

Crucial Selection Criteria of Expatriates and Overseas Performance in Emerging Markets: The Case of Thai Smes

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Abstract. The objective of this research is to study the expatriation practices of small and medium-sized enterprises (SMEs) in global emerging markets. The sample for this study comprised one hundred and twenty Thai SMEs operating in China and Vietnam, and questionnaires were used as a research instrument. In order to test the research hypotheses, a regression analysis was conducted to investigate six selection criteria that may influence the overseas performance of expatriates and subsidiaries, while a multivariate analysis of variance (MANOVA) was conducted in order to identify the differences between those criteria and cultural differences between the home and host countries. The results indicated that all six personal characteristics, including self-orientation, relationship development, willingness to communicate, perceptual ability, cultural toughness, and ability to cope with overseas responsibilities, had a significant impact on overseas performance. The findings also suggested that the expatriate practices of Thai SMEs varied depending on cultural differences between the home and host countries. Furthermore, it was found that the most crucial factor affecting the failure of expatriate is “inability of spouse to adjust”. Thus, this research provides invaluable implications for both practitioners and scholars in the area of international business management.

Keywords: expatriates, small and medium enterprises (SMEs), selection criteria, overseas performance, emerging markets

1. Introduction

International business is currently playing a very significant role in developing the world economy, producing an immense impact on the global trade. Global trade consists of many kinds of activities which are going on 24 hours a day; therefore, many countries intend to conduct those activities as they aim to improve their economy and maximize their wealth. For these reasons and under the assumption that exporting could be the major source of income, Thailand is one of those countries that supports and conducts international trade, with a focus on developing exporting operations. As a result, small and medium Thai entrepreneurs (Thai SMEs) have received great support from the government. The government tries to help them to operate efficiently, believing that those SMEs (more than 2 millions) will ultimately move themselves to the world market and this could push and elevate the Thai economy (SMEs, 2009).

Currently, it is found that many Thai SMEs have been trying to expand their operations to the global level, but unfortunately they are still struggling and have yet to succeed in maximizing profits and being sustainable abroad. The story of Thai SMEs is quite different from multinational enterprises (MNEs), since most of MNEs are successful and the reasons for their success could be their working capital and qualified, skillful human resources that can help the organization meet their strategic goals.

Research studies, including Allen (2010), Hill (2010), and (SMEs), identify inefficient employees who cannot work continuously as one factor that causes SMEs to be unsuccessful. These human resources increase the operating costs, as the organization is entering the international market. To mitigate this problem, effective expatriate selection criteria should be developed and put in place to ensure that only efficient expatriates are selected who are able to work at the international level. With an aim towards successful expatriation, this study investigates and assesses such selection criteria to help Thai SMEs to efficiently select their employees and assign them to any international subsidiaries.

2. Objectives of the Study

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- To study selection criteria of expatriates and overseas performance in emerging markets : the case of Thai SMEs
- To study the influence of the selection criteria on overseas performance in emerging markets: the case of Thai SMEs

3. Relevant Concepts & Theories

Kranias (2000) reported that scholars have clarified the multidimensionality of expatriation dynamics from the 1970s to 1990s, but only from the perspective of large North American MNCs. At the individual level, expatriate research emphasizes personality (e.g., Arthur & Bennett, 1995; Caligiuri, 2000b), motivation, competencies (e.g., Aycan, 2000), job adjustment (e.g., Mendenhall & Oddou, 1985), cultural adaptation (e.g., Arthur & Bennett, 1995) and family support (e.g., Tung, 1986). At the organizational level, most studies have focused on IHRM, encompassing in expatriate selection, training, compensation, performance appraisal and repatriation issues (Harvey & Novicevic, 2001).

For Thai SMEs, the most important performance measure is the achievement of production goals since most Thai SMEs investing in Southeast Asia are manufacturers. From a strategic perspective, Thai SMEs seek to relocate labor-intensive production to low cost emerging countries in order to achieve cost effective production. To fully realize the benefits of mass production, managing host national workers is another overseas performance requirement due to the lack of experienced host managers in emerging markets (Selmer, 2004a). Thus, the second goal is management efficiency (Blackwood & Mowl, 2000). These two goals are consistent with the views of scholars who suggest that expatriate performance should be measured by productivity and the work process. Additionally, this study analyzes environmental scanning performance for good reason. Given the tragic history of Thai-exclusion movements in Southeast Asia, Thai expatriates must keep a close eye on local socioeconomic agitation for proper and timely coping strategies. Expatriates are regarded by top management teams in Thailand as important “agents” to scan and collect local information. Therefore, this study assessed expatriate performance from the perspectives of production, management and environmental scanning effectiveness.

4. Methodology

This is essentially a survey research on crucial selection criteria of expatriates and overseas performance in emerging market. To reflect actual concerns of Thai SMEs rather than in the eyes of western researchers, questionnaire items were developed as follows. Expatriates stationed in three Thai SME subsidiaries in Vietnam and six subsidiaries in China were interviewed in 2011. In the semi-structured interviews, expatriates were asked to provide the most critical factors related to their foreign post selection and overseas performance. The interview transcripts, field observation reports and archival data were coded in this stage. Second, after extensively reviewing the relevant literature and the coding results for the qualitative data, primary question items were formulated.

4.1. Population & Samples

4.1.1. Population

The study population consisted of 455 Thai SMEs that are investing in Vietnam and China (140 in Vietnam and 315 in China).

4.1.2. Samples

The sample group was 213 Thai SMEs that are investing in Vietnam and China (66 in Vietnam and 147 in China). Non-Probability sampling was done by convenience and purposive sampling techniques (Zikmund, 2003) through telephone contacts with each exporter or sample unit.

4.2. Research Tool

4.2.1. Creating Research Tool

The research tool was created in a form of questionnaires following the steps below:

- Research tools were handed out to 5 specialists to verify the content validity by identifying the Index of Item Objective Congruence (IOC) by choosing questions with the index of higher than 0.50 (Pongpaew, 2008).
- The reliability analysis was done by determining Cronbach Alpha.

5. Conclusions

The findings reveal that most of the international SMEs operating in the Vietnamese market consist mostly of textile companies that have no more than 50 million baht in capital with a history of that dates back to about 11-20 years and a workforce of 21-100 at their headquarters. The branches have been in operation for about 1-5 years, and are staffed with a workforce of about 101-500 employees and 6-9 expatriates. With respect to the selection criteria of expatriates, the following factors are involved, in an ascending order of importance:

- Orientation: the organizations considered employees who intended to improve themselves and were willing to learn new experience.
- Relevant to the first factor is relationship development. It is found that the organizations deemed it important to have those employees who were willing to deal and to work with new colleagues without any discrimination.
- Willingness to communicate: the organizations selected employees who had excellent English skills.
- Perceptual ability: the organizations preferred those employees who had experience and expertise in those areas that the international posts require. While English is a foremost requirement, employees who can speak local languages would be given priority.
- Cultural adaptability/flexibility: it is found that the organizations considered important the ability to adjust to a foreign culture. The employees should be prepared for cultural and lifestyle differences, including value differences and daily living and social protocols---all of which are critical to the success of an assignment.
- Ability to cope with overseas responsibilities: the organizations deem it necessary for expatriates to perform satisfactorily according to their job description. They must be able to solve problem logically.

With regards to their overseas performance in emerging markets, the study shows that by and large, these SMEs were able to perform quite effectively. Specifically, in terms of manufacturing competitiveness, the businesses had an efficient method for manufacturing to meet market demands while maintaining the costs at an acceptable level. In terms of management, the organizations were able to build harmonious and successful teamwork between expatriates and local employees. Finally, in terms of relationships at the local level, it was found that these organizations were able to build highly successful relationship in specific country markets. Furthermore, the study showed that the reason the most crucial factor affecting the failure of expatriate is inability of spouse to adjust themselves in order to live internationally.

6. Hypothesis Testing Results

Hypothesis 1: The Criteria used in expatriate selection have a significant impact on the successful performance of expatriates

H_0 : The Criteria used in expatriate selection do not have a significant impact on the successful performance of expatriates

H_1 : The Criteria used in expatriate selection have a significant impact on the successful performance of expatriates

Table 1 shows multiple regression analysis

Selection Criteria of Expatriates	B	Sig.
Self-Orientation	0.269	0.000*
Relationship Development	0.361	0.029*
Willingness to communicate	0.107	0.001*
Perceptual ability	0.214	0.000*
Cultural adaptability/flexibility	0.228	0.000*
Ability to cope with overseas responsibilities	0.237	0.000*

R = 0.876, R Square = 0.096, Adjust R Square = 0.082, Std. Error of the Estimate = 0.25498, ANOVA Sig. = 0.000

*level of significance = 0.05

Table 1 shows that the variables used in expatriate selection---which consist of self-orientation, relationship development, willingness to communicate, perceptual ability, cultural toughness, and ability to cope with overseas responsibilities---displayed the levels of significance of 0.000, 0.029, 0.001, 0.000, 0.000 and 0.000, respectively. As these values are lower than the 0.05; therefore, H_0 were rejected in favor of the alternative hypothesis. It was concluded that the selection criteria were critical to the performance of expatriates, showing the statistically significant level of 0.05.

Hypothesis 2: Cultural sensitivity of the local markets (Chinese and Vietnamese) has a significant impact on the performance of an organization, including its operation, organization management, and environmental management.

H_0 : Different levels of cultural sensitivity of the local markets (Chinese and Vietnamese) have no significant impact on the performance of an organization, including its operation, organization management, and environmental management.

H_1 : Cultural sensitivity of the local markets (Chinese and Vietnamese) have a significant impact on the performance of an organization, including its operation, organization management, and environmental management.

Table 2: shows differences in performance according to the number of employees

Overseas Performance	F	Sig.
Operation	19.993	0.000*
Organization Management	25.978	0.000*
Environmental Management	15.077	0.000*

*Level of significance = 0.05

According to Table 2, the performance of an organization, including its operation, organization management, and environmental management, stood at a significant level of 0.000, which is lower than 0.05. Therefore, H_0 was rejected, and it was concluded that different levels of cultural sensitivity had a significant impact of the organization's performance, at the statistical level of 0.05.

7. Discussions

From the hypothesis testing, it was found that selection criteria of expatriates have influence on overseas performance at 0.05 significant level which is related to the study of Cheng & Lin (2008) who studied selection criteria of expatriates of Taiwan SMEs. The study showed that selection criteria of expatriates were directly related to overseas performance. Moreover it is related to Hill's theory (2010) which pointed out that five selection criteria (self-orientation, relationship development, willing to communicate, perceptual ability and cultural toughness) could help organizations to conducts their business effectively. He also added that the five selection criteria will also help organization to accomplish their objectives and goals. To illustrate the point, organizations that selected employees who had vision and goals to improve themselves, it could mean that those organizations would have efficient employees who has work inspiration and this inspiration could lead them to work hard and it would be benefits for organizations to conduct business effectively. In particular to the relationship development, it was very significant since employees who were openness and were willing to work with diversity, could create good team-work. Moreover, employees who were able to speak intentional language and were willing to learn local language, would comprehend their colleagues easier and this would help them to easily solve problem. In addition, employees who were able to adapt themselves to the cultural change, would have ability to work continuously.

Different levels of cultural sensitivity had a significant impact of the organization's performance, at the statistical level of 0.05. Such an observation is in line with Ball, Geringer, Minor & Mcnett (2010), who found that the local culture in which an SME is operating is an important factor in the organization's long term success. Cultural differences specific to a particular country had a significant impact on the performance and the management of the organization. Because some SMEs were faced with limitations in

terms of budgets, they had to utilize the strategic management of a headquarters to reduce the operating costs. However, as can be seen in the cases of Vietnam and China, such a strategy may not be effective in all the markets. Some adjustments had to be made to suite the local market, resulting in different levels of performance.

8. Recommendations

This study reveals that an expatriate's family plays an important role in the success of an expatriate assigned to overseas postings. Thus, in terms of personnel selection, it is recommended that a single expatriate be the preferred choice. However, when it is necessary to assign an employee with a family, cross-cultural training must be provided to help the family know what to expect, so that they are aware of the core cultural values of the target country that they will need to understand and adapt to, thereby lessening the experience of culture shock. Extended support including helping to find a school for the expatriate's children and getting their children ready for the new environment and providing assistance in finding a job or building the social network for an expatriate's spouse.

Future study should involve an in-depth study of different types of business industry, as each type may have specific nature and requirements necessary to the success of the organization.

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