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Inpatriates and Expatriates: Sources of Strategic Human Capital for Multinational Food and Beverage Firms

Global Networks, Global Perspectives and Global Talent
Discussions on the Development of Human Capital in Agribusiness[1]

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Abstract

The accelerating pace of globalization makes the strategic role of human resource management increasingly important for global companies. MNEs as key drivers in the process of globalization are becoming much more differentiated networks. This enables them to source the optimal combination of inputs from the global market. Inpatriates and expatriates are MNE's strategic sources of human capital, through which knowledge is developed, carried, and exchanged within the MNE's network. This essay discusses the ways in which inpatriates and expatriates can provide competitive advantage for MNEs in the food and beverage industry, and how these MNEs should mange these strategic resources in a competitive global market.

Keywords: Food and beverage MNEs, human capital, inpatriates, expatriates, global talent management

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Introduction

The accelerating pace of globalization makes the strategic role of human resource management (HRM) increasingly important for global companies (Farndale et al. 2010){Farndale, 2010 #553;Fang, 2010 #552}. A process driven by economic forces and opportunities, globalization leads to the reorganization of production, changes in international trading patterns, and the integration of financial markets (Sideri 1997). Multinational enterprises (MNEs), key drivers in the process of globalization, are becoming much more like differentiated networks as they strive to obtain the optimum combination of inputs from the variety of opportunities available in the global market. This in turn fuels the trend toward outsourcing and offshoring of activities[2] (Buckley and Ghauri 2004; Buckley 2009).

Firms need talented leadership to operate successfully on a global scale (Farndale et al. 2010). Inpatriate managers (inpatriates) are host-country personnel in MNEs' foreign subsidiaries whose knowledge of the local market, business practices, and cultural preferences make them a significant source of international management talent for MNEs. Expatriate managers (expatriates), on the other hand, are home-country personnel who hold key positions in MNEs' foreign subsidiaries (Harzing 2001), mainly to establish control in the foreign market (Farndale et al. 2010). This essay discusses the ways in which inpatriates and expatriates, as strategic human capital, can provide competitive advantage for MNEs in the food and beverage industry, and how these MNEs should manage these strategic resources in a competitive global market.

Opportunities in Emerging Markets

Research and Development (R&D) and its main product, innovation, are a recognized source of sustainable competitive advantage, and hence profitability and growth (Alfranca et al. 2002). The food and beverage industry is generally recognized as a low-tech industry in which the share of R&D expenditure is among the lowest in the manufacturing sector (von Tunzelmann and Acha 2005; Rama 2008). However, evidence indicates that manufacturers and retailers recognize the importance of food innovation, and consumers' behaviors reveal an increasing demand for new products that offer real benefits in terms of convenience, quality, and variety (Pinstrup-Andersen 2002; Galizzi and Venturini 2008). This creates opportunities for firms to introduce new products and processes that meet consumers' increasing demand for higher quality products (Ghazalian and Furtan 2007).

Innovation adoption is often a costly process (Kotabe 1990) that includes the generation, development, and implementation of new products or services, new process technologies, or new organizational structures (Damanpour 1996). Recent research shows that MNEs in the food and beverage industry tend to offshore their R&D units in specialized subsidiaries (Filippaios et al. 2009). A patent analysis[3] indicates that from 1969 to 1994, 30% of the innovations of the world's largest food and beverage MNEs were produced offshore (Alfranca et al. 2002). One reason for offshoring R&D may be the lower costs of adoption of innovation in offshore countries (Kafouros et al. 2008). Sourcing R&D inputs from the cheapest markets around the globe and offshoring R&D facilities where land, capital, and scientific talent are cheap (e.g. India[4]) may reduce costs associated with R&D activities (Kafouros et al. 2008).

R&D Subsidiary Embeddedness

Subsidiaries are an important part of the MNE's network. There are mutual adaptations between the parent MNE and the subsidiary in the development of products and processes between the subsidiary and their local trading partners (Yamin and Forsgren 2006). Despite the process of globalization and trends toward

2 Outsourcing refers to models of "buying" rather than "making," while offshoring can involve either "buying" or "making," (or both) abroad (Buckley 2009).

3 They analyzed a sample of 16,698 patents granted in the United States to 103 food and beverage firms selected from the world's largest food and beverage MNEs (Alfranca et al. 2002).

4 The salary of a well-educated researcher in India is one-tenth of the corresponding salary of a researcher in Sweden (Kafouros et al. 2008).

homogenization of diets, food consumption remains culturally bound (Filippaios et al. 2009). Therefore, knowledge about consumers' tastes and preferences in the local market is a source of competitive advantage for MNEs in the food industries. Through relationships with external networks, R&D subsidiary embeddedness in a host country generates valuable knowledge that could be a strategically relevant resource for the adoption of innovations particularly in that country (Barney 1991; Yamin and Forsgren 2006). Competing in the global marketplace, however, requires the strategic human capital of managers who are diverse and multicultural, and inpatriates are a valuable resource (Harvey and Miceli 1999).

Inpatriates as Source of Knowledge

Knowledge is a critical strategic resource that creates a firm's competitive advantage (Kogut and Zander 1992). Knowledge is developed, carried, and exchanged through the firm's human capital (Amit and Schoemaker 1993). Inpatriates are increasingly recognized as a valuable source of international human capital in MNEs (Farndale et al. 2010). Their knowledge of the local market, business practices, and cultural preferences has made inpatriates strategic sources of human capital for foreign subsidiaries. Inpatriates interact directly with local employees. They are familiar with local laws, rules, and practices. The role of inpatriates is especially relevant when knowledge about the host country is important to the manager's specific function. The greater the cultural distance between the home country and the host country, the greater the value of inpatriates expertise. Growing market opportunities in developing economies (e.g. China, India, Brazil) lead to MNEs offshoring their activities in these countries, but MNEs often face great social, cultural, and institutional gaps in these countries that can make market entry and management of local business activities difficult. Thus, their depth of knowledge about the local market makes inpatriates better candidates than expatriates for managing these operations (Harzing 2001; Reiche 2006).

Expatriates as Facilitators of Knowledge Transfer

Knowledge as a strategic resource is difficult to diffuse through an MNE's network (Fang et al. 2010). Key managerial positions and rich knowledge about the home market allow expatriates to become knowledge-transfer facilitators who improve a foreign subsidiary's ability to acquire and absorb organizational knowledge from the parent-firm and hence enhance its performance (Harzing 2001; Fang et al. 2010).

Despite their crucial role in facilitating transfer of knowledge to offshore subsidiaries, because of the costs related to moving and relocation, education for their children, visits to the home country, etc., expatriates are an expensive source of human capital for MNEs. Therefore, it has been suggested that expatriates should be employed when an MNE is large and conducting intensive R&D, when there is a high level of political risk in the host country, when the level of education in the host country in low, or when the subsidiary is young and a green field operation (Harzing 2001).

Past research (Harzing 2001) has found few expatriates and a large proportion of inpatriates among the foreign subsidiaries of food and beverage MNEs. The integration of foods and culture requires familiarity with local markets and consumers' tastes and preferences (Azar 2011). Therefore, although expatriates can contribute valuable corporate knowledge, inpatriates in these subsidiaries are better placed to provide food and beverage MNEs with strategic local knowledge (Harzing 2001).

Global Talent Management

Human capital challenges are among the most pressing global challenges that MNEs are facing today (Tarique and Schuler 2010). Intensified global competition to produce high quality products at low costs, wage differentials across nations, aging populations in many developed economies, increasing demand for skilled human capital, and shortage of competent and motivated employees are global talent challenges that MNEs need to manage effectively (Schuler et al. 2011).

Managing global talent challenges requires the systematic use of HRM activities and policies to attract, retain, and develop key human resources at the international level, i.e. global talent management (GTM) (Tarique and Schuler 2010).

GTM initiatives may include:

- Attracting talented human capital away from existing employers, by making the target companies more attractive, e.g. by developing HR reputation, attracting individuals with interest in international work, and using a talent pool strategy
- Retaining talented human capital, e.g. by creating a good work environment, rewarding managers for improving talent retention, and assessing the efficacy of current recruiting sources
- Performance assessments designed to retain and motivate talented staff
- Compensating high-performing employees (Schuler et al. 2011)

Successful implementation of GTM, however, requires a deep-seated commitment from senior executives, as well as matching the firm's strategy and talent resources with appropriate and achievable policies and practices (Ready and Conger 2007; Schuler et al. 2011). Moreover, GTM practices should be synchronized with the company's needs to grow or expand into new markets. Integrating the functionality and vitality of GTM enables a firm to develop and retain key employees and fill positions quickly to meet evolving business needs. Functionality refers to the application of tools and systems that allow the firm to put the right people with the right skills in the right place at the right time. Vitality, on the other hand, refers to the attitudes of the people responsible for those processes, and is a product of the executives' commitment to the details of GTM and their accountability for identifying and developing the firm's current and future leaders (Ready and Conger 2007).

GTM in Food and Beverage MNEs

Previous research has found that implementing GTM positively influences both inpatriates' and expatriates' commitment, loyalty, and performance in food and beverage MNEs (van der Heijden et al. 2009). Accordingly, the extent to which the in/expatriates believe that the parent organization values their efforts and cares about their well-being affects their perception of their career prospects within the home organization, as well as their performance. Two prominent companies that have implemented GTM and turned it to their strategic advantage are Coca Cola and Tyson Foods.

An example of GTM at The Coca Cola Company (which has a global workforce of approximately 92,800 (CocaCola 2010)) is assigning management trainees from developing countries (e.g. China) to centers around the world. This allows the company to create a diverse talent pool it can then align with both local and global needs (Beechler and Woodward 2009). Among the ways the company works to motivate employees are "engagement surveys," which are then used to identify key themes in the information and comments provided by employees, and by ensuring the high levels of involvement and visibility of the leadership through organizing group discussions and interactions with senior managers. Investing in people and initiatives has not only increased employees' commitment to Coca Cola, but also resulted in strategic advantages (McGovern 2011).

Tyson Foods, a family-controlled company based in Springdale, Arkansas, is one of the world's largest food processors and marketers. After ad hoc approaches to leadership development failed, the company formed a senior executive task force that involved leaders from across the organization in trying to strike a balance between supply and demand for talent in the company. By exposing future leaders to the full range of the company's operations (new business units, regions, etc.), Tyson Foods helps them to develop working relationships throughout the organization and develop the skills to execute the corporate strategy. The company adopts formal performance-management review policies through which it assesses the qualifications (competencies, values, and skills) necessary for key positions. A close collaboration between the senior leaders and HR helps to ensure the accuracy of the process and in turn, contributes to the long-term success of the company (Cohn et al. 2005).

Conclusion

The notion of the "global factory" imagines MNEs becoming much more differentiated networks, which will enable them to source the optimal combination of inputs from the global market (Buckley and Ghauri 2004). Inpatriates and expatriates are an MNE's strategic sources of human capital, through which knowledge as a strategic resource is developed, carried, and exchanged within the MNE's network. An imbalance in the supply and demand for skilled human capital in the global market, the aging population in many developed economies, and a shortage of competent and motivated human capital have made inpatriates and expatriates scarce resources for MNEs. It will require strong commitment from senior managers to develop the innovative HRM activities and policies needed to attract, retain, and develop these strategic resources at the global level.

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