A Critical Discourse on the Workforce Localisation in the Globalised Era: Some Reflections

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Abstract

Localization of workforce has emerged as one of the key challenges and priorities of international HRM. Different studies have been found in favour and against localization of workforce, mainly in the host countries of international organization. The present article attempts to identify major contemporary researches on localization with the purpose of providing valuable insights and useful information on this very difficult, though important issue. It has been found that many organizations that claim to be global, yet resist allowing host country nationals to hold official and important positions. In this context, the present research attempts to discuss the drivers of localization, factors affecting the smooth transfer of jobs to the local staff. The article has also attempted to explore some of the ethical and business reasons for assisting and resisting this process.

Keywords: Localization, Host Country, International HRM, Drivers of Localization

Introduction

Localization is an issue that affects professionals around the world. It applies as much in Eastern Europe as in East Asia and in Japanese organizations in the West or a western organization in Japan. Same examples can be highlighted from many other locations such as Middle East, China, India etc. The situation of expatriates moving from low cost locations to high-cost ones has added many other dimensions to this growing localization trends. However, this trend has caused in many countries growing tensions and uneasiness in the relations between the expatriate community and the local staffs. Sadly such tensions are not merely found in the private sector and evidence from the development sector suggests that similar levels of distrust exist. Such attitudes and tensions are unwanted and unnecessary in a rapidly globalizing world. They result in inappropriate behaviours, low morale, high staff turnover, loss of productivity and poor performance. Major investments are jeopardized, relations with key partners undermined, joint ventures at risk, valuable contacts and market relations threatened and the flow of resources or aid support potentially curtailed. Consequently, there is pressure on both international development agencies and multinational companies to manage their international

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human resources in a way that such tensions are minimized and local management talent is developed and promoted. The development of effective localization strategies and the promotion of local executives to senior positions is a major human resources issue that such international organizations need to address.

Research on Localization
Different studies have defined the concept of localization from different perspectives. According to Potter (1989), localization is the process when a local national fills a required job sufficiently competently to fulfil organizational needs. Selmer (2004) has, however, defined the concept as the extent to which jobs originally filled by expatriates are filled by local employees who are competent to perform the job. Evans et al. (2002) see localization as the systematic investment in the recruitment, development and retention of local employees and as such, as an important element in the globalization strategy of multinationals. However, the localization of key management positions has remained a key challenge for the multinational companies and international development agencies attempting to balance their global interests with the demands of rapidly changing local conditions. The evidence (Joynt and Morton, 1999) has also suggests that multinational companies continue to use expatriates to fill key positions in their overseas operations. Multinational firms explain this trend in terms of their expanding role in the global marketplace, the need to transfer skills and expertise and the advantage of giving key staff overseas experience and the application of company systems internationally.

Furthermore, expatriates are no longer merely employed by traditional large 'blue-chip' companies with well-established international interests. They are increasingly being used by companies who have little tradition of operating overseas and have little experience of working with expatriates and lack established systems to manage and support them (Brewster and Scullion, 1997; Forester, 1997; Forster 2000; Banai and Harry, 2004). Such pro-ex[patriate dominant observations have however been countered by a small number of researches, those focus specifically on localization and its strategic implications. Despite a plea that localization should be incorporated into the wider context of international HRM strategic thinking (Jain et al., 1998), the reality is that most research in this area is concerned with the specifics of the localization process. For example, early studies focused on developing the skills and expertise of host-country managers (Potter, 1989; Vance and Ring, 1994). Other studies drew on evidence from the studies on different countries. Cohen (1992) drew on research in Kenya to analyse the issue of so called failed retention of local employees or why it is that a disproportionate number of local staff who have been trained to take over positions previously held by expatriates did not actually fill these posts.

Leach (1993) reviewed the role and cost of expatriates in developing projects in Tanzania and another study by Hailey (1994) has examined the failure of localization strategies introduced in Nigeria in certain categories of profession. Researchers have also drawn on experience in China and Southeast Asia. Lassere and Ching (1997) in a review of the role of local mangers working for multinationals operating in China concluded that the case for localization was overwhelming. Hailey's research in Singapore and Malaysia highlighted the tensions between local staff and their expatriate colleagues and concluded that multinationals need to implement effective and transparent localization policies (Hailey, 1998). However, such conclusions were questioned by Gamble (2000), whose research examined the situation facing foreign investors in China. He argued that calls for wholesale localization of senior management positions were premature and that there was still a role for the skills, organizational networks and neutrality that expatriates provide. By the 1990s, studies analysed the practical aspects of localization in the Chinese context (Selmer and Luck 1995, Lee 1999, Wong and Law 1999). More recently,

research has emphasized the complex dynamics of implementing localization strategies in China (Worm et al. 2001; Fryxell et al. 2004; Law et al. 2004; Selmer 2004).

Some international companies, banks and oil companies, among others, have used host country nationals transferred to the head office or regional office to transfer knowledge from the local to the headquarters. This is seen as a useful strategy to increase cross-cultural and cross-national understanding as well as giving opportunities for career development of such inpatriates. In a study of employment creation and localization in the gulf states, Harry (2007) concluded that, despite governments' pressure to localize jobs, many employers prefer not to recruit local citizens and instead employ expatriates, who they consider cheaper, more easily controllable and more capable than most of the local staff. One explanation for this is that the supply of expatriates, in technical and managerial jobs, is much more elastic and competitive than that of host country nationals; consequently, local managers may be more expensive than expatriates. Banai and Harry (2004) also pointed out that some expatriate managers (and many others in less senior positions) see themselves as 'international interns' moving from place to place pursuing an international career and not seeking to go 'home'.

A good number of researchers have pointed out that all too often localization as a research issue has either been overlooked or treated as the flipside of the expatriate debate (Banai and Harry 2004*;* Rowley and Benson 2004; Sparrow et al. 2004). As such it is one of those subjects in the field of international HRM. In reality, it is a human resource issue in its own right of considerable international consequence, as well as major commercial and ethical dimensions. In light of this, it is surprising how few researchers have analyzed drivers of localization and its effectiveness and value, or examined how best to localize senior management positions and what strategies are needed to develop indigenous management talent.

Drivers for Localisation

There are number of fundamental drivers behind the move to localize key management positions. These include issues around the cost effectiveness and performance of expatriates, concerns about the ability of expatriates to establish local contacts, political and ethical pressures to employ local citizens and the impact on the morale and performance of local staff of having foreign nationals in senior management positions.

Cost effectiveness and performance of the expatriates as the driver of localization have remained major areas of discussion and debate for years Bani and Harry (2004), Scullion and Brewster (2001) in their studies have opined that expatriate costs are usually a multiple of the national employee costs and expatriates are among the most expensive employees internationally. Dowling and Welch (2004*)* have identified the higher cost of administering the expatriate employees' conditions of service. According to them, this is because of HR engagement in carrying out the cost of living comparison studies, developing tax equalization formulae and managing international careers of the expatriates. Studies by Black et al. (1999) have indicated that an expatriate employed by an American multinational costs two or three times more than a local employee employed on American soil and the same are prevalent in the countries like Singapore, UK, Spain, Hongkong, India, South Africa etc. Another study (Selmer, 2004) on China has revealed that expatriates working in China are paid four to five times more than the local staffs in comparative positions.

Study by Harzing (1995) has also identified the costs associated with expatriates who return early because of job satisfaction, social difficulties in adjusting etc. Stroh et al. (2000) have further explained through their empirical research that even many expatriates, who complete their contracts may not be able to deliver as per expectations and that also cost very high to the

employing organizations. The study by *Armstrong (1987)* has added a critical dimension to this observation. In his research, Armstrong has done critical analysis of the mistakes done by the European expatriates in Tanzania. The research further concluded that the opportunity costs of failing to develop local management talent for spending the same money to compensate the expatriates in spite of the poor performance had a long-term impact on the human resource capacity scenario in Tanzania.

Different scholars have also shown and attempted to prove the other way. According to them, the lower costs of the host-country staff and their continuity of employment means that the return on investment in recruiting and training will be much higher. Harry and Collings (2006) have highlighted the benefits of improved morale and motivation of the local managers as a result of such encouragement. Black and Gregersen (1992) have however related the aspects of higher reliability of the local managers than the temporarily engaged expatriates. Gamble (2000) in his study has also highlighted the aspects of cross-cultural tensions and misunderstandings between the local employees and expatriate managers, that effect the overall organizational productivity as well. Two studies by Hailey (1994, 1998) highlighted the underlying resentment of local staff at the continued employment of expatriates, not just because of their perceived power, perks and salary, but also because of their poor performance and the way the expatriates blocked the career ambitions of talented local staff.

Another important factor of localization that has also been found to be widely debated among scholars is the *concerns about the ability of expatriates to establish local contacts*. According to *Hailey (1998),* many expatriate executives face the operational problems to adopt to the local business or to understand local marketplace. He has identified the causes such as time-bound nature of their posting and associated issues around building trust or networks of local contacts responsible for this. Banai and Harry (2004) have also highlighted the causes of inability of some expatriates to adjust to different business cultures and form effective relations. Selmer (2004) in his work has therefore, emphasized on hiring locals than expatriates to fill up vacant positions in the organizations. According to his study, the employment of talented local managers instead of expatriates has improved communication, performance and productivity in many cases.

Political and ethical pressures have also been identified as major drivers of localization of workforce. In the study by Yamani (2000) and Harry (2007), fears of growing unemployment as well as economic and demographic factors have been identified as the major cause of localization of workforce. Citing the examples of many gulf countries, both their studies have somehow termed this tendency as government's compulsion to encourage locals to fill up the positions. Sparrow et al. (2004) have focused on many examples, where local governments have shown their clear preferences of restricting the jobs for the locals, rather than expatriates. Different other benefits of localizations such as growth of local public sectors through local contracts (Harry and Collings, 2006), improved chances of foreign investments in host countries by reduction of manpower costs (Selmer, 2004), unethicality of depriving locals of training opportunities, promotional of personal support of the locals (Vance and Paderon, 1993) have also been identified as significant drivers, too.

In some other studies, factor like *'staff tensions'* has also been identified as significant drivers of localization of workforce. Most commentators acknowledge that the issue of trust lies at the heart of the localization debate (Black, J.S. and Gregersen, H.B. 1992 & Selmer et. al., 1994). Unfortunately, the evidence from a number of different studies suggests that the level distrust between local staff and their expatriate managers is both high and dysfunctional (Hailey 1994, 1998). All this supports the findings of an early study by Zeira et al. (1974), which found that local employees were dissatisfied and frustrated with ethnocentric staffing policies whereby

senior executive positions are filled with expatriates. The resulting tensions fuel resentment of expatriates-their power, perks and privileges-and act as a further driver for localization. These tensions were outlined in some detail in Hailey's two studies of the perceptions of local staff working for both multinational corporations and international development agencies. Both studies highlighted the potential tensions between local staff and expatriates and raised questions about the efficacy and ethics of continuing to employ expatriates. Most local managers interviewed commented adversely on the perks and privileges of expatriates, the difficulties arising from the failure of expatriates to adjust their management style and tensions arising from cultural misunderstandings and insensitive expatriate behavior. Many felt that careers had been inhibited by the continued employment of expatriates and that the relationship of trust between colleagues seems to have been broken.

Barriers of Effective Localization and Strategies of Localization
In spite of several initiatives, major obstacles are still faced by the organizations. Micklethwait (1996) has emphasized on the problem of lack of available local manpower to fill up executive positions in many countries such as in gulf countries, Eastern Europe etc. The study has shown that the demand of skilled manpower to fill up the executive positions has been found to be widened in many of these countries due to rapid economic progress and such demands could not be met with locals only. Harry (2007) in his study has observed that in Gulf States, main emphasis was given on culture and nation building for long time. Only recently, employability based education has been found to be initiated in these countries. The same study has also highlighted the concern of preferences to government jobs by the locals in these countries. A racial or national prejudice has also been found as a major obstacle of localization in the study by Gamble (2000). His study has shown the reluctance of Chinese subordinates to work under Japanese expatriate managers in China, which in turn prevents many foreign Japanese multinationals from starting localization initiative in China by improving the skills of locals by putting them under Japanese managers and experts.

Despite the above barriers, localization has been found to emerge as a key human resource priority in many countries, organizations and industries. Many scholars have discussed on different strategies for effective implementation of localization of workforce. Based on their observations, a composite model comprising of four stages of effective localization of workforce in host countries can be developed (Figure 1).

The first stage is ensuring there is a genuine commitment to localization. Second is the design of appropriate localization strategies-the strategizing stage. Third is the application of these strategies-the localizing stage, and fourth is a consolidation stage when the new incumbents are given ongoing development support and the success of localization policy is reviewed. The *first stage* requires senior management in the parent organization and the host country operation to commit their personal support, as well as sufficient resources (especially in terms of selection and training), to ensure efforts to localize succeed. Often expatriates and foreign managers have appeared to be supporting localization while actually undermining or under resourcing the process. Without such commitment localization will be a troubled process that leads to resentment, and worse, within the organization (Nakajima and Harry, 2006). The *second stage* with its emphasis on strategizing is based on an initial clarification of goals and achievable objectives, as well as an assessment of the costs and benefits involved and the investment necessary. The evidence suggests that the development of effective strategies and appropriate objectives is crucial to ensuring the success of long term localization (Wong and Law 1999, Law et al. 2004, Harry and Collings, 2006). The *third stage* is concerned with the direct application of specific HR policies that are appropriate to the local environment and culture and have the buy-in of both host and expatriate managers (Wong and Law 1999; Fryxell et al. 2004).

Stage 4:
Consolidation stage

Stage 1: Ensuring genuine commitment to localization

Stage 2: The designing of appropriate localization strategies-the strategizing stage

Stage 3:
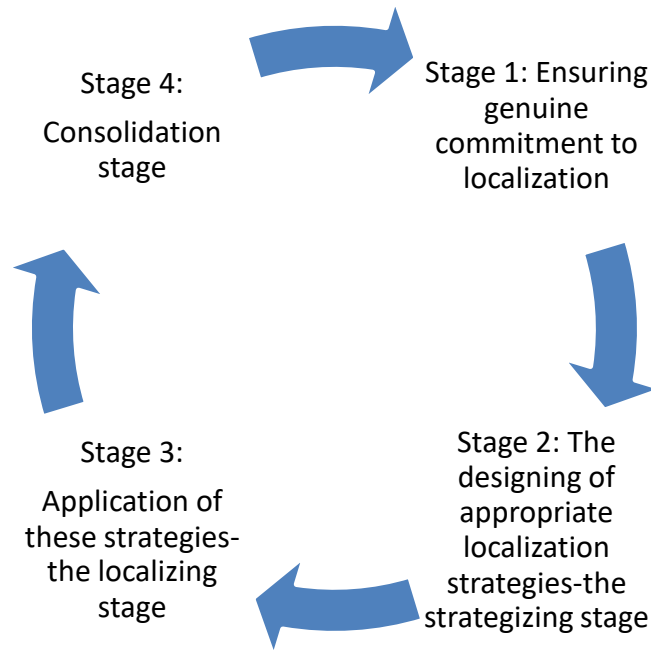Application of these strategies-the localizing stage

Fig: 1: Composite model of workforce localization

This localizing stage includes the establishment of effective recruitment and selection procedures to identify appropriate candidates for specific jobs, the introduction of strategies for their ongoing development and must include incentives to encourage local staff to assume the new roles expected of them (Law et al. 2004). The selected HR practices must be appropriate for the host environment and not just be brought from 'home' or headquarters and applied without taking into account expectations and standards of the local citizens. Training, mentoring and coaching are essential elements and central to the success of these strategies. Braun and Warner (2007) highlighted the importance of in-house training, assignments abroad and mentoring programmes in the development of local Chinese managers taking over posts held by expatriates. Fryxell et al. (2004) emphasize that this implementation of localization strategies is not about applying generic solutions or simple recipes, but adapting them to specific needs and the particular cultural context. The *fourth stage* occurs when locally employed staff has the necessary skills and competence to assume roles previously assumed by expatriates and the success of the localization process is evaluated and lessons learnt (Wong and Law, 1999). This stage also involves ensuring expatriate support in the development of new local managers by actively involving them in the planning of the localization process and providing them with a suitable and attractive repatriation package (Law et al., 2004; Selmer 2004) or by opening up new career opportunities (Banai and Harry, 2004). During the consolidation stage there will be feedback on the causes of successes or failures and in the localization process, aimed at improving the development of staff to replace other expatriates.

This staged approach to localization gives a structure to what is potentially a complex and divisive organizational and political issue. By taking a systematic approach with objectives and timelines, progress can be measured; obstacles can be recognized as well as dealt with. The evidence suggests that if there is a genuine commitment from senior management to effective and ethical localization then there is a high chance of success (Harry and Collings, 2006). This is particularly true if time and resources are invested in the planning stage, appropriate HR policies and practices are applied in the localization stage, and these are followed up by appropriate and timely development support and ongoing monitoring (Hailey 1998, Fryxell et al 2004, Law et al 2004).

Conclusion

It is therefore observed that localization has been a key human resource issue in its own right with major economic and ethical dimensions, but that all too often it has been overlooked as an issue for research. As such it is one of the 'Cinderalla' subjects in the field of international human resource management. This is a matter of some concern, because the evidence suggests that localization should be seen as an integral strand of any multinational organization's international strategies. The evidence suggests that it would be most cost effective and more ethically appropriate for such organizations to phase out, or at least reduce the use of expatriate managers, place greater trust in local staff and build on their experience, expertise, local knowledge and contacts. Expatriates have a useful role in many global organizations but locals have a crucial role in the success of globalization.

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