

Can MNCs Learn From Small Business in Staffing Global Ventures? Some Australian Evidence

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Abstract

Research into the staffing of international ventures by Australian organisations found that organisations of all sizes were sending a high proportion of employees overseas for long periods and at every level of the firm and intended to increase this activity. Small firms reported fewer human resource problems than large organisations in dealing with the complex issues which arise when employees are working in the international environment.

Introduction

The paper discusses some findings from a study on the staffing of international ventures by Australian organisations, and the incidence of problems encountered in this area. A survey of a sample of Australian firms listed in the Australian Stock Exchange top 500 firms showed that large numbers of employees at all levels in companies were spending a significant proportion of their working time engaged in international activities. An unanticipated finding from the research was the reported success of small firms in dealing with issues identified as causing problems in international human resource management (IHRM). It seems there are features in the management and structures of small firms which contribute to successful staffing of international ventures and further research needs to be undertaken in this area.

Human Resource Management and Small Business

Human resource management in small business is widely regarded as non-existent or of a poor quality compared with that in large organisations. A recent study described the prevailing view of personnel practices in small business as a '*bleak house*' scenario of restrictive practices, poor conditions and a unitarist management style characterised by high control and resistance to employee participation (Bacon et al 1996). Evidence of a unitarist management style and indifference to employees views has been equated with low union density rates in the workplaces of small firms and the lack of formal communication structures. In the 1990's this interpretation has looked increasingly suspect. All shades of opinion agree on the prevalence of informal communication arrangements in small business. This would seem to reduce the requirement for formal structures and processes which are a necessity in large, complex and impersonal organisations. Studies in the United States (Hornsby and Kuratko 1990) and the United Kingdom (Bacon et al 1996) show the '*bleak house*' analysis to be much too simplistic. In the 1990's small business has been found to be responding to the global market place with flexibility and shifts in management style and process in much the same way that large organisations are attempting to respond.

The literature on international human resource management has reflected the overwhelming focus of international business analysis on Multinational Corporations (MNCs). The survey findings show that size was not an important differentiator in the emphasis placed by firms on international activities. Small firms were as committed as large firms to increasing the number of employees working internationally in the next planning period.

Methodology

The first stage of the study involved the writing of case studies on two Australian organisations experienced in the staffing of overseas operations. Both organisations allowed a program of long exploratory interviews and supplied copious internal documentation on their procedures and practices. The case studies were expected to yield information to assist in the construction of a questionnaire for firms engaged in overseas business. The second stage of the research consisted of a survey of a sample of Australian firms operating internationally. Finally the findings from the first two stages were discussed with senior corporate executives in two multinational organisations, Shell(Australia) and RTZ-CRA, and a resource firm with extensive experience of overseas operations.

The Case Studies

Telecom Australia (Saudi) Ltd (TASL) was chosen because it had an excellent record of business success based on the performance of the expatriate advisers sent to Saudi Arabia. In depth interviews were held with all the management of the Melbourne office created to specifically deal with Australian employees in the Saudi operations. The company also provided extensive documentation on matters associated with the staffing of the Saudi Arabia projects. The TASL venture is an example of a small scale operation with a specific overseas field of operations and short term contracts. From an international human resource perspective its interesting features concerned its recruitment and selection processes for the staffing of its Saudi projects, and its structure which utilised the vast resources of its parent company but focussed operational control in a stand alone subsidiary which allowed a close nexus to be developed between expatriate staff and the small Melbourne office. The management style which developed, therefore, approximated to an informal and personal type of relationship between management and expatriate employees more usually found in small firms rather than large ones.

The other case study was written on the Department of Foreign Affairs and Trade (DFAT). It is self evident that a core activity is the continuous transit of employees to and from activity abroad and there can be no organisation in Australia with more experience in this regard. DFAT has a global sphere of activity with approximately 1100 Australian staff located in Canberra and 800 Australian staff based overseas at any one time. The department also employs about 1500 locally engaged staff in 90 posts. The deployment of staff between overseas assignments and Canberra is a major operational activity of the department. The DFAT Corporate Plan 1994-1996 acknowledges that a high transitional mobility is a particular characteristic of employment in the department which places an extraordinary requirement upon employees and their families to cope with unending change. In DFAT it is the norm for an employee to expect a working life characterised by periodic upheavals and dislocation. During a normal year, more than 300 officers and their families are transferred to overseas positions. A similar number return to Canberra or are transferred directly to another foreign post.

The DFAT study included fifteen extensive interviews with recently returned officers, specialist staff concerned with the range of services available to overseas employees and families, human resource managers at both the functional and the executive level and top departmental management. Group discussions were also held with employee representatives from the Union, the Commonwealth Public Service Union (CPSU), the Staff Association, and the Foreign Service Families Association (FSFA).

The strengths and weaknesses of the department's international human resource practices mirror those of other large organisations long established in the international sphere and with experience of continuously staffing operations in many countries. Many of the issues raised by departmental staff in this case had both functional and strategic implications. The DFAT study looked at the staffing practices from both a functional and a strategic perspective as the original intention had been to attempt this type of approach. One of the outcomes of the DFAT investigation was to change the study parameters and the type of questions asked in the survey instrument. The complexity of influences on the strategic dimension revealed in the DFAT study led to a decision to not attempt to research the links between the functional aspects and the strategic/policy directions by means of a survey method.

The Survey

The respondents were chosen from the 1995 Australian Stock Exchange(ASE) List of the top 500 companies. Two criteria were used to determine suitability. These were that firstly the firm was an Australian firm in that its head office was in Australia, and secondly that on the evidence of the activities listed in its annual report it was engaged in international operations. Only 78 firms appeared to meet both criteria. Eight firms subsequently returned the survey incomplete on the grounds that they did not meet the 1st criteria. Of the remaining 70 firms, 36 returned a completed instrument.

Characteristics of Respondent Firms

The universal characteristic based on the fact that they were drawn from the 1995 ASE list of top 500 companies is that they are successful firms. The respondents were differentiated by size, type of business activity and location of overseas activity.

There was a spread in the size of the firms. Four firms had under 50 employees and 3 had over 20,000. On the basis of size of work force, respondents with over 500 employees were classed as large firms, those with 100-500 employees as medium and small firms as having under 100 employees. Large firms made up 59% of respondents, 17% of all respondents had over 5000 employees. Medium firms made up 21% and small firms made up 21%.

In terms of profitability, 69% of respondents had gross annual profits over \$5 million, 52% over \$10 million, and 25% of respondents had gross annual profits greater than \$200 million.

Firms were also asked the number and gender of executives in the top two levels of the organisation. The number of executives at this level was quite small in many firms with 24% of companies having 5 or less executives, 46% had 6-10 and 30% of respondent firms had more than 10. The gender profile was consistent with the widespread reporting of low

numbers of women in executive positions . No firm had women filling a majority of its top executive positions, indeed in 69% of companies there were no women at all in senior executive levels.

Figure 1 Major Area of Business Activity

As shown in figure 1, almost half the respondent firms were in the mining industry with the rest spread over manufacturing, services, processing, finance and research/development. The predominance of the mining sector in successful Australian international firms should not be unexpected given that this is one of the most entrepreneurial sectors in Australian business and possesses world class expertise based on a robust and important domestic industry. Yetton and Craig's (1995) research has demonstrated that success in the international sphere for Australian firms is often based on experience gained in domestic operations.

Figure 2 Location of International Business Activity

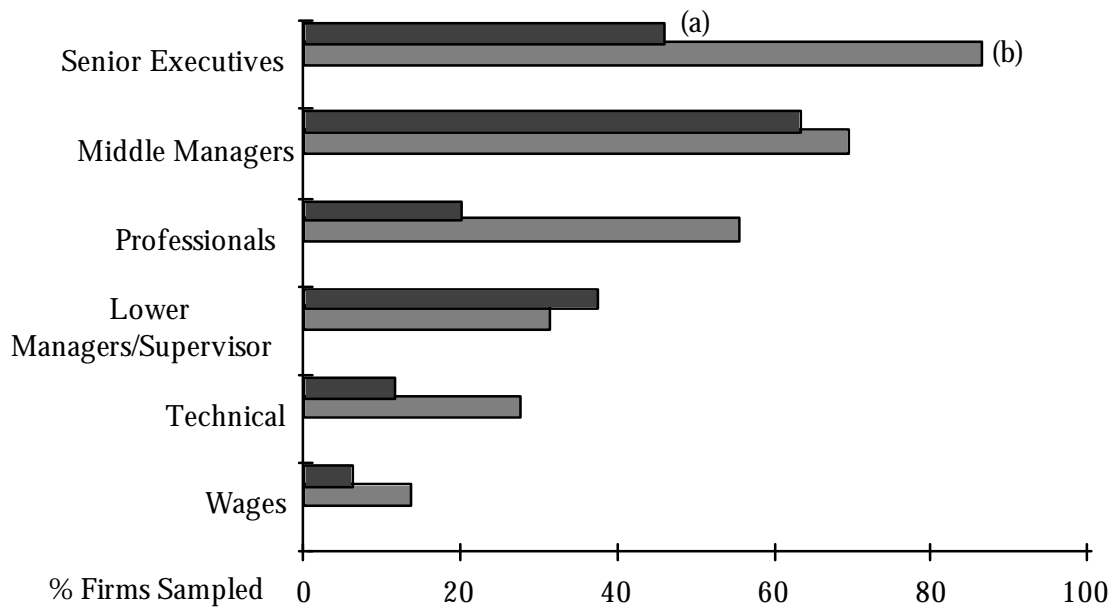
Figure 2 shows that there was a spread of activity on every continent. Asia was the region with the largest number of existing operations (71%) and regular business activity (74%) for the respondents, and it was also the major target for future growth as 31% of firms intended to expand here in the next 5 years. The low level of plans for new ventures overseas may reflect a general reluctance in business to make firm commitments to future directions in what is perceived as an uncertain business climate rather than a disenchantment with

international business. This view is supported by Table 1 showing that most firms expected an increase in the number of employees working abroad.

Mining companies were the most global operators, with activity in every region. Throughout every sector of business activity, however, the projected new development for the next 5 years was cautious. No firms in the Manufacturing and Processing/ Assembly sectors said they had plans to open new ventures overseas. The only location for expansion by Mining and Service companies was Asia. Research and Development and Financial firms were targeting Asia and Europe. There was little interest being shown in starting new ventures in Russia and none in Africa. Whereas firms in every sector were currently involved with Asia, less than a third were planning new operations here.

It was thought important to find out the extent to which firms were sending employees overseas and the category of employees involved. Respondents were asked to indicate which levels of staff were spending 10% of their working time overseas or involved in overseas business, and what type of staff had been sent to live and work overseas for periods of 6 months or more in the past 3 years. Figure 3 shows that staff at every level of the organisation were found to be involved. The high level of activity demonstrates a strong focus on international work and the importance of looking at the human resource practices which organise and manage the movement and work environment of employees in the international sphere.

Figure 3 Involvement of Employees in Work Overseas



- a). Employees sent overseas for periods of 6 months or more by organisational level
- b). Employees spending 10% or more of their working time abroad by organisational level

Figure 3 shows that management in most of the respondent firms were spending 10% or more of their time on international work. Size of firm was not a significant factor here, as both large and small firms showed the same profile. On a breakdown by sector of business activity of firms sending employees overseas for 10% or more of their work time, 75% of Manufacturing firms had senior and middle management and 25% had supervisors spending

10% or more of their time overseas but no manufacturing firms had professional, technical or wages staff in this category. All Process/Assembly firms had senior and middle management spending 10% or more of their working time abroad and 67% had professional staff but no other type of employees. In the Mining sector employees in every category were being sent overseas with 100% of firms sending senior executives, 75% sending middle management, 48% supervisors, 58% professional staff, 50% technical and 16% wages employees for 10% or more of their work time. In the Financial sector all firms had senior executives spending 10% or more of their working time overseas and 50% of Finance firms sent professional staff. No other employees were spending this amount of time abroad. Service industries had 83% of firms sending senior executives and middle managers, 50% of firms sending supervisors and technical staff and 17% sending wages employees for 10% or more of their time working time overseas.

A considerable proportion of companies are also locating staff overseas for periods of at least 6 months. If employees are sent abroad for periods of 6 months or more then firms need the types of structures and processes to ensure that they have the support and conditions to perform effectively whilst living overseas. The percentage of firms sending employees to live overseas was higher than expected and demonstrates that Australian firms are transiting beyond the marketing and business development phase to the establishment of a solid presence in the international sphere.

On the evidence of the survey, the higher one moves up the corporate ladder the greater the likelihood that the job will involve international work. There are implications here for management education and development both within organisations and in tertiary institutions. However, the numbers of staff at lower levels in the firms working internationally is also of note. It reflects the importance of technological transfer in successful bids for contracts and obtaining licences to operate in developing economies. The requirement that foreign firms wishing to do business provide training and development for operating and technical personnel is often a critical component in winning a contract. This had been a decisive factor in the success of TASL in Saudi Arabia and the technical skills of the Telecom expatriates stood at the heart of the contract. The importance of providing supervisory, trade and technical staff who have the competencies to train and communicate in overseas environments is often neglected in studies focusing upon the need to develop managers with international skills for success in international business.

Table 1 Firms Expecting the Number of Staff working Overseas to Increase by Business Sector.

Business Category	% Increase
Manufacturing	100.0
Financial	100.0
Mining	91.7
Services	80.0
Research and Development	50.0
Process/Assembly	33.3

Although respondents had revealed a low level of plans for new ventures overseas, 82.8% said that they expected the number of Australian employees working overseas to increase in the future. Table 1 shows that firms in every sector of business activity expected the number of employees working overseas to increase. Again there was little difference in response between companies of different sizes.

Issues Causing Problems

Only 17.2% of firms did not expect to increase the number of employees working overseas. All of these firms said that they had suffered problems in the transfer of employees and family to the location and in the settling in period of the family, 75% had experienced problems with remoteness and social environment and 50% had suffered problems with spouse careers. These figures are much higher than the average for all respondents. It is possible that such problems may have been a factor in a decision not to expand in the foreseeable future.

Issues consistently identified as problem areas in the international human resource management literature and in the case study interviews were listed in the questionnaire.

Table 2 Issues Causing No Problems to Respondents

Ranking	Issue	% of Firms
1	Repatriation	50.0
2	Remoteness	37.9
3	Spouse Career	37.9
4	Education	34.5
5	Transfer to Location	25.3
6	Social Environment	24.1
7	Settling in Period for Employee	23.0
8	Settling in Period for Family	14.0

Every issue identified was found by some firms to have never caused a problem. The finding that Repatriation was the most trouble free issue contradicted findings in previous studies (Harvey 1989) and also the findings of the case studies. The next ranked issues on the No Problems list, however, Remoteness, Spouse Career and Education, were also top of the list for issues which were causing Many Problems to other companies. This shows the need to be cautious in generalising on these issues.

The percentage of respondents identifying the issues listed as ones that had caused them either a few problems or many problems is shown in figure 4. The finding that an issue can be problem free to some firms and simultaneously cause many problems to other firms operating in the same industry and the same region indicates the degree to which the issue is related to firm specific factors.

The issues which caused most problems seemed related to expatriate families living in overseas locations. For example, whereas only 3% of respondents reported many problems with the employee settling into the new foreign environment, 10% had found many problems with the family settling in. The company policy regarding the sending of families with employees to foreign assignments would be important here. If a firm insists that it will only send staff overseas on single status then this would influence the responses on problems encountered. All firms interviewed in the 3rd stage of the study stated that it was company policy to send employees to remote areas on single status only.

Figure 4 Issues Causing Problems

The settling in period was a source of widespread problems which perhaps indicates inadequate preparation in the pre-departure stage. The MNCs interviewed said that in their experience the initial period in a foreign environment could be so traumatic that they had instituted very expensive measures to counteract this as in the long term these costs were less than those incurred by risking an alienation which may colour all subsequent experiences of the employee and family living in that location. The measures taken by the MNCs included flying the employee and partner to the overseas location prior to them deciding whether to take the assignment. This enabled the employee and partner to meet colleagues and families already there and to see at first hand the community facilities and housing.

Overseas Location as a Variable in Problem Issues

The percentage of respondents reporting problems on identified issues was examined according to the location where they were doing business. The relationship was not a very strong one in that there was a spread of responses from firms in every location suggesting that the responses related more to factors in the internal environment than the external. However there were some points of interest that emerged.

There were only 7 firms regularly doing business with Africa but this emerged as the most trouble free location. If Remoteness is taken as a distance and/or a cultural phenomenon

then one might have expected this to have been identified as an issue causing problems to employees working in African locations, but this was not the case. America and Asia were the locations where most problems were reported with Remoteness. Europe was the most trouble free location regarding Remoteness, with 62.5% of firms doing regular business there reporting no problems on this issue.

Africa was also the most trouble free location with regard to the settling in of the employee with 43% of firms doing regular business there stating they had never had any problems with employees settling into their work environment. There was little variation between Asia, Africa, America or Europe with responses on issues such as the Transfer of Employee and Family, the Settling in of the Family and Education. On the issue of Spouse Careers, Europe was the location causing least problems with half of the firms doing business here reporting no problems at all. In contrast, firms doing business in America identified Spouse Careers and Remoteness as the issues causing the most serious problems of all.

On the issue of Social Environment all locations showed a similar spread of responses which suggests that expatriate employees have much the same experiences in foreign environments regardless of the local culture or situation. This seems unlikely unless the employees were not looking to the local community for their social interaction. The study on the Telecom project in Saudi Arabia revealed a very high level of satisfaction on the issue of Social Environment among returned employees and spouses. In that project the expatriates lived in expatriate compounds totally separated in their living quarters from the local community.

Size of Firm as a Variable in Overseas Staffing Problems

There appears to be a relationship between size and the number of problems identified, with small firms reporting less problems than large organisations. Yet large firms have bigger resources and budgets to spend on facilities designed to minimise problems for employees working overseas. Large firms are also much more likely to have Human Resource departments with specialist staff who can be specifically focused on international concerns. The survey findings demonstrated that human resource departments need to carefully evaluate their handling of international human resources. None of the small firms had a dedicated human resource department and 81.3% of survey respondents with this function were large firms. Research studies have shown that small organisations are non bureaucratic, more informal in their management style and communications and have few formal systems or administrative staff (Astley 1985). In all the small firms surveyed overseas staffing concerns were dealt with directly by management. In the large firms management was also involved but the process and routine work was handled by a human resource department. However, it was large firms which encountered more problems than small firms on every issue identified except Remoteness. This finding requires further investigation to determine why small firms appear to be dealing more successfully with perceived problem issues.

It seems likely that a number of factors may have influenced the survey findings. It may be that small firms without a human resource department do not attempt to offer the same range of conditions as do large firms, certainly many small firms do not have the facilities and budget to offer to send the employee's family on all overseas assignments. A medium sized resource firm said it had revised its policy in this regard after an initial period due to the enormous number of problems it had encountered when employees had their families accompany them abroad. It now insisted on all employees working overseas on single status

and provided multiple flights home each year. To its knowledge, all the small firms of contractors supplying operating and technical staff to their overseas projects had similar arrangements.

Another contributory factor may be that employees of large organisations have expectations that the firm has responsibility for a whole range of lifestyle and personal matters which employees of small companies aware of limited resources and the lack of specialist human resource staff do not share. The small firm is perhaps not expected by its employees to have the expertise and systems in place to guarantee that the employee going overseas will not suffer inconvenience and problems. Employees in small firms therefore may encounter the same problems as those in large companies but they do not expect the company to solve them to the same extent and therefore they are not registered to the same degree as problem issues for the company. These ideas need to be tested by further research.

In a large organisation there are likely to be more formal communication arrangements and recording of personnel matters which results in the firm having formal and detailed records of issues affecting an employee not found in small companies. On the other hand, the informal communication between management and employees in small organisations is usually very open and ranges over personal and family matters to a greater degree than in a large more structured organisation. If the management is handling all matters to do with employees working overseas themselves then the link is much more of a personal nature and the employee will not feel the same degree of separation as in an impersonal bureaucratic organisation.

The importance of communication arrangements to the success of overseas postings was emphasised by all the organisations interviewed. Small firms are able to provide the type of personal link that is very important to an employee operating away from the home environment. The studies in DFAT and TASL showed the positive returns of policies aimed at dispelling the impersonal, bureaucratic climate of large organisations. An employee, particularly with a family, needs to feel that their concerns and welfare are of importance on a personal dimension to someone in the company when they venture abroad outside of their zone of familiarity to a living environment where the certainties of existence can no longer be taken for granted. Large organisations may appear impersonal and remote and therefore indifferent to the well-being of individual employees and their families. It may be worthwhile for them to look at structural solutions, for example like that adopted in Telstra, which create organisational units with the close personal contact and communication typical of small firms.

Conclusion

The results from a survey of only thirty-six firms cannot be taken as representative of all Australian companies operating internationally. Also all the firms were successful. The results are therefore only suggestive and further research is necessary particularly on the issue of size of firm. Much of the research on international human resource management has investigated large multinational corporations. It maybe however that small firms have features which are worth considering in the staffing of overseas operations. It seems important that the organisation accept that when an employee becomes an expatriate the relationship between the employee and the organisation has to be extended to include personal and social dimensions. This requires a style of management and/or the provision of counselling and other services which allows the employee to feel comfortable in discussing personal issues and confident that the welfare of their family is important to the organisation. The more informal structures and

the greater opportunity for close personal dialogue between all members of small organisations seem to offer advantages in doing business in a global environment..

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