Reducing Expatriate Failure

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Abstract

The failure rate of American executives placed in overseas assignments is unacceptably high. Better selection techniques and training methodologies could help improve the chance of success of expatriates.

According to Gary Lloyd, director of the Business Council for International Understanding, the failure rate of American expatriates in London is 10%; in Tokyo, 36%; and in Saudi Arabia, 68%, at a cost to the company of anywhere between $250,000 to $1,000,000 per failure (Caudron, 1992, p. 36).

A separate study estimated the expatriate failure rate to fluctuate between 25 and 40 percent at an average cost per failure of $55,000 to $150,000 (Hogan & Goodson, 1990, p. 50).

In addition, even among those 60% to 84% of expatriates that do not return early, approximately half are considered ineffective by their firms (Black & Gregersen, 1991, p. 462). Because the costs of maintaining a manager in an overseas post averages about $300,000 per year, the costs for ineffective expatriates may well be higher than the costs of “failed” expatriates.

However, the real cost of failure of international executives extends beyond the cost of moving personnel since it almost invariably has a negative impact on future interactions between the multi-national corporations (MNCs) and the host countries (Zeira & Banai, 1985, p. 34). The tangible and intangible consequences of poor cross-cultural adjustment of expatriate managers are significant. They include the unmeasured costs of damaged company reputations, lost business opportunities, and/or weakened abilities to attract top candidates to overseas assignments (Black & Gregersen, 1991, p. 498).

Since it is almost universally acknowledged that American business firms must “globalize” their business efforts, three questions emerge from the aforementioned statistics; they are:

1. Why does a technically competent employee fail in an overseas assignment?
2. What can be done by management to reduce this failure rate of expatriates and improve their success rate?
3. Why doesn’t management do what they know they should do?

The answers to these three questions will be the focus of this paper.
Ken Yeager, president of Commodities International, St. Paul, states that 99.9% of all expatriate failures are caused by cultural problems, not job skills. "In a sense, it’s similar to why people fail on the job in this country,” he says. “People aren’t fired because they lack technical competence; they’re fired because they can’t get along” (Caudron, 1992, p. 36).

A much more detailed analysis of expatriate failure is delineated by Rosalie Tung. In a survey of U.S. MNCs, respondents were asked to indicate the most important reasons for expatriate failure. The reasons given in descending order of importance were:

1. Inability of the manager’s spouse to adjust to a different physical or cultural environment.
2. The manager’s inability to adjust to a different physical or cultural environment.
3. Other family related problems.
4. The manager’s personality or emotional immaturity.
5. The manager’s inability to cope with the responsibilities posed by overseas work.
6. The manager’s lack of technical competence.
7. The manager’s lack of motivation to work overseas (Tung, 1986, p. 117).

Gary Hogan and Jane Goodson argue that the “significant consideration is a lack of understanding of the new country’s culture and a lack of acculturation—that is, efforts to adopt the cultural traits or social patterns of the host country” (1990, p. 50). Simply stated, the expatriate assignee and/or his/her family simply cannot adapt and adjust to the new country and its culture.

In her 1986 article, Tung provides an anecdote which illustrates how a lack of understanding of social norms and cultural preferences in another country could mean that well intentioned activities may sometimes insult or antagonize the party on the receiving end.

Two leading U.S. manufacturers of industrial equipment took part in a trade exhibition in China. At the end of the exhibition, the representatives of one of the companies requested the Chinese technicians to don their company’s red caps for a photo session. (“Red” was their company color). The Chinese gladly obliged. The other American company followed suit by requesting the Chinese to pose in their green caps. All the Chinese tried to excuse themselves from the event. Feeling slighted,