

Expatriate Failure in the Indian Information Technology Industry

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Abstract

The competitive business environment of the present century has made internationalization a growing strategic option for organizations that want to create and sustain competitive advantage. Globalization largely affects corporate culture and the employees therein. Specific to global organizations attempting to develop dynamic capabilities through expatriation of managers is the identification and selection of an adequate number of qualified managers with a strong desire or interest in managing subsidiaries. Any failure on the part of the expatriates leads to the decline in productivity of the firm. This study examines the relationship of expatriate turnover in the information technology industry by considering eight important variables, that is, lack of technical and managerial competencies, mutual trust and co-operation among co-workers, position of expatriates, perceived lack of support in their career plan, inability of the spouse to adjust to the new culture, other family related issues, inability of the expatriate to cope with large assignments, and manager's personality of 43 expatriates from 11 different multinational corporations. The study also investigated the relationship between the mentioned variables through hypotheses testing. Testing the hypotheses based on independent samples *t*-test, our results suggest that expatriate failure is significantly related to the lack of technical and managerial competencies, managerial position of expatriates, perceived lack of support in their career plan, and inability of the spouse to adjust to the new culture.

Keywords: expatriate, information technology industry, premature return, technical and managerial competencies, managerial position

JEL Classification: J61, L86, M15, M16

Paper Submission Date : September 29, 2013 ; **Paper sent back for Revision :** December 16, 2013 ; **Paper Acceptance Date :** January 20, 2014

The world economy is moving away from the traditional economic system in which national markets were considered as distinct entities isolated from each other by trade barriers towards the contemporary economic system, where the national markets are reconciling into one huge global market. Therefore, modern industrial development is forcing the companies to set up their manufacturing and marketing facilities in different foreign locations to do business globally. In this context, there are, in today's world, a still increasing number of expatriates who are sent by companies on foreign assignments for a longer or shorter period of time. The information technology industry is no exception in using the expatriates for their global requirements since the information technology (IT) industry has become one of the most vigorous industries in the world. More than any erstwhile sector, information technology has an increased output, particularly in the urbanized world, and as a consequence, is a key driver of global economic growth. Voracious demand and economies of scale from both enterprises and consumers describe this fast-growing sector.

Different strategic objectives of an IT company will typically dictate when to send expatriates and when to localize the business. Boyacigiller (1990) suggested that IT companies use expatriates for four reasons: **a)** to establish a corporate culture (communicating and translating the corporate vision) - if the company is setting up a new business operation, it has the expertise to establish through expatriate transferees; **b)** to transfer knowledge; **c)** to fill a skills gap; and **d)** to develop the individual worker for future assignments (which has long-term implications for a company) and for continued understanding of the global markets.

Expatriates play central roles as controllers, coordinators, and those who transfer knowledge within multinational and global firms. However, there is a shortage of competent expatriates within companies (Suutari & Burch, 2001).

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Expatriate failures are more common in the IT industry since the dimensions comprising the performance construct for expatriate positions differ from performance in domestic positions; expatriate employees in a foreign environment need a somewhat different set of skills and abilities to accomplish the same job they performed successfully in a domestic environment (Liu & Lee, 2008; Tung, 1981). Besides selection techniques, cross - cultural adaptation is the biggest challenge that derails expatriate success (Jassawala, Truglia, & Garvey, 2004). Most studies regard premature return as the one and only measure of failure either with or without citing reasons. Others employ *expatriate failure* as an expression encompassing a broad range of themes such as low performance, premature return, and adjustment problems. Many other terms, such as expatriate turnover and transfer (Naumann, 1992) and recall rates (Tung, 1981), are also used interchangeably. Furthermore, the established understanding of the term *expatriate failure* consists of a core of the categories of 'premature end to an international assignment' and 'premature end caused by a reason'.

The analysis in this article sought expatriates' input in investigating the key challenges faced by them, and the causes associated with expatriate failure in the IT industry. Specifically, an empirical study was conducted using eight variables of expatriate failure - lack of technical and managerial competence, mutual trust and co-operation among co-workers, position of expatriates, perceived lack of support in their career plan, inability of the spouse to adjust to the new culture, other family-related issues, inability of the expatriate to cope with large assignments, and manager's personality. The findings discuss how expatriate performance might be enhanced and recommendations are also provided, which should allow more effective expatriate management in the IT industry.

Reasons for Expatriate Failure: Literature Survey

Firms operating a business in a foreign country face many managerial problems that are quite different from those at home. Perhaps, the biggest problem that these firms encounter is expatriate failure. Dowling, Welch, and Schuler (1999, p. 78) stated that the term expatriate failure has been defined as the premature return of an expatriate (i.e., a return home before the period of assignment is completed). Expatriate failure is usually reflected as ineffective or marginally effective performance and premature return. Not only the expatriates incur significant direct costs during their failure, the indirect costs associated with the premature return causes major repercussions in the organization. In addition to considerable financial costs associated with setting up and relocating, failed assignments reduce organizational output, market share, business opportunities, competitive position, and spoil company image and reputation (Dowling & Welch, 2004; Shaffer & Harrison, 1998). There is an abundance of literature that addresses certain issues of IHRM effectiveness as measured by expatriate failure. Research has revealed that the family is an important variable for expatriate success (Black & Stephens, 1989; Shumsky, 1992; Tung, 1981). In identifying the main reason for expatriate failures, scholars (Mendenhall & Oddou, 1986; Tung, 1981) pointed to the spouse and the family's inability to adjust to the new setting as the major reason why expatriates return home prematurely.

Black and Mendenhall (1990) found that cross-cultural training reduces expatriate failure rates and increases job performance. The rationale behind cross-cultural training is to improve the location-specific skills of a manager, who is assigned an overseas duty, as well as to improve the coping skills of the manager's spouse and family. Katz and Seifer (1996) defined a fair and equitable compensation package as one that ensures pay parity between similar levels of managers in the home and host countries. When compensation is not tailored to the local markets, that scenario can create an array of problems and impact IHRM effectiveness (Hodgetts & Luthans, 1993). In a study conducted by Herbert and Deresky (1987), it was reported that expatriate failure could often be traced to overseas assignments that do not offer a fair and equitable compensation package.

Of the several reasons suggested in the literature for retention failure, the adjustment of employees and their families to life overseas appears to be a prominent one (Black & Stephens, 1989; Black & Gregersen, 1991; Tung, 1988). Accordingly, much of the research on expatriates has focused on understanding expatriate adjustment, culminating in integrated theoretical models that explain how and why expatriates have difficulty adjusting to overseas assignments (Black, Mendenhall, & Oddou, 1991). While research on expatriate adjustment has contributed substantially to our understanding and management of the problem of expatriate retention, there has been a paucity of research on the dependence relationship of premature return with expatriate competencies and their managerial positions.

Hypotheses Development

Intellectual competencies involve goal analyses through analytical thinking, diagnostic information generation to assess the situation, planning for alternative courses of action, and self-reflection for strengthening the self-efficacy belief. Finally, action-oriented competencies comprise of attention to details, persistence to pursuits, concern for time-frame, interpersonal sensitivity and empathy, and non-defensive and supportive position to gain others' approval. Emotional, intellectual, and action-oriented competencies as indicators of managerial resourcefulness are expected to facilitate coping with stress and increase expatriate effectiveness in both work and non-work contexts. Technical and managerial expertise is likely to foster adjustment for three main reasons. At first, expertise helps to trim down the uncertainties associated with the new job responsibility which, in turn, helps to decrease the stress and facilitate adjustment. Second, competence in one's job increases the confidence in one's self. Self-confidence is likely to generate courage to execute new behaviour, and, hence facilitate culture learning (Bandura, 1977). Finally, the trust and co-operation among co-workers in the local unit are likely to increase if the expatriate manager demonstrates his/her competence in the assigned job (Zeira & Banai, 1985).

➡ **Hypothesis 1:** There is no significant relationship between the expatriate's technical and managerial competence and expatriate failure in the IT industry.

➡ **Hypothesis 2:** There is no significant relationship between mutual trust and co-operation among co-workers and expatriate failure in the IT industry.

Expatriation uproots executives from a familiar environment, thereby breaking the balance between the individual and his or her ability to cope with the environment. Feelings of internal conflict are likely to be aggravated by executives' inability to decipher the meaning of culturally different situations. Even though the strain associated with such negative feelings can be partly prevented by competence-oriented intercultural training, individual predisposition and courage to cross cultural boundaries of both physical and psychological nature are necessary for healthy expatriate adjustment. Perhaps, the most challenging of all transformations is the ability to develop a dual identification.

As expatriate turnover is costly both for the employee and for the organization, understanding whether turnover intentions are related to the absence of corporate support is important. Granrose and Portwood (1987) found that expatriates who perceive a mismatch between individual career plans and organizational career plans show intentions to leave their home organization; whereas, expatriates who do not perceive a mismatch do not show an intention to leave. Assuming that this perceived mismatch between individual and organizational career plans is related to a perceived lack of career support, the findings are considered relevant to this study, leading to our third and fourth hypotheses.

➡ **Hypothesis 3:** There is no significant relationship between turnover of expatriates in the IT industry and their positions in the host country.

➡ **Hypothesis 4:** There is no significant relationship between the perceived lack of support in their career plans and turnover of expatriates in the IT Industry.

Inability of the spouse to adjust to the new culture is a predominant factor contributing to expatriate failure (Black, Mendenhall, & Oddou, 1991 ; Tung, 1981). Though the effect of expatriation is more on the spouse than on the expatriate, many companies fail to understand the correlation between spousal adjustment and the expatriate in the host country and neglect to include family background of the expatriates in the HR Planning (Hiltrop & Janssens, 1995). Furthermore, McNulty, Cieri, and Hutchins (2009) stated that dual career couple issues and lack of family support in terms of spouse adjustment as the most common reasons for international assignment failures, which lead to increased costs for the firm. These studies have confirmed the impact of spousal adjustment and family issues on the expatriates working in non-IT companies. But in the present study, we hypothesize the same with regard to IT companies in India. Hence, our fifth and sixth hypotheses are stated as follows:

➡ **Hypothesis 5:** There is no significant relationship between inability of the spouse to adjust to the new culture and expatriate failure in the IT industry.

➡ **Hypothesis 6:** There is no significant relationship between expatriate failure and other family related issues in the IT industry.

Expatriation can be considered as a special case of work role transition and according to Nicholson (1984), work role transition can be defined as any major change in job status or content. Work role transition is a major source of stress for the expatriates due to behavioural changes in the new environment. Expatriates attempt to re-establish a sense of control by reducing the uncertainty in the new situation through predictive or behavioural control. Hence, they feel stressed to face large assignments due to role overload if the expectations of the employing firm are not clear. The manager's personality plays a very important role in mitigating the stress levels experienced by the expatriates in this context. To prove these aspects in the IT industry, we state the following hypotheses :

➡ **Hypothesis 7:** There is no significant relationship between the inability to cope with large assignments and expatriate failure in the IT industry.

➡ **Hypothesis 8:** There is no significant relationship between expatriate failure and the manager's personality in the IT industry.

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Research Methodology

The sample for this study consists of expatriates from 11 different countries working in 8 IT companies in Bangalore. The study was conducted during a period of four months between May -August 2013. The method chosen for analysis used quantitative research techniques in order to test the hypotheses stated above. Due to the complexity of the subject under study, that is, the multitude of potentially relevant variables and relations between them, a structured questionnaire was designed to allow the emergence of a holistic picture of the topic and of hitherto neglected variables or relationships.

To test the hypotheses regarding expatriate failure in the IT industry, variables such as lack of technical and managerial competencies of expatriates, mutual trust and co-operation among co-workers, position of expatriates, perceived lack of support in their career plan, inability of the spouse to adjust to the new culture, other family-related issues, inability of the expatriate to cope with large assignments, and manager's personality were concentrated upon in the questionnaire. Questionnaires were sent to 94 expatriates of 8 IT companies based in Bangalore. In total, 43 questionnaires were returned and could be used for statistical analysis (response rate 45.7%). Although the small sample size can be viewed as a limitation, it has to be borne in mind that the primary purpose of this paper is to explore empirically, the concept of expatriate failure and its potential antecedents, rather than to provide a set of definitive relationships that can be expected to hold true for all expatriates of all countries in the world.

Analysis and Results

The demographic data of 43 respondents who participated in this study are shown in the Table 1. The 11 countries' expatriate details were collected from IT companies based in Bangalore. Around 19% of the respondents were from U.S.A., followed by 12% of the respondents from China and U.K., with Argentina and Ireland being the least representative of the sample. There were more males (65.1%) than females (34.9%). Only 4.7% of the respondents possessed doctorate level education. The majority of the sample had a work experience between 5 - 10 years and the percentage was diminutive in case of more than 10 years of work experience. Most of the respondents were in the middle level positions, since during the early stages of a company's overseas investment, staff at higher levels will be hardly willing to take up overseas positions, and hence, the corporation will solely dispatch a thus referred to as 'second-tier army' (employees with lower educational levels and seniority within the company) for overseas assignments. This can also be a result of several staff at higher levels opting to stay in India (as they have higher advancement opportunities within the headquarters a company has in India).

Table 1. Demographic Details of the Respondents

	Variable	<i>n</i>	Percent		Variable	<i>n</i>	Percent
Country of Origin	Argentina	2	4.7	Education	Intermediate	6	14
	Australia	4	9.3		Under graduate	18	41.9
	Brazil	3	7		Post graduate	12	27.9
	China	5	11.6		Doctorate	2	4.7
	Hungary	3	7		Others	5	11.6
	Ireland	2	4.7	Work Experience	Less than 5 Years	11	25.6
	Malaysia	4	9.3		5 - 10 Years	17	39.5
	Philippines	3	7		10 - 15 years	8	18.6
	Singapore	4	9.3		Above 15 Years	7	16.3
	U.K.	5	11.6	Managerial Position	Operational Level	13	30.2
U.S.A.	8	18.6	Middle Level		17	39.5	
Gender	Female	15	34.9		Top Level	13	30.2
	Male	28	65.1				

Table 2. Means, Standard Deviations, and Independent Samples t-test Results of the Ratings on Expatriate Failure Variables

Sl. No.	Variable	Mean	Std. Deviation	t - value	p - value
1	Lack of technical and managerial competencies	3.5814	1.09615	6.098	0.000*
2	Mutual trust and co-operation among co-workers	3.3721	.72451	-1.312	0.197
3	Managerial Position	2.0000	.78680	-2.022	0.048*
4	Perceived lack of career support	3.5814	1.09615	9.150	0.000*
5	Spouse's inability to adjust	3.3953	1.34765	5.478	0.000*
6	Other family oriented problems	3.8140	1.11816	.692	0.493
7	Inability to cope with large assignments	3.7674	1.01974	.125	0.901
8	Manager's personality	3.6279	1.09160	-1.109	0.274

Notes: N = 43, The responses range from 1 to 5: value 1 = *strongly disagree*, value 5 = *strongly agree*, * represents a significant difference as $p < 0.05$

The Table 2 shows the means and standard deviations for the ratings of eight variables – lack of technical and managerial competencies of expatriates, mutual trust and co-operation among the co-workers, position of expatriates, perceived lack of support in their career plan, inability of the spouse to adjust to the new culture, other family-related issues, inability of the expatriate to cope with large assignments, manager's personality, and it also shows the results from independent samples *t* - test of the same variables.

The mean rating scores for all the eight variables were above the mid-scale value of 3, that is, they were important indicators of expatriate failure in the Indian IT industry. Family-oriented problems were seen as the most important followed by inability to cope with large assignments, manager's personality, and the remaining five variables, with spouse's inability to adjust to the new culture being the least. However, the independent samples *t* - test results showed that lack of technical and managerial competencies of expatriates, managerial position of expatriates, perceived lack of support in their career plan, inability of the spouse to adjust to the new culture were significantly related with expatriate failure in the Indian IT industry. This means that the Indian IT industry needs to focus on the competencies of expatriates, career planning, and spouse characteristics (personal as well as work-related) while selecting an expatriate for strategic international assignments. Therefore, Hypothesis 1 is rejected because the *p* - value (0.000) of the first variable, that is, lack of technical and managerial competence is less than that of α (0.05) value (From Table 2).

Again, from the Table 2, it can be observed that the p -value (0.197) of mutual trust and co-operation among the co-workers is greater than α (0.05) and hence, the Hypothesis 2 is accepted. However, the Hypothesis 3 is rejected because the p -value (0.048) of managerial position is less than α (0.05) value (From Table 2). Also, the p -value (0.000) of perceived lack of career support and spouse's inability to adjust is less than the α (0.05) value and hence, the Hypotheses 4 and 5 are rejected. The p -value (0.493) of other family oriented problems is greater than α (0.05) value and hence, the Hypothesis 6 is accepted (From Table 2). Furthermore, the p -value (0.901) of inability to cope with large assignments is greater than α (0.05) and, therefore, the Hypothesis 7 is accepted. Finally, the p -value (0.274) of manager's personality is greater than α (0.05) and hence, the Hypothesis 8 is accepted.

Table 3. Correlation Matrix of the Ratings on Expatriate Failure Variables

Sl. No.	Variable	1	2	3	4	5	6	7	8	9
1	Premature return	-								
2	Lack of technical and managerial competencies	0.690*	-							
3	Mutual trust and co-operation among co-workers	-0.201	0.111	-						
4	Managerial position	-0.301	-0.221	0.209*	-					
5	Perceived lack of career support	0.819	0.703	-0.129	-0.359*	-				
6	Spouse's inability to adjust	0.65	0.356	-0.179	-0.067	0.582*	-			
7	Other family oriented problems	0.107	0.149	0.293	-0.189	0.11	0.018	-		
8	Inability to cope with large assignments	0.019	-0.089	-0.138	-0.03	0.081	0.19	0.149	-	
9	Manager's personality	-0.171	-0.054	0.45	0.111	-0.113	-0.043	0.352	0.156	-

Notes: $N=43$, The responses range from 1 to 5: value 1 = *strongly disagree*, value 5 = *strongly agree*, * represents a significant difference as $p < 0.05$

The Table 3 shows the inter-correlations of the ratings on expatriate failure variables. Premature return of the expatriates was found to be significantly correlated with the lack of technical and managerial competencies of expatriates, managerial position of expatriates, perceived lack of support in their career plan, and inability of the spouse to adjust to the new culture. Again, perceived lack of support in their career plan was significantly correlated with lack of technical and managerial competencies and managerial position. Additionally, spouse's inability to adjust to the new culture was significantly correlated with expatriate's perceived lack of support in the career plan, whereas mutual trust and co-operation among co-workers, other family-oriented problems, inability to cope with large assignments, and manager's personality showed a low and insignificant correlation with premature return of the expatriate. This suggests that the common source of variance, which is always a concern when both independent and dependent variables are rated by the same sample respondents, is not likely to be responsible for significant correlations between other variables. Hence, the results from the correlation analysis also support the Hypotheses 1, 3, 4, and 5.

Discussion

The consequence of technical and managerial competencies of expatriates resulting in premature return was the subject of the first hypothesis. Information technology companies will make use of international assignments during new product development (NPD). In the initial stages of NPD, technical skills are employed more in order to succeed in the project, which demands the use of home country nationals (HCNs) in the host country. That is, in the early stages of complex NPD, system and subsystem design considerations are imprecise due to the fact that they are interdependent. Resolving these interdependencies requires expatriate talent, which results in robust and stable product design. Hence, managing interaction and system design failures is the grist of expatriate deployment, which will be compounded by multifaceted cultural ambiguities that necessitate managerial competencies (Terweisch, Loch, & De Meyer, 2002). More specifically, the empirical findings show that, in line with our first hypothesis, technical and managerial competencies have an inverse relationship with the premature return of expatriates. The more the technical and managerial competencies, the less likely it is that the expatriate will fail in the host country

assignment. Expatriates who possess abilities that are needed to complete the job abroad report higher levels of task satisfaction and vice versa. Thus, HR professionals need to be aware that an international assignment could result in an under-utilization of employee abilities.

Many authors have recognized that organizational hierarchy influences the internal communication and the willingness of the employees to stick to a particular organization. The flow of information and intensity of communication as well as horizontal and vertical integration depends on the level of centralization, flatness, and horizontal integration, among other organizational structure variables. An organizational structure can stimulate or inhibit the flow of communication by developing mechanisms to encourage participation and information sharing. Aiken and Hage (1971) found that in less complex, less formal, and decentralized organizations, communication is greater than in complex, formal, and centralized ones. Locus of decision-making tends to increase communication because a participatory work environment facilitates the involvement and communication among employees; whereas centralization reduces participation of employees, decreasing communication. Participative decision making stimulates communication and information flow in the entire organization (Kanter, 1983). Few hierarchy levels reduce the number of people involved in the communication process, increasing its speed and accuracy (Damanpour, 1991; Hull & Hage, 1982).

Thus, vertical communication tends to be more developed in flat organizations when compared to organizations with numerous hierarchy levels. Due to an increase in the knowledge sharing and training of employees, higher levels of horizontal integration tend to increase the level of internal communication (Damanpour, 1991; Vonderembse, Ragunathan, & Rai, 1997). Specialized employees are more likely to share their ideas in a horizontally integrated organization. Therefore, in the multinational context, we hypothesize that expatriates' failure is dependent on organizational hierarchy. Regardless of cultural influences and attributions, however, a manager still needs influence and status to operate efficiently. However, the cross-cultural know-how of a manager may not necessarily lead to growing cross-cultural competence. Experience alone does not indicate greater cross-cultural management competence (Black, Mendenhall, & Oddou, 1991; Selmer, 2002). A number of attitudinal performance elements relate to cross-cultural management performance and hence indicate the adjustment of expatriates. The modest findings of this study, however, suggested a battery of HR practices that IT companies may use not only to enrich expatriate performance, but also their psychological well-being while on global assignments.

Conclusion

The complexities and challenges associated with expatriate failure in multinational companies, specifically IT companies, are highly acknowledged. Using empirical findings from a questionnaire survey, this study explored a number of potential antecedents of expatriate failure. The choice of variables reflected their importance to the expatriates as well as the significance attributed to these variables within existing research on this subject. Our data showed that factors such as lack of technical and managerial competence, managerial position, perceived lack of career support, and spouse's inability to adjust seem to be more important than factors like mutual trust and co-operation among co-workers, inability to cope with large assignments, manager's personality, and other family-oriented problems.

Practical Implications

The results of this study have several implications for the management of expatriates on foreign assignments. The competency-based perspective expressly addresses the dynamic nature of the global setting by acknowledging that the initial set of competencies (i.e. firm and individual) ought to be revived by development of latest competencies through the selection of better/more qualified expatriate managers. This renewal suggests the global organization to formulate its strategic intent to find and develop new competencies of strategic importance through development of the complementary competencies to those possessed by past expatriate managers. Hence, the primary implication is that by combining the technical and organizational competencies effectively, global organizations can set up a repertoire of strategic alternatives specific to a national competitive environment and simultaneously being aware of consistency among subsidiary policies/procedures.

Our second recommendation for multinational organizations, specifically IT organizations, is to provide the autonomy to the expatriates at different organizational levels in their work practices that lead to successful subsidiary performance. In this regard, pre-departure training programmes focusing upon the expectation of the host country firms from the expatriates at different organizational levels would be an idealistic decision.

As the world is shrinking to become one global village, internationally operating firms must be reminded that cultural differences do exist across the organizations and will affect the success of their expatriates. A study on the perceived causes for premature return of expatriates is one of the important initiatives to improve the chances of multinational enterprises having well-adjusted expatriates on critical international assignments. In turn, the high cross-cultural adjustment of expatriates will lead to a better performance in the global arena for both individuals and their organizations.

Implications for Managers

Expatriate managers might be highly valued to perform strategic functions, provide high-quality communication between the subsidiary and parent company, and manage crises in the interests of the parent company. The present study provides an understanding about the reasons for expatriate failure in the IT industry. The empirical findings of the study indicated that there is an inverse relationship between the technical and managerial competence and premature return of the expatriates. Hence, it is recommended for the managers to focus on a potential expatriate's possession of these vital skills and abilities. Another implication for the managers that may alleviate the performance problem can be to effectively focus on the large and complex assignments provided to expatriates. Quite often, expatriates feel stressed with the complex assignments which lead to their premature return. Effective counselling in the form of local mentors regarding the complex assignments will reduce the expatriate's stress and boost their confidence level.

Limitations of the Study and Scope for Further Research

While the findings of the study offer significant lessons for business firms, their interpretation is not without limitations. We state two major limitations of our study. First, the sample size of 43 respondents upon which the study is based may be considered small when compared to other expatriate related studies. A second limitation of the study is the use of judgmental sampling in the selection of sampling units. Respondents were not randomly selected, but agreed to participate in the study based on our criteria and on their willingness to involve themselves in such a study. The sample was mainly dominated by males, less experienced, and American expatriates working in India.

Future research studies can focus on career development models that integrate the different career stages of expatriates with major possible implications for expatriate managers to bring down the costs of failure. Finally, future research should use multiple sources and multiple methodologies in order to obtain more reliable performance data and to reduce common source and common method bias.

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PRABANDHAN : INDIAN JOURNAL OF MANAGEMENT

Statement about ownership and other particulars about the newspaper "PRABANDHAN: INDIAN JOURNAL OF MANAGEMENT" to be published in the 3rd issue every year after the last day of February.

FORM 1V

(see Rule 18)

- | | | |
|---|---|--------------------------------|
| 1. Place of Publication | : | NEW DELHI |
| 2. Periodicity of Publication | : | MONTHLY |
| 3. 4,5 Printer, Publisher and Editor's Name | : | S. GILANI |
| 4. Nationality | : | INDIAN |
| 5. Address | : | Y-21,HAUZ KHAS, NEW DELHI - 16 |
| 6. Newspaper and Address of individual | : | ASSOCIATED MANAGEMENT |
| Who owns the newspaper and partner of | : | CONSULTANTS PRIVATE LIMITED |
| Shareholder holding more than one percent. | : | Y-21, HAUZ KHAS, NEW DELHI-16 |

I, S.Gilani, hereby declare that the particulars given above are true to the best of my knowledge and belief.

DATED : 1st March , 2014

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S.Gilani
Signature of Publisher