete administrative controls because

of the assignment task innovations; and (3) less protected careers of expatriates because of organizational “delaying” (Doz & Prahalad, 1986). As a result, cost control is more emphasized, the *ex ante* rigidity of probity partially “sacrificed”, and human specificity somewhat decreased (Gould, 1999). Moreover, the expatriates in a global organization face more frequent demands for innovation of the assigned role than the expatriates in multi domestic organizations do because of the increased subsidiary development and interdependence in global organizations (Bartlett & Ghoshal, 1986, Forsgren & Pahlberg, 1992, Birkinshaw & Hood, 1998).

Faced with the disturbances of globalization (i.e. the “boonrand-busts” of global capital markets), discontinuities of emerging markets (i.e. one billion people abruptly joining the world market economy in the 1990s), as well as the dramatic increase in cross-border knowledge transfer and intelligent IT connectivity, for which coordinated adaptations are needed, a global organization has to select the mode of governance that is best suited to effect a coordinated adaptation through expatriate assignments under these challenging conditions (Prahalad & Oostervald, 1999). The changed nature of the IHRM expatriation-related sovereign transactions needs to be examined as they evolve from more dynamic domestic organization foreign subsidiary interactions under the forces of globalization and the shift of the organizational growth toward emerging markets. Under the dynamic domestic organization foreign subsidiary interactions, information inputs, decision-making and implementation processes become overlapping and interdependent (Argyis & Liebeskind, 1999). This complexity necessitates activities of composite transactions, whose attributes posing specific challenges to the extant mode of expatriation that relies on PCNs as the “preferred” candidate pool.

The dynamic TCA posits that human mind is a specialized rather than general problem solver, capable of sensing and recognizing opportunistic behavior, personal integrity, and specialist competence of other economic actors (Williamson, 1998). This cognitive specialization is enhanced in organizations, but varies among individuals. Therefore, organizations should be regarded as instruments for utilizing varying competences of human actors in terms of personal probity (i.e. dependability) and cognitive specialization (i.e. competence). This means that more principled and competent expatriates should be assigned to difficult and risky projects and markets (i.e. to manage the interfaces where cooperation is most critical). The more dynamic (i.e. in terms of changing and underdeveloped standards) and complex the project and the specific market in which the organization operates and competes, the more this shift in expatriate assignment needs is salient. Specifically, the need for competence shifts from standard knowledge to differential learning, and that for probity, from past oriented integrity to future-oriented expediency (i.e. differential probity).

Selecting and training expatriates for cognitive abilities and resilience to opportunism is particularly important when the markets and projects involve non

separable contractual and technological activities, containing composite transactions or clusters of transactions (i.e. routines). Then besides high selectivity and intensive development, additional instruments must be implemented for efficient coordination of composite transactions, such as option-based compensation and social/team conditioning. As Williamson (1998) argues that dynamic TCA of composite transactions must take a system view, we must analyze both (1) assignees (i.e. in terms of varying competence and probity) and (2) assignment activities (i.e. with differential needs for cognitive and probity supports). Economizing on assignments will be realized by assembling expatriates into teams in which members “bid” into their most productive uses/alignments. As teams are embedded in formal and informal constraints of organizational and institutional cultures, the system view of dynamic TCA must also take into consideration individual members’ competencies and preferences for teamwork.

Therefore, the dynamism of a rapidly globalizing organization requires that a new collective staffing alternative is added in order to provide competent and dependable learning from expatriate assignments. To accumulate and retain such a human capital of heterogeneous cross-border political skills, the global organization has to expand its recruiting base of international assignees suspending PCNs as a default mode.

Proposition 2. The greater the *ex post* probity (i.e. political expediency) requirements for international assignments in globalizing MNCs the more likely the equal focus on PCNs, and TCNs for global assignments and on assembling them into global teams.

Governance Mechanism for Global Assignments in MNCs

Table 1 shows the attributes of appropriate governance mechanism for each structural alternative of global/expatriate assignments: (1) third-country national - TCN (market mode), (2) Global teams (hybrid mode); and (3) PCN (hierarchy mode).

Table 1.

PROBITY-MODERATED GOVERNANCE MECHANISM FOR GLOBAL
EXPATRIATE ASSIGNMENTS

Governance Attributes	ALTERNATIVE FORMS OF GLOBAL EXPATRIATE ASSIGNMENTS		
	Market Third Country National	Hybrid Global Teams	Hierarchy PCN
I. INSTRUMENTS	H	M	L
(a) Incentive intensity			
(b) Administrative controls	L	M	H
II. PERFORMANCE ATTRIBUTES			
(a) Adaptive autonomy	H	M	L
(b) Adaptive integrity	L	M	H
III. EMPLOYMENT RELATIONSHIP			
(a) Job autonomy	H	M	L
(b) Job security	L	M	H
(c) Role conflict	H	M	L
	L=Low M = Medium H = High		

As shown in Table 1, the TCN alternative (“contracting out” an expatriate assignment position away from the domestic organization) requires the strongest incentive intensity and is least susceptible to administrative controls as the TCN has the least propensity to behave cooperatively. The PCN is the polar opposite of the TCN in all aspects, while the global team form is located in between these two polar choices along all dimensions/attributes. Table 1 illustrates how the relaxation of safeguards to *ex ante* probity hazards (i.e. political integrity), which played the dominant role in the IHRM decisions in multi-domestic organizations increases IHRM power to delegate (contract out) expatriate assignment responsibility to individuals originating from outside the home country organization (i.e. resolving

the inherent difficulty in discharging sovereign transactions across different institutional systems).

The relaxation of safeguards to allow ex post probity in global organizations (i.e. the shift from the rigid trait of political integrity to the dynamic skill of political expediency) is very important for the “corporate deregulation” of sovereign transactions in general and for the development of global teams in particular. Specifically, the rigid ex ante requirement impedes strategic flexibility that is necessary in dynamic and reciprocal relationships specific to global organizations. Whereas PCNs ensure dependability, they lack competence necessary for local political expediency, which is indispensable for integration of globally dispersed knowledge and responsiveness in unknown institutional systems. The polar opposite to PCNs - the TCN structural alternative - ensures expediency but not integrity. Therefore, when the tasks requiring strategic flexibility of decentralized global leadership in global organizations are in question, the decision relative to expatriate assignments focuses on the issue how to implement decentralization when the integrity-expediency continuum of probity is operative in this decision process of globalizing expatriate assignments (i.e. developing global assignments). Of course, other variables may affect this decision-making process: 1) endogenous (firm size, strategy and structure, life cycle, international experience, entry mode and internal networks); 2) exogenous (industry structure, life cycle, and external networks); and country-specific (socioeconomic development, culture, political risk, and GDP dependence on FDI) (Schuler, 2000).

Conclusions

In this study, we have assumed that expatriate assignments may represent discrete political structural choices, which is consistent with literature on discrete choice found in both economics and organization theory. Each form of expatriate assignment (i.e. TCNs, global teams, and PCNs) is described in this study as configured around a set of transaction attributes, of which the political attribute of probity is most salient. Focusing in this study on the transaction cost of the assignee political integrity and expediency, we have provided a formal theoretical explanation how and why multi-domestic and global organizations select different structural alternatives for expatriate assignments.

In summary, our analysis has shown that expatriating PCNs may be considered an efficient extant default practice in multi-domestic organizations, where the political factor of rigid ex ante probity is critical in transaction cost reasoning. However, in global organizations, the default use of PCNs becomes sub-functional unless complemented with global teams and TCNs. In general, we may infer that the processes of globalization, deregulation and technological interconnectivity

may accelerate the “commodification” of the PCN-specific probity demands and contribute to the hierarchy “Taihxre” of this mode.

The future development of transaction cost analyses will likely lead to the evolution of “dynamic transaction cost” economics and politics (MacLeod, 1999:345). The politics of bureaucracy is inevitably “engineered” into the economics of expatriate assignment forms as the firm increases the scope of its internationalization. In this study, we have explained how this process evolves by employing Williamson’s (1999) new conceptualization of the remediableness criterion. The introduction of the remidiableness criterion allows the transaction cost approach not only to predict why some exchanges would be taken out of the market, but also to predict the reverse process (i.e. the symmetric assumption is introduced). The concept of remediableness is “explicitly dynamic in the sense that it is used to evaluate current organizational forms relative to currently feasible alternatives” (MacLeod, 1999: 347). Viewing the evolution of transaction costs as an innovative process suggests that the shift of the extant hierarchical mode of PCN expatriate assignments toward network (i.e. global teams) and market modes (i.e. TCNs) is a practical illustration of the remdiableness criteria.

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POLITIKA GLOBALIZACIJSKIH ISELJENIČKIH ASIGNACIJA: ANALIZA TRANSAKCIJSKIH TROŠKOVA

Sažetak

Članak analizira političke i ekonomske aspekte zasebnih oblika iseljeničkih asignacija u više domaćih i globalnih organizacija. Analiza transakcijskih troškova političke varijable pravičnosti koristi se da bi se pokazalo kako je svaki oblik iseljeničke asignacije poravnan s različitim poticajnim intenzitetom na različit način. Naročito naglašavaju različite opasnosti po pravičnost iseljenika u više domaćih i globalnih organizacija i raspravljaju o rezultirajućoj razgranjenosti za hrvatsku iseljeničku politiku.