

**Expatriate assignments vs. localization of management in China: Staffing choices of  
Australian and German companies**

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## **Professional biographies**

Torsten M. Kühlmann is full professor of business administration in the Department of Law, Economics and Business Administration, University of Bayreuth, Germany. He holds a master degree in psychology and a doctorate in business administration from the University of Erlangen-Nürnberg. His research interests include international human resource management, opportunism, trust and control in transnational business relationships, and knowledge transfer in MNCs. He is actively involved in international executive education and has consulted with a variety of organizations. Recently he has edited a book on international risk management. Torsten M. Kühlmann is the corresponding author and can be contacted at: [torsten.kuehlmann@uni-bayreuth.de](mailto:torsten.kuehlmann@uni-bayreuth.de).

Kate Hutchings (Ph.D, University of Queensland) is an Associate Professor and Deputy Head of Department in the Department of Management, Monash University, Australia. She has taught in China and Malaysia as well as having held visiting research positions in the US, Denmark, and France. Amongst others, her research has appeared in *Human Resource Management Journal*, *Human Resource Management*, *International Business Review*, *International Journal of Human Resource Management*, *Journal of Management Studies*, and *Journal of Organisational Change Management*. Her current research interests include expatriate management, Chinese outward foreign direct investment, and intercultural knowledge sharing.

## **Expatriate assignments vs. localization of management in China: Staffing choices of Australian and German companies**

### **Abstract (Summary)**

Purpose – This paper explores the specific difficulties that senior managers face when employing expatriate, Chinese and local-hired foreign managers in China-based subsidiaries of Western multinational companies (MNCs). Furthermore, we examine the resultant coping strategies to overcome identified weaknesses.

Design/methodology/approach – This research adopts a qualitative approach, using semi-structured interviews with key-informants from senior management in 44 Australian and German companies operating in China.

Findings – The study identified specific difficulties associated with the employment of expatriate, local Chinese, and local-hired foreign managers in Australian and German subsidiaries in China. The interviewees indicate a widespread intention to replace expatriate managers with Chinese managers and local-hired foreign managers. The striving for localization of staffing is more pronounced in German than Australian MNCs. German companies offer more comprehensive development activities for the Chinese talent than Australian companies.

Research limitations/implications – The small number of participants and the restriction to one key-informant per company limit the generalizability of our findings. The effects of different staffing options still need to be researched in longitudinal studies and in varied contexts.

Practical implications – Localization of staff suggests the need for specific, culture-sensitive approaches to personnel development. Our findings also suggest that the knowledge transfer between expatriate and local managers deserves more

attention. Finally, the return on investment that companies receive from differing staffing options should be assessed using a multidimensional set of success criteria.

Originality/value – This article has two main contributions to existing research. First, we link academic discussion about the options of international staffing with the experience of practitioners from Western MNCs operating in China. Second, we provide further support for the existence of country-of-origin effects in international staffing.

Keywords: Australia, China, Germany, expatriation, localization, local-hired foreign manager

Paper type: Research paper

## **Introduction**

During the past three decades, there has been a substantive growth in the number of companies that have internationalised or globalised their operations (De Cieri, McGaughey and Dowling, 2001; Hutchings, 2003). This trend has resulted in a rising number of people referred to as modern work nomads and as having portable lives (Bonache, Brewster and Suutari, 2001; Brookfield Global Relocation Services, 2009; PriceWaterhouseCoopers, 2005). Accordingly, expatriation has received extensive attention in prior research in the field of international human resource management. Literature has proposed plausible arguments examining potential advantages and disadvantages of employing expatriate managers as opposed to local managers or local-hired foreign managers (Collings and Scullion, 2006; Harry and Collings, 2006; Harvey, Speier and Novicevic, 2001; Harzing, 2001). However, there is still limited empirical research that explores the relative weaknesses of

different staffing options from a senior management perspective in specific country contexts.

In this paper, we address the apparent dearth of studies that explore perceived difficulties related to different staffing options for Western subsidiaries in China. China has been chosen as a country of analysis because of its particular strategic importance to multinational companies (MNCs) worldwide. This transition economy currently receives the world's largest amount of international foreign direct investment (FDI) and following the U.S., China is one of the most popular destination for expatriate assignments (ORC, 2008). The paper begins with a review of recent developments in international staffing with a specific focus on the limitations of continued use of expatriate assignments. Based on our review of the literature we posit three research questions about the replacement of expatriate assignments for local management in the context of Australian and German MNCs operating in China. Subsequently, we describe the in-depth interview process utilised in this exploratory study. We then present the findings and highlight the differences between practices of Australian and German companies in relation to their use of expatriate managers, local Chinese managers, and local-hired foreign managers as perceived by the senior managers interviewed for this research. The paper concludes with implications for international businesses as well as suggestions for future research.

### **Literature review**

Since organizations first internationalised their operations, they have faced the vexing question of who is the best candidate for managing these operations – expatriates, locals or, more recently, local-hired foreign managers (Collings, Scullion

and Morley, 2007; Tahvanainen, Welch and Worm, 2005). Extant literature has explored the relative advantages and disadvantages of each type of manager with the thinking being that each MNC has to determine its own optimal mix of candidates for conducting operations in specific host countries. Latest surveys confirm the continuing usage of long-term as well as short-term expatriate assignments and expect an increasing use of expatriates particularly in North America, Europe and China (Brookfield Global Relocation Services, 2009; PriceWaterhouseCoopers, 2005).

#### *Major motives for expatriate assignments*

Research has suggested that use of expatriates in Western MNCs is increasing (Harris, Brewster and Erten, 2005) or at least remaining stable (Fenwick, 2004). A key reason for expatriation is the function that expatriates serve in the successful implementation and attainment of global business strategies: transfer of knowledge; coordination and control of foreign operations/units; and development of human resources (Dowling, Festing and Engle, 2008; Harzing, 2001; Hocking, Brown and Harzing, 2004). First, expatriates can be a powerful means to transfer technical expertise and management know-how to foreign ventures. Empirical evidence indicates that much knowledge transferred between units of companies is not explicit but tacit (Bonache and Brewster, 2001), meaning that it is not explicitly articulated. Tacit knowledge is deeply rooted in an individual's experience, and can only be shared with others through its application or by being made explicit. Given that tacit knowledge cannot be codified in manuals or through policies, international assignments may form a suitable means for the diffusion of such knowledge to the foreign operations.

Second, expatriates represent the interests of headquarters and may improve communication between headquarters and subsidiaries and assist headquarters' staff to understand the local business environment (Boyacigiller, 1990; Nohria and Ghoshal, 1994). Effective control and coordination across the companies' international operations has often been mentioned as the principal purpose for expatriate assignments (Beamish and Inkpen, 1998; Black and Gregersen, 1992; Harvey, Speier and Novicevic, 2001; Harzing, 1999).

Third, there is a growing recognition that employees with international expertise do make a difference in contributing to achievement of competitive advantage in the international business environment (Stroh and Caligiuri, 1998; Taylor, Beechler and Napier, 1996). Thus, many MNCs are busily developing pools of employees who are capable of working in international business. Organizational competencies are enhanced if employees are given the opportunity to work beyond the home country's borders. Living and working in a foreign environment exposes international assignees to a rigorous learning process in which they are confronted with new aspects of international business and cross-cultural management (Webb and Wright, 1996).

#### *Deficiencies of expatriate assignments*

Although many MNCs continue to rely heavily on expatriates for staffing international positions, the success of expatriates in actually achieving the above mentioned functions has yet to be rigorously tested (Collings, Scullion and Morley, 2007; Fenwick, DeCieri and Welch, 1999).

It is increasingly recognized that expatriates experience a significant rate of failure on international assignments relating to difficulties in adjusting to, and managing in, foreign settings. Though Harzing (2002) has questioned reports within

the literature of high rates of premature return from international assignments, there is still debate over how best to define failed assignments. A number of scholars called for broadening the definition of expatriate failure from merely early return from assignment to include under-performance and maladjustment to the foreign environment, which has implications for both individuals' psychological adjustment as well as their corporate performance (Dowling, Festing and Engle, 2008). Failure - as defined from a broad perspective - implies considerable direct and indirect costs, such as damaged customer relationships, downtime costs, recruitment and training of a successor, as well as relocation of the failed expatriate (Harvey, Novicevic and Speier, 1999). A non-financial cost, frequently overlooked, is the psychological strain to the expatriate when failing on an international assignment. Adjusting to a foreign work and living environment is especially difficult in a country such as China which has a high economic, legal, and cultural distance from Western countries (Selmer, 1999).

Moreover, the numbers of potential expatriates with partners, who are strongly committed to their own professional careers, known as dual-career couples, are rapidly growing (Harvey, 1998; Collings, Scullion and Morley, 2007). As a foreign assignment frequently means that an expatriate's partner has to leave his/her job and interrupt his/her career in order to follow the partner to another country it has become increasingly difficult for organizations to find employees willing to accept an international assignment.

Another challenge associated with utilising expatriates as international managers is the cost associated with doing so. Depending on host location and family size the cost of an assignment may range from three to five times the base salary (Bennett, Aston and Colquhoun, 2000; Fryxell, Butler and Choi, 2004) and far

exceed the costs associated with employing a local manager. Many companies are acknowledging that the costs of employing expatriates are a factor, which may potentially limit growth of expatriate assignments into the future (Brookfield Global Relocation Services, 2009).

Finally, many companies realize that a high percentage of former expatriates resign from their jobs after returning from their expatriate assignment. Earlier research has suggested that for U.S.-based MNCs, approximately 20 per cent of repatriates leave within one year of return from overseas (Black, Gregersen, Mendenhall and Stroh, 1999). When repatriates leave shortly after returning home companies sustain a loss of company-specific knowledge, international skills, business contacts and border crossing social networks, as well as acquired cross-cultural competencies. Nevertheless, research suggests that a majority of MNCs fail to systematically address problems of repatriation and retention (Scullion and Collings, 2006a).

The difficulties associated with expatriate assignments has led organizations to consider alternative approaches to staffing international operations, such as, short-term sojourns, commuter assignments, virtual assignments, the recruitment of local talent or the employment of foreign managers already living in the host country (Centre for Research into the Management of Expatriation, 2000; Collings, Scullion and Morley, 2007; Konopaske, Robie and Ivancevich, 2009). While researchers suggest the need for some expatriate presence (Boisot and Child, 1999; Gamble, 2000; Roth and O'Donnell, 1996), a number of others highlight the value of transferring management of Chinese operations to local talent (Lassere and Ching, 1997; Selmer, 2003a, 2003b; Peterson, Napier and Shul-Shim, 2000).

*China and international human resource management*

For Western countries, assigning expatriates to China may be especially attractive because of the high cultural distance, which heightens the perceived risk of losing control and coordination in filling key positions with Chinese nationals. On the other hand, the costs and deficiencies of expatriate assignments have been noted to be of particular significance especially in the case of China (Selmer, 2003b). Many companies have reported reductions of expatriate deployments to China in response to cost-cutting programs (Grainger and Nankervis, 2001; Hewitt Associates, 2007). In particular, localization, defined as replacing expatriate managers with managers recruited from the local labour market, has become a major issue for Western MNCs in China (Wong and Law, 1999), though it is acknowledged that training of local hires can be quite costly (Worm, Selmer and de Leon, 2001). In addition, cross-cultural difficulties can ensue when local hires are trained in the MNCs' headquarters as inpatriates (Chen and Wilson, 2003; Harvey and Mejjias (2002). Several arguments have been offered as justification of the preference for local Chinese managers instead of expatriates:

First, local managers are embedded in a network of social relationships or "guanxi" which makes it easier for them than expatriates to build reliable and trustful business connections (Hutchings, 2005).

Second, it has been suggested that Chinese employees prefer interactions with Chinese managers, a shared language, and a common cultural background. Thus, to either employ local managers initially or move towards localizing management positions can contribute to better worker morale and effectiveness (Hailey, 1996).

Third, the technical and managerial skills of Chinese employees have improved substantially over recent years. The Chinese government has made great investments into increasing the output of China's institutions of higher education, has encouraged

the foundation of national or foreign-funded business schools (Selmer, 2003b) and has sent young people to study at universities in the US, Europe, Canada, and Australia. Thus, highly skilled and experienced local employees are no longer in short supply within the local Chinese labour market.

Finally, localization may raise work satisfaction and organizational commitment of Chinese managers. Lack of visible career paths are a widespread concern for highly skilled and qualified Chinese employees, and discontent with the opportunities for growth and advancement is one of the most frequently cited reasons Chinese managers give for resigning from a job (Groenewald, 2008; Wong and Law, 1999). Moreover, Chinese citizens who have studied abroad are also more likely to be mobile employees, thus the necessity for high quality employment to be offered within China.

In spite of the advantages of employing local Chinese managers, there remain some disadvantages to moving towards employment of local managers in China. Although local managers are familiar with the Chinese culture and business environment, they may not be conversant with Western MNCs' values and norms, which originate in their respective home countries. Hence, frictions in the relationship between the subsidiary and the headquarters are to be expected.

Another barrier to localization in China is the high turnover rate among local Chinese managers (Groenewald, 2008; Wang and Chan, 2006). Many quit their jobs shortly after gaining employment and join another company offering more attractive remuneration or better opportunities for advancement. Shortages in qualified management personnel have created a 'job hopping' culture (Braun and Warner, 2002).

To capitalise on the relative advantages of both expatriate and local Chinese managers, some MNCs have begun to hire foreign managers who already live in China. These individuals have a familiarity with Western corporate culture and management principles and may use their pre-established social networks and experience within the Chinese culture as leverage when employed by a foreign company (Hutchings, 2003).

The replacement of expatriate managers with Chinese or local-hired foreign managers does, however, put at risk the effectiveness of personal control mechanisms in the MNCs' Chinese operations. The high turnover rate of Chinese managers affects organizational stability. Non-expatriates lack familiarity with the headquarters' corporate culture and lack social networks in the parent company. And, perhaps most importantly, the parent company and its subsidiary have asymmetrical knowledge about the commitment of the local managers or local-hired foreign managers to the parent company's goals (Harvey, Speier and Novicevic, 2001; O'Donnell, 2000).

To address these risks, extant literature has stressed the importance of local employees receiving comprehensive socializing into the corporate culture at home, learning about the MNC's wider global pattern of products, markets, and strategies, and building social networks with the headquarters' staff (Harvey, Speier and Novicevic, 2001; Worm, Selmer and de Leon, 2001; Wong and Law, 1999). These development processes can take place through seminars, on-the-job-training, multinational project groups or counselling by expatriates. However, the highest impact can be expected from assignments to the headquarters of the MNC.

*The country-of-origin effect in international staffing*

Previous research on international staffing has been primarily concerned with practices and policies in U.S. companies (Harzing and Sorge, 2003; Scullion and Collings, 2006b). However, a substantive body of research has identified a country-of-origin effect, which suggests that MNCs from different countries have distinct ways of managing internationally (Child, Yan and Lu, 1997; Ferner, Quintanilla and Varul, 2002; Harzing, 1999). When MNCs operate foreign subsidiaries, they transfer structures and processes that are more than just company-specific but are actually reflective of the national culture, economic institutions, and business practices of their home countries.

Recent research documents differences between international staffing of companies from diverse countries of origin. For example, Japanese and German companies tend to use more expatriates in their subsidiaries than do U.S. firms (Kopp, 1994; Harzing, 1999; Oddou, Gregersen, Black and Derr, 2001). Research also indicates that the functions of international transfers vary across the home countries of companies. Harzing (2001) found that Japanese and German companies attach a higher importance to coordination and control as objectives for expatriate assignments than do companies from the U.S. and Great Britain.

Harzing and Sorge (2003) hold that the higher level of expatriate presence in German MNCs and the higher importance attached to the coordination and control function of expatriate assignments may be rooted in different business cultures of the respective countries. Culturally, Germany and Australia are categorized by cross-cultural research into different country clusters. In the recent GLOBE study (House, Hanges, Javidan, Dorfman and Gupta, 2004) Australia was classified in the Anglo cluster, together with the U.S., Canada, Great Britain, Ireland, South Africa, and New Zealand. Germany belongs to the Germanic cluster, which also includes

Austria, Switzerland and the Netherlands. A prominent cultural characteristic, which contributes to the different clustering, is the societal value of uncertainty avoidance. Uncertainty avoidance is manifested by the extent to which a society relies on norms, rules, and routines to reduce risks and uncertainties in the future. The results of the GLOBE study indicate that West Germany ranks fifth highest in uncertainty avoidance among the 61 regions studied, while Australia shows a lower score on this dimension (rank 19). In countries that score high on uncertainty avoidance (e.g. Germany) there should be expected to be a strong disposition of their companies toward strict chains of command and close monitoring of subsidiary operations. In cultures with lower scores on uncertainty avoidance (e.g. Australia), the preference of MNCs for maximum control of their foreign operations is likely to be less prominent. As the assignment of expatriates to overseas subsidiaries is one way of achieving high levels of control German MNCs might be expected to assign and retain a higher number of expatriates than Australian MNCs.

Based upon the preceding review of the literature, our research explores the following research questions:

- (1) What are the problems associated with the assignment of expatriates, Chinese locals and local-hired foreigners to managerial roles in China-based subsidiaries of Australian and German companies? To what extent do these problems facilitate or hinder a complete localization of management positions in China-based subsidiaries?
- (2) How local staff (Chinese managers as well as local-hired foreign managers) can be developed to overcome its deficits?
- (3) Are staffing and development practices of Australian companies operating in China different from those of German companies?

## **Method**

### *Participants*

The findings of this research are based on semi-structured in-depth interviews conducted with senior managers of Australian and German MNCs with business operations in China. The database of Australian and German organizations operating in China were developed from listings held by foreign trade associations in China, the Australian Business Association, Austrade in China and German chambers of commerce. Companies were contacted by mail and follow-up telephone calls with a request to participate in the research. In total 14 Australian companies and 30 German companies participated. The companies involved in the study operate in a broad range of industries: automotive, chemicals, construction, electronics, machinery, medical equipment, legal, importing/exporting, technical and financial services. Of the organizations researched, all are in the private sector. The China-based operations are primarily joint ventures and wholly foreign-owned enterprises. Twenty per cent of the participating companies have established both types of ventures in China. The study includes medium and large MNCs, with the Australian organizational pool including a larger number of small-medium enterprises. Abstaining from random sampling is a strategy that was also used by an international team of researchers currently reporting best practice in IHRM (von Glinow, Drost and Teagarden, 2002: 150) and was considered a suitable approach given the difficulties associated with gaining an adequate pool of participants when utilising random sampling in Asia. Our study used a key-informant approach and our results are therefore based on the responses of a single interviewee in each company. The interviews were carried out in 2005 and 2006.

All participants were senior managers in their companies and were employed across a range of functional areas, though the majority identified themselves as HR managers. Positions of participants included: managing director/CEO; owner manager (for private firms); partner (in law firms); HR manager (variously described as HR, people management/capital, organisational development etc); finance manager; marketing manager; senior project manager. In the Australian companies, all managers were located in Australia at the time of the interviews. The majority of these interviewees held Australian citizenship. While most of the Australian interviewees were of British/Irish or Northern European ethnicity, the participant group did reflect a range of ethnic backgrounds as is consistent with the very multi-cultural profile of Australia. All of the senior managers from German MNCs interviewed were German nationals. Twenty-six interviewees filled positions in the German headquarters with the other six managers residing in China. The number of employees in the China-based operations varied greatly from six to 1,100 in the Australian subgroup and from 10 to 31,000 in the German subgroup.

#### *Instrument*

In distinction to the majority of research on international staffing which is biased toward quantitative methods, the present study utilises a qualitative research method. Semi-structured interviews were considered the best approach for giving participants the opportunity to describe and evaluate in their own words their experience with different categories of managers in their China-based operations. Another benefit to having open-ended interview questions is that respondents were able to mention new aspects of international staffing which may not have been considered by the researchers. While face-to-face interviews were sought in the first instance, the majority of the interviews were eventually conducted by telephone, largely because

of travel and schedule commitments of the interviewees. The semi-structured interview protocol contained 20 questions in addition to some initial questions regarding company characteristics such as industry, ownership and size. The questions were developed by the authors for this study and were based on the research questions. The questions focused on addressing a gap in the literature in respect to lack of knowledge about why organisations might choose to use local-hired foreign managers instead of more traditional choices like expatriates and local managers. The findings reflect the perceptions of the interviewed senior managers. The first set of questions addressed the respondents' experiences with expatriates, local managers and local-hired foreign managers. Sample questions include:

- When your organisation first began operations in China, did you utilise expatriates, Chinese Managers, or local-hired foreign managers?
- Has your organisation encountered any problems with performance of these three types of managers? If yes, what were these problems?
- Have you ever thought of substituting expatriates for Chinese managers or local-hired foreign managers? If yes, why?
- How do you overcome the deficiencies Chinese managers have compared to expatriates? Local-hired foreign managers compared to expatriates?

The second set of questions focused on decisions about future assignments of the above-mentioned approaches to staffing and the human resource development activities required for qualified and motivated managerial staff in the China business operations. Specific questions included:

- Which tasks/jobs should be reserved for expatriates in the future? Chinese managers? Local-hired foreign managers?

- To which level will expatriates will be substituted by Chinese managers or local-hired foreign managers within the next five years?

Interviews lasted from 45 minutes to two hours. The Australian interviews were conducted by the second author while the first author interviewed the German companies. It should be noted, though, that the research gained rigor and academic distance from the researchers' cross-checking each other's interview data and from access to organizations with which they did not already have contacts.

### *Analysis*

The interview notes were transcribed in English or German and, if requested or where necessary, returned to the interviewees for clarification. All German interviews were then transcribed into English for purpose of comparison. After transcription the interviews were manually coded by the researchers. Taking a reduction and interpretation approach based on coding, the researchers began with a first-level coding start-list that divided the collected data into clusters of topics related to the above-mentioned research questions. The coding frame was then refined in the process of reading the transcripts and considering issues raised independently by the interviewees.

## **Results**

### *Difficulties with the assignment of expatriate, Chinese and local-hired foreign managers*

The key problems associated with employing expatriates, local Chinese and local-hired managers in China, as identified by the participating senior managers, are highlighted in Table 1.

(Take in Table 1 about here)

Among the problems most frequently noted in respect to expatriates were difficulties in adapting to the Chinese environment, language deficits, lack of socio-cultural knowledge, and cross-cultural misunderstandings. While a substantial portion of the German respondents acknowledge adaptation problems that the expatriate and his/her family encounter, the majority of Australian interviewees pointed out lack of knowledge about China as well as the risk of cross-cultural misunderstandings, as is illustrated by the following quotes:

‘There are many problems of misunderstandings between Chinese and Australians. The Australians try to apply Western logic in most situations – it takes time to think Chinese.....some are subconsciously self righteous – the we are better than you complex....takes time and experience.....that we must do 14 banquets before doing business is a normal part of the Chinese business context.’ (Australian)

‘Our expatriates lack cultural sensitivity; they cannot empathize with the Chinese mentality. Especially notable is their failure to build social networks and to understand the functioning of Chinese networks.’ (German)

Frequently noted difficulties with local Chinese managers are deficits in their skills in working with Western business systems and processes and limited foreign language proficiency. Additionally German respondents mentioned incidents of local Chinese managers showing low levels of organizational commitment and performance motivation, as indicated by the following quote.

'The major weakness of Chinese managers I see is their job-hopping. That peculiar feeling of commitment to the company, which we have in Germany, is not known in China. As soon as a Chinese manager gets a better job offer, he quits.' (German)

Despite what we expected, few respondents claimed that their companies are utilising local-hired foreign managers. Respondents suggested that they might lack company-specific business expertise and commitment to the parent company, as is indicated by the following quotes from interviewees:

'I am not convinced that a local-hire is as good as a Chinese. I will take on a Chinese partner or maybe a local-hire foreigner - so long as I could be sure that they would have my company's interests at heart or could be managed as effectively as a Chinese.' (Australian)

'Local-hired foreign managers are often people who went to China for study reasons and remained behind after finishing their studies. Nevertheless, they stay strangers in China. Germans who live in China for four or five years and speak Chinese well will definitely not obtain the acceptance in the Chinese environment a native Chinese would get.' (German)

#### *State of localization and prospects for the future*

Table 2 presents findings about current and future staffing in Australian and German China-based operations. Although aforementioned literature has advanced convincing reasons in support of staff localization, the answers of the managers interviewed indicate Australian and German MNCs still rely heavily on expatriate managers despite their noted weaknesses.

(Take in Table 2 about here)

Seventy-one per cent of the Australian and 87 per cent of the German companies interviewed asserted that they continue to assign expatriate managers to their China-based businesses. On the other hand, the majority of the interviewees reported definite plans to replace expatriate managers with Chinese managers or local-hired foreign managers within the next five years (see Table 2). More German interviewees than Australian interviewees indicated that they were likely to abstain completely from the use of expatriates within the next five years. Many of the MNCs with intent to localize stressed that some key control positions would be exempt from the localization process (e.g. Managing Director; Financial Manager), as reflected in the following comments from interviewees:

‘One reason for having expatriates in the company is client expectation. Our clients are international multinationals and they want and expect to communicate with other expatriates. International client companies expect to see expatriates in operational, project management and general management. .’ (Australian)

‘In the key positions of managing director or finance director where we want to exert a certain level of supervision we will probably go on to rely on expatriates. ’ (German)

Commenting on the positions, which should be reserved for local-hired foreigners the majority of the interviewees argued that hiring a local foreigner is not a matter of nationality but a matter of specific skills or knowledge, as suggested by the following interview quotes:

‘Local-hire foreign managers would be hired for a specific skill deficiency within the organization – but they wouldn’t be hired if they didn’t fit – generally most hires are screened very carefully and thus the need for major deficiency retraining etc. is not required.’ (Australian)

‘Recruiting local foreigners only makes sense to us in times of transition. Sometimes we need a supervisor for a production line or an expert with specialized know-how for a limited period of time.’ (German)

*Approaches to the development of Chinese and local-hired foreign managers*

Localization is effective only if local employees have the required skills, qualifications and experience to fill the positions originally held by expatriates. We asked interviewees to describe their companies’ development programs for newly hired Chinese managers and local-hired foreign managers in order to ascertain what training is in place to ensure that these managers will be equipped to replace expatriate managers. The Australian respondents most commonly reported on-the-job-training and coaching at the workplace as the instruments for local Chinese managers to learn new skills (see Table 3).

(Take in Table 3 about here)

In comparison, 90 per cent of the German interviewees indicated sending their newly hired Chinese managers to the German headquarters for several months of intensive training. A further exploration of the answers reveals that these sojourns were designed not only to teach technical and managerial skills, but also to socialize local employees into the corporate culture. In addition, the local employees were

expected to build a social network with the German colleagues during their stay in Germany. Another common development technique utilised by German companies is posting local employees to training institutions in China, where they participate in formal education programs.

In respect to development of local-hired foreign managers, neither Australian nor German respondents indicated provision of any training despite complaints of some interviewees that local-hired foreign managers are deficient in technical/business/company knowledge.

## **Discussion**

This study contributes to the emerging body of research on staffing options in MNCs. First, we link prior literature on international staffing options with the results from perceptions of practitioners in Australian and German MNCs operating in China. The results suggest that localization of staff is a major concern in China-based subsidiaries of both Australian and German companies. Second, we provide further support for the existence of country-of-origin effects in international staffing.

Until now, the process of displacing expatriate managers with local managers in China-based subsidiaries of Western companies has received little attention in international management research and literature (Selmer, 2003a). Particularly, previous research has been restricted to a discussion of the potential advantages and disadvantages of expatriate assignments versus the employment of local or local-hired managers without providing empirical evidence about actual experiences of managers with these staffing options (Fryxell, Butler and Choi, 2004; Harzing, 2001; Selmer, 2003b). When interviewing senior Australian and German managers of

companies we obtained specific incidents in their companies' China-based operations that illustrate the problems inherent in different staffing options. Our interviews corroborate arguments provided by several authors in favour of transferring the management of operations in China from expatriates to local talent (Lasserre and Ching, 1997; Selmer, 2003a; 2003b; Wong and Law, 1999). However, our findings also support critiques (e.g. Gamble, 2000) that proponents of localization in China have exaggerated the supposed advantages of hiring local staff and have downplayed the difficulties Chinese or local-hired managers encounter.

A majority of participating MNCs aspire to localize staff in their China-based subsidiaries. These findings contradict earlier evidence suggesting that expatriation levels in Western MNCs are increasing (Harris, Brewster and Erten, 2005; PriceWaterhouseCoopers, 2005) or remaining stable (Fenwick, 2004). Rather, the strong inclination towards localization in the companies participating in our study concurs with the call by practitioners for a reduction of expatriate assignments (Hewitt Associates, 2007; Peterson, Napier and Shul-Shim, 2000; Selmer, 2003a). Yet, it is also worth noting that for a substantial percentage of respondents a minimum presence of expatriate staff seems to be needed to exercise sufficient control and coordination over the China-based operations and guard against self-interested decisions by local subsidiary management (Boisot and Child, 1999; Roth and O'Donnell, 1996).

There was little substantive difference between the responses of Australian and German companies in respect to perceived weaknesses of expatriate, local Chinese, and local-hired foreign staff. Australian as well as German senior managers indicate similar problems encountered by local Chinese and local-hired foreign managers when filling a position in a Western subsidiary. Nevertheless, their strategies to

handle staffing difficulties are different. Contrary to our proposition about the German preference for maintaining personal control of headquarter-subsidary relationships via expatriate assignments, more German than Australian companies plan to replace all expatriates within the next five years. The intention of German MNCs to accelerate localization or completely localize may be attributable to the low inclination of German managers to accept an assignment to a position in China (Brookfield Global Relocation Services, 2009). Many German respondents also argued that the high costs of expatriate assignments would force them to localize rapidly (Peterson, Napier and Shul-Shim, 2000). Consequently, German companies provide more off-the-job-training in local institutions of higher education and on-the-job-training at headquarters outside China than do Australian companies. The observation of comprehensive and costly education activities undertaken by German companies is in accordance with another exploratory study of seven German and Scandinavian MNCs operating in China (Worm, Selmer and de Leon, 2001). As expatriate assignments become less feasible and affordable in guaranteeing maximum control of the foreign operations, the desire to reduce uncertainties and risks may manifest itself in more thorough training and development of local managers who need to be transformed into qualified and loyal expatriate substitutes. From the German perspective, an ideal local manager should be a German national with Chinese ethnicity and cultural knowledge. It has been previously suggested that sending local managers to the parent organization or offering them formal management education does not only improve their management capabilities but also creates high commitment towards the sponsoring company (Worm, Selmer and de Leon, 2001).

## **Conclusions and Implications**

This research contributes to theoretical knowledge about Chinese subsidiaries of German and Australian companies in respect to factors affecting organisational choices around staffing and development and localization of these subsidiary operations. In so doing, the research also has a range of managerial implications.

The first major finding was the overwhelming intention of Australian and German companies to assign local managers to their Chinese business operations and reduce the use of expatriates. Despite cultural and associated local knowledge held by local Chinese managers, though, it was also identified that they lack Western business expertise, organizational commitment and foreign language skills, which companies may address through training and development. Our findings concur with prior research suggesting that to overcome these obstacles, companies need to engage comprehensive human resource development activities which often include temporary assignments of local managers to headquarters i.e. inpatriation (Harvey, Speier and Novicevic, 1999). Dealing with Chinese inpatriates at headquarters requires consideration of possible impediments originating from the norms and values of the Chinese culture and suggests the necessity for training and development. Harvey and Mejias (2002) discuss the cross-cultural applicability of several training techniques, including structured classroom instruction, simulation labs, mentoring and virtual long-distance classes and suggest that these would work well with inpatriates from collectivistic and high-power distance cultures like China. These techniques provide group interaction, peer assistance and paternalistic support, i.e. a setting for learning traditionally favoured in China.

Second, our results underline the need for companies to consider how training and development can be pursued more effectively in-situ between locals and

expatriates. An important aspect of the work of expatriates is identifying and developing potential local successors, entailing providing on-the-job-training and mentoring to senior local managers in areas such as organizational strategy and culture. Arguably, expatriates should be chosen not only because of their outstanding technical or managerial competencies, but should also be selected on the basis of their prior experience in, or predicted capacity to, train, coach, and mentor people from different cultural backgrounds and, hence, have greater value-adding than they have had in the past. Importantly though, expatriates need to be as committed as senior management to such training and development. Prior research (Hutchings, 2003) has suggested that when expatriates are repatriated they are reticent to provide training, coaching or mentoring to colleagues who may be expatriated because of a perception that they have had to 'sink or swim' and make mistakes while in the foreign posting. It seems feasible that expatriates may also be unprepared to provide such coaching or mentoring to local managers in the subsidiaries for similar reasons. Indeed, Selmer (2003a) has argued that expatriates may have the ability to, but do also have an unwillingness to localize their operations in China because they do not want to assist in bringing about their own displacement from the subsidiary operation.

Third, and while not explicitly addressed in our research, we suggest that organizations need to consider not just the predicted and actual performance of expatriate, Chinese, and local-hired foreign managers in subsidiary operations, but also the return on investment (ROI) organizations receive from each of these types of employees. McNulty and Tharenou (2004) argue that ROI has sought to measure profit in direct relation to investment, but does not consider non-financial performance indicators, such as cross-cultural adaptation or competence. As our

respondents suggest there are clear advantages and disadvantages of utilising differing types of managers, but there has been no sustained effort made by organizations or researchers to measure directly the costs and benefits of each type of manager. There is clearly a need to move beyond anecdotal evidence about the value of each type of manager to assess quantifiably contributions to organizational profitability and competitiveness. The assessment of non-financial measures of the effectiveness of these different types can be expected to differ i.e. expatriates will need to be assessed on their intercultural competence, while local managers would need to be assessed on factors such as their knowledge of organizational strategy. The choice about which type of manager to use in the China operations, for instance, needs to consider whether the organization reaps the benefit of their investment in cross-cultural and/or organizational knowledge training and development through years of additional service after repatriation, which should assist in making informed future selection choices.

#### *Limitations and issues for future research*

While this research contributes to the emerging literature on international staffing, we acknowledge that it has limitations. First, our study used a key-informant approach; hence, our findings reflect responses of a single interviewee in each company. Second, although care was taken to ask questions about actual practices and policies rather than attempting to elicit opinions about these topics, responses might be individually biased. Future research might involve in-depth case studies in selected organisations, which would entail a range of interviews with decision-makers at headquarters and local operatives, and supported by company documentation. Third, as the interviews have provided initial accounts of staffing problems and related coping strategies, our research could be complemented by a

large-scale quantitative survey to provide data on a larger range of companies and countries-of-origin to determine whether our findings would be consistent for companies from other industrialised economies or China's neighbouring developing economies.

Fourth, our research did not include data about the effectiveness of the staffing options under study. While our respondents make a strong case that the replacement of expatriate managers is, and will continue to be, undertaken in order to improve the subsidiaries' performance, we cannot confirm that this improvement actually occurred after a decision to localize a position.

Fifth, our research only examined the perceptions and evaluations of senior managers of Australia and German companies and as such staffing options were viewed from a distant perspective. There is need for future research to triangulate results by surveying the people actually working in the subsidiary operations, be they expatriates, local Chinese managers, or local-hired foreign managers to assess their self-view of problems encountered and what they perceive the need in terms of training and development.

Sixth, our research was limited in entailing interviews with only senior managers from Australian and German companies, which while providing indications of some differences between these two countries-of-origin, does not provide sufficient account of greater variation, which may exist amongst other MNCs, particularly where there is greater or lesser cultural distance from China.

Seventh, there is need for future research to include contingency variables affecting localization in China as there is a range of circumstances that may affect staff localization which warrant further investigation. For example, length of business operations in China, location in China, the disposal of a pool of candidates

for expatriation, and the ownership structure of the Chinese business, could be factors that affect staffing decisions.

Eighth, the subsidiaries of the companies studied were mostly located in the Shanghai area and as such, the generalizability of our findings with regard to China as a whole is open to question. Nonetheless, we believe that our data source provides a useful starting position for reflecting on localization in a region having the highest density of foreign direct investment in China.

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**Table 1: Perceived difficulties with international staffing options**

	<i>Australian companies</i>	<i>German companies</i>
	%	%
<b>Expatriate Managers</b>		
Expatriate's adaptation difficulties	7.1	46.7
Family's adaptation difficulties	-	16.7
Lack of socio-cultural knowledge about China	35.7	26.7
Cross-cultural misunderstandings	64.3	33.3
No command of Chinese language	21.4	36.7
Isolation from Chinese networks	7.1	13.3
<b>Chinese Managers</b>		
Lack of Western business skills	71.4	73.7
Lack of command of English/German language	7.1	20.0
Lack of commitment to the company	7.1	33.3
Low performance motivation	-	40.0
Cross-cultural conflicts	-	26.7
<b>Local-Hired Foreign Managers</b>		
Lack of commitment to the company	21.4	13.3
Lack of company-specific business skills	14.3	26.7

**Table 2:** *Localization Trends in Australian and German Companies in China*

	<i>Australian companies</i>	<i>German companies</i>
	%	%
Localization completed	28.6	13.3
Intention to localize completely with in the next five years	-	36.7
Intention to restrict localization to specific business areas	57.1	36.7
No intention to substitute expatriates by locals or local-hired foreign managers	14.3	13.3

**Table 3: Development Strategies for Chinese Staff**

	<i>Australian companies</i>	<i>German companies</i>
	%	%
On-the-job-training in China	42.9	-
Training by local institutions in China	7.1	50.0
On-the-job-training in Australia/Germany	21.4	90.0
Job rotation China and Australia/Germany	7.1	13.3
Coaching/Mentoring	42.9	16.7
Shadowing	-	16.7
Explorative trips to Australia/Germany	7.1	10.0

