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EXPATRIATES

A research on what affects the number of expatriates used

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ABSTRACT

With an ever-increasing rate of globalization many firms today find it highly important to internationalize in order to survive and prosper. Swedish companies have also followed this trend of internationalization, among them Swedish banks. This research will investigate if the number of expatriates used is affected by subsidiary age, level of development in the host country and/or the cultural distance between the host market and Sweden.

A case study was conducted on Handelsbanken, one of the four major banks in Sweden. Interviews and a questioner were used to gather information about what affects the number of expatriates used. The results indicate that the use of expatriates differs for different periods of the subsidiaries establishment. The study shows that cultural distance affects the use of expatriates in a later stage in the development phase. In the early stages expatriates are used to establish the corporate philosophy. As the philosophy has been well established it is evident that the use of expatriates declines because the use of host country nationals is more advantageous as they know their own culture and business environment better.

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INTRODUCTION

As national economies are merging into an interdependent, integrated, global economic system it is important for companies to follow the trend of globalization.¹ Many different industries are following this trend including the banking industry. However, the internationalization of banks is not a new phenomenon, since 1960 the internationalization of banks has increased rapidly.² The European Union has led to an opening of financial markets within the EU area and laws have been enforced securing a financial market within the EU. Effort is now being put into making the market function effectively.³ Swedish banks have followed this highly intense internationalization process as well.⁴ It is no surprise considering the fact that the Swedish market consists of only nine million people and internationalization is crucial for expanding.

Companies choosing to internationalize will face many difficulties and need to be well prepared before entering a new market. When establishing subsidiaries abroad there are many important decisions to be made, an important one being using host country nationals in management positions or home country nationals, which will from now on be referred to as expatriates. When it comes to banking the forms of establishment are not the same as for other companies which makes such a decision even harder. Because it is a service industry with high risks involved there can only be direct investments because of the need for control, as it can be risky handing over loan facilities to independent actors.⁵

¹ Hill, 2007, p.618

² Marquardt, 1994, p.5

³ EU-upplysningen, "Ny femårsplan för finansiella tjänster"

⁴ Marquardt, 1994, p.5

⁵ Marquardt, 1994, p.7

Studies have shown that in the finance function there will be a higher percentage of expatriates when the cultural differences between the host country and the home country are large because of the need for control in the investing company.⁶ Others argue that it is just as important to have host country nationals in management because they are familiar with their culture and have local connections.⁷ Another factor influencing the choice between expatriates or host country nationals is the level of development in the host country. A third factor is cultural distance which also plays an important role when making the decision between expatriates or host country nationals for management positions.⁸ There is no general agreement on this issue due to the complexity involved with managing multinational corporations (MNC's). These three factors seem to be influencing the decision of using expatriates or host country nationals.

We have chosen to study expatriation from the perspective of the four major banks in Sweden, being Handelsbanken, Nordea, SEB (Skandinaviska Enskilda Banken), and Swedbank (former Föreningssparbanken). The bank sector was chosen because it is a service industry and requires a higher level of adaptation to local circumstances. We have performed this as a case study. With the help of our hypothesis we hope to draw conclusions that will point in the right direction helping to improve and enlarge the area of expatriation.

The aim of this research paper will be answering the following question: Are the number of expatriates used affected by subsidiary age, level of development in the host country and/or cultural distance?

⁶ Harzing, 2001, p.153

⁷ Tung, 1982, p.59

⁸ Harzing, 2001, p.153

THEORETICAL FRAMEWORK

In this chapter we will present a general section on the internationalization of firms followed by three sections of theories that build up each hypothesis

The internationalization of the firm is a process in which firms gradually increase their international involvement according to Johansson and Vahlne. When firms internationalize they usually start with small steps, for example exporting, later on an establishment of a sales subsidiary and eventually in some cases these steps are followed by a production facility in the host country.⁹ The time order in which companies enter markets is related to the psychic distance between the countries. Psychic distance is defined as the sum of factors preventing the flow of information between the market such as language, education, business practices, culture, and industrial development.¹⁰ The forms of entry for banks are special in this context because they provide a service; therefore the international affairs of banks are handled in different ways depending on the activity that is to be performed. In general there are five different ways of establishment; being correspondent relations, representative offices, joint-stock companies, wholly owned subsidiaries or branches.¹¹

International business and national business differ because countries and societies are different. "Societies differ because their cultures vary. Their cultures

⁹ Johanson & Vahlne, 1977, p.23

¹⁰ Johanson & Vahlne, 1977, p.24

¹¹ Marquardt, 1994, p.6

vary because of profound differences in social structure, religion, language, education, economic philosophy, and political philosophy”¹². A study by O’Grady and Lane¹³ shows that even operations in seemingly close countries are not necessarily easy to manage¹⁴. They argue that there are differences in values and attitudes between psychically close countries, and a failure to see these differences affects the success of the entry process.¹⁵ However, their study only concentrated on Canadian companies entering the U.S. therefore their findings may not apply to other countries.¹⁶

Hofstede uses four dimensions to describe national cultures. The first dimension is “Individualism versus Collectivism”, this describes the relationship between individuals, if individuals look out for themselves or if they look after the interests of their in-group. The second dimension is “Power Distance”, which deals with the fact that power is distributed unequally. The third dimension “Uncertainty Avoidance” deals with the need to control uncertainty or to accept it. The fourth dimension is “Masculinity versus Femininity” which deals with if masculine or feminine values are valued more in the society.¹⁷ These different dimensions help explain different cultures; they can also be useful when evaluating which staffing policy to use because culture attributes determine how people interact with one and another.¹⁸

When using an ethnocentric staffing approach all manager positions are filled with expatriates. This can create resentment among the host country nationals because they have no way of advancing. The polycentric staffing approach recruits host country nationals to management positions. Management at the

¹² Hill, 2007, p.116

¹³ O’Grady & Lane, 1996, “The psychic distance paradox”

¹⁴ O’Grady & Lane, 1996, p.309

¹⁵ O’Grady & Lane, 1996, p.310

¹⁶ O’Grady & Lane, 1996, p.330

¹⁷ Hofstede, 1983, p.78-85

¹⁸ Johanson & Vahlne, 1977, p.26

subsidiary plays an important role in understanding and minimizing the problems related to cultural differences.¹⁹ Hofstede presents three reasons for why nationality is important for management. First is because nations are political units, secondly because nationality has a symbolic value to its citizens, and thirdly due to psychological reasons because our thinking is partly conditioned by national culture factors.²⁰ Lack of knowledge due to differences in countries with regard to language and culture is an important obstacle to decision making connected with the development of international operations.²¹ Expatriates for that reason might be preferred in order to facilitate communication between the home and host country.

Theoretical support for hypothesis

In Marquardt study²² he describes and analyzes the international development of the five major banks in Sweden. Marquardt found that control is a potential problem in the banking industry as there are many difficulties ahead for banks that choose to internationalize. This is because the forms of establishment for banks are not the same as for other companies. There are no licence agreements or management contracts, which are common for many other sorts of companies. Only direct connections occur because of the need for control, as it can be risky to hand over loan facilities to independent actors.²³

Boyacigiller's study²⁴ seems to show the same results as Marquardt's study. Boyacigiller studied a major US bank with 83 branches in 43 countries. The complexity variable in her study is consistently found to be associated with a larger proportion of US nationals in professional positions.²⁵ The placement of expatriates in managerial positions gives the MNC a flexible means of control

¹⁹ Hill, 2007, p.620-621

²⁰ Hofstede, 1983, p.75-76

²¹ Johanson & Vahlne, 1977, p.26

²² Marquardt, 1994, "Internationalisering av svenska banker - En process i fem faser"

²³ Marquardt, 1994, p.7

²⁴ Boyacigiller, 1990, "The role of expatriates in the management of interdependence, complexity and risk in multinational corporations"

²⁵ Boyacigiller, 1990, p.371

without overburdening it with a complex structure or with expensive and time consuming socialization programs.²⁶ This is especially prevalent in situations when control is a potential problem either due to the complexity inherent in the business situation or because of the difficulty of the business environment.²⁷ Harzing's study²⁸ also shows that when there is a higher felt need for control and communication, there will be a higher percentage of expatriates employed.²⁹ The above studies indicate that there is a need for control when establishing subsidiaries thus we hypothesize that:

Hypothesis 1: A higher number of expatriates in countries where the subsidiary has been established for many years indicate that there is a continued need for control.

In Edström & Galbraith's study³⁰ three general motives are presented for why international transfers of managers occur. The first motive is for "filling positions"; here the companies are trying to transfer technical knowledge to developing countries where qualified local nationals are not available. This is especially prevalent in host countries where the level of education is low. What becomes important in those situations is the transfer of technical or managerial knowledge, and the training of local nationals. When subsidiaries become more established local recruitment and transfer of knowledge becomes easier.³¹ Tung's study³² supports Edström and Galbraith's findings. Her study shows that the highest percentage of expatriates from U.S. companies can be found in Latin America,

²⁶ Ibid.

²⁷ Boyacigiller, 1990, p.370

²⁸ Harzing, 2001, "Who's in charge? An empirical study of executive staffing practices in foreign subsidiaries"

²⁹ Harzing, 2001, p.153

³⁰ Edström & Galbraith, 1977, "Transfer of managers as a coordination and control strategy in multinational organizations"

³¹ Edström & Galbraith, 1977, p.250-252

³² Tung, 1982, "Selection and Training Procedures of U.S., European, and Japanese Multinationals"

Africa, and the Far and Middle East. A much lower level is found in Canada and Western Europe. This is logical because more developed nations have larger pools of personnel possessing necessary manpower and technical skills for staffing management positions.³³ The second motive, which is less related to culture, is “management development”, which gives managers international experience and international development for future tasks. The third and last motive is “organization development”, for the socialization of expatriates and local managers into the corporate culture and a creation of information networks.³⁴ When the level of cultural distance between the home country and the host country is high it becomes more important to transfer expatriates in order to create an information flow between the countries. Communication between people from different cultural backgrounds can be very difficult even if they speak the same language; therefore expatriates are preferred in some management positions in order to facilitate the information flow. In newly established subsidiaries the transfer of knowledge tends to be more important because the communication networks need to be built up from scratch.³⁵ When using an expatriate communication between the home country and the host country is facilitated because it minimizes misunderstandings occurring due to language barriers or culture.³⁶

Hypothesis 2: In less developed countries expatriates will be preferred in order to facilitate the communication flow and for filling positions.

Harzing made an observation of approximately 3000 companies systematically investigating a large number of factors influencing executive staffing practices in foreign subsidiaries. Some of the factors investigated include industry, cultural

³³ Tung, 1982, p.59

³⁴ Edström & Galbraith, 1977, p.252-253

³⁵ Boyacigiller, 1990, p.359-360

³⁶ Edström & Galbraith, 1977, p.250-252

distance, political risk, education, cost of living size and age of subsidiary and so forth.³⁷ Her findings show that during the past two decades European MNC's have localized their subsidiary management. This means a higher percentage of host country nationals are employed particularly in areas such as advertising, business and management services, and in the food industry because of the importance of local market knowledge.³⁸ When first entering a market the entrant often lacks important knowledge such as the host country's culture, language, political situation and so forth. The entrant also lacks a complex net of contacts and business connections that are essential for banks because the banking business involves risks and risk analysis to a great extent. To be able to be successful in their new market it is important that they have in dept knowledge of the local conditions and actors in the market. This knowledge is obtained mainly by being present and participating in the local market.³⁹ According to Banai those are the most important reasons for choosing host country nationals for top management positions; because of their knowledge of the local market, business practices and cultural preferences.⁴⁰ Boyacigiller found that increased levels of competition leads to a higher percentage of host country nationals employed because they can provide important links to the local business community gaining new business for the branch.⁴¹ It is very difficult and time-consuming for expatriates to become as intimately aware of local circumstances as host country nationals.⁴² Another reason for why host country nationals are to be preferred is because of the heavy cost of sending expatriates to international assignments. Expatriates expect a full range of services such as education for their children, return trips, club memberships and so on. The third reason for why host country nationals are preferred is that expatriates often fail their assignments because

³⁷ Harzing, 2001, p.145

³⁸ Harzing, 2001, p.144, 152

³⁹ Marquardt, 1994, p.5

⁴⁰ Banai, 1992, p.454

⁴¹ Boyacigiller, 1990, p.371

⁴² Hill, 2007, p.621

they can have difficulty in adapting to local circumstances.⁴³ The higher the cultural distance between home- and host countries, the larger the adjustment problems.⁴⁴ Every country has its own set of values and beliefs that most likely are not the same as the ones in the parent country. An understanding of these differences minimizes problems related to managing a multinational company effectively. These three factors: “local knowledge”, “costs” and “failure rates” can result in disturbing the local business relationships and a premature return of expatriates to home countries.⁴⁵ We expect therefore a higher number of host country nationals employed because banks are in the service industry and need to adapt to local conditions, thus we hypothesize that:

Hypothesis 3: A higher cultural distance will lead to a higher number of host country nationals being employed because of their knowledge of the local business and culture.

Table 1 - Summary of hypothesis

Hypothesis 1: A higher number of expatriates in countries where the subsidiary has been established for many years indicate that there is continued need for control

Hypothesis 2: In less developed countries expatriates will be preferred in order to facilitate the communication flow and for filling positions

Hypothesis 3: A higher cultural distance will lead to a higher number of host country nationals being employed because of their knowledge of the local business and culture

⁴³ Banai, 1992, p.455

⁴⁴ Harzing, 2001, p.144

⁴⁵ Harzing, 2001, p.142

RESEARCH METHODOLOGY

In this chapter we will present how we realized our research. The choice of case, interviews, questionnaire, measurements and course of action for this research will be explained along a short presentation of the main investigated firm

The empirical investigation was performed as a case study. The case study was to investigate banks in Sweden to get an idea of the expatriate policies used in this industry. In our opinion this was the best approach because it gives a deeper insight into the industry. The data collection was conducted by a questionnaire followed by a short telephone interview to fill out the blanks.

With this case study we wanted to study what expatriate policies the four major Swedish banks have in order to increase our understanding of what affects the choice of managers in this industry. We used Sweden's four major banks as our sample, being Handelsbanken, Nordea, SEB, and Swedbank to investigate our problem statement. The reason for limiting our study to these four major banks is because the other banks in Sweden are very small and their international presence is close to non-existent. Naturally we chose to limit our study to these four banks.

Our study is limited to only one bank because the other three banks did not want to participate. The one bank that did answer the questionnaire was Handelsbanken, they were very helpful and provided us with the answers we needed to be able to perform our study. We also chose to follow up with a shorter

interview where the purpose was to fill out unexpected questions that came up during the research. The interview was done with the same person who answered the questionnaire. It was performed via telephone and took approximately fifteen minutes.

Non - response analysis

The three banks generally stated the same reasons for not participating. Lack of time and lack of competent personnel in this specific area was stated as the strongest reasons for not being able to assist us. Any information provided would therefore not be applicable in their mind. They also argued that they had restricted rules for helping students with investigation essays such as ours. Another reason was that in their mind they were not the most appropriate bank for this study because of only having few international subsidiaries.⁴⁶

Respondent selection

We started with finding the most competent personnel in each bank who would be able to answer our questions. We called customer services in each bank and explained what our study was about; customer services redirected us to, in their mind, the most competent personnel. These persons were contacted by telephone and asked if they were able to assist us. The questionnaire was sent out to our contact person at each bank via e-mail. As seen in Appendix 1 the questionnaire was principally formulated to answer the question “why” the use of expatriates, in “which” countries expatriates were used and the “number” of expatriates in each country, in order to get a broader picture of the banks international operations. This way we were able to conduct qualitative research, but it also includes number which makes it partly quantitative as well. The respondents were asked to reply via e-mail in order for us to receive the

⁴⁶ The managers of the international divisions at Nordea, SEB, Swedbank

information faster, this also made it easier for the respondent to send the answer to us without unnecessary delays.

Measurements

For testing the first hypothesis we measured the need for control by comparing the number of years the bank had been present in each country with the number of expatriates today. Because it is reasonable to believe that there will be an increased number of host country nationals employed after being present for at least 10 years. According to Handelsbanken 10 years is an efficient number of time for the corporate culture to be well established.⁴⁷

In order to test hypothesis two we needed to measure in which stage of development a country is, we therefore used the Human Development Index (HDI), which is presented in Table 4. The HDI-index measures how well a country is doing in three fundamental aspects of human development. The index considers three variables, average life expectancy, level of education (literacy among adults including school attendance in preschool, middle school, high school and higher education) and real GDP per capita (recalculated with domestic purchasing power and not by the current exchange rate). The index ranges between 0 - 1. For scores over 0.8 there is a high human development, for scores between 0.5 - 0.799 there is a medium human development. Any score under 0.5 indicates a low human development.⁴⁸

When we measured cultural distance to test hypothesis three we used the scores from Hofstede's four dimensions, Appendix 2.⁴⁹ Each dimension has a score from 0 - 100. All countries were compared to Sweden on each dimension. The countries were classed as either having a low, medium or high cultural

⁴⁷ The manager of the central international division, Handelsbanken

⁴⁸ United Nations Development Programme, p.34-38

⁴⁹ Hofstede, 1991, p.38, 70, 109, 144

distance to Sweden (Table 5). This was done by comparing each individual score for each of the dimension to Sweden's scores. A score that was within 10 points higher or lower of Sweden's score gave a low cultural distance. A score that was 20 points higher or lower of Sweden's score gave a medium cultural distance. Any score higher or lower than 21 of Sweden's score gave a high cultural distance. We believe this to be an accurate measure because the index only ranges between 0 - 100, therefore it is reasonable that 10 points plus minus Sweden's score is culturally close. It is furthermore reasonable to believe that scores of 20 plus minus Sweden's score is a medium cultural distance and scores above that a high cultural distance. When all scores were set each individual country was classed as low, medium or high cultural distance to Sweden. The majority of classes that each country was put in was decided to be the specific country's class.

Presentation of the case

Handelsbanken has a decentralized organization.⁵⁰ The number of employees are approximately 7 700 in Sweden and 2 100 in the rest of the world.⁵¹ Handelsbanken is strongly characterized by its corporate philosophy which influences the whole company to strive in the same direction; the banks corporate philosophy is:

- A strongly decentralised organisation - the branch is the Bank
- The customer in focus - not individual products
- Profitability is always given higher priority than volumes
- A long-term perspective
- Oktagonen – The Bank's profit-sharing system⁵²

⁵⁰ Handelsbanken, "Investor relations"

⁵¹ Handelsbanken, "Kort om Handelsbanken"

⁵² Handelsbanken, "Handelsbanken in brief"

Table 2 - Handelsbanken's foreign establishments ⁵³

Country	Year
Russia	1974
Luxemburg	1978
Germany	1980
Great Britain	1980
China	1982
Singapore	1987
Switzerland	1987
USA	1987
Hong Kong	1988
Spain	1989
Austria	1990
France	1990
Norway	1990
Finland	1995
Denmark	1996
Holland	2000
Poland	2001
Estonia	2006
India	2006

Handelsbanken was founded in 1871, and went by the formal name Stockholms Handelsbank. The bank focused on the local banking market, with activities like deposits and loans.⁵⁴

In 1961 the bank made its first international establishment, a representation office which did not really perform any banking activities but acted more as an intermediary for services. With strong relations to the Swedish economy and foreign banks they made their entry into foreign markets, this was to be the start of an extensive expansion.⁵⁵ Today Handelsbanken consists of a network of eleven regional banks; seven being located in Sweden, the rest are located in

⁵³ Handelsbanken, "Welcome to Svenska Handelsbanken"

⁵⁴ Handelsbanken, "Kort om Handelsbanken"

⁵⁵ Marquardt, 1994, p.17

Denmark, Finland, Norway and Great Britain.⁵⁶ In addition to this Handelsbanken is also established in several other European countries, Asia, and U.S.A.⁵⁷ It is a universal bank with 457 branches and is one of the four major banks in Sweden.⁵⁸ It received an award for “Swedish business bank of the year 2006” by Affärsvärlden Magazine.⁵⁹

⁵⁶ Handelsbanken, “Investor relations”

⁵⁷ Handelsbanken, “Welcome to Svenska Handelsbanken”

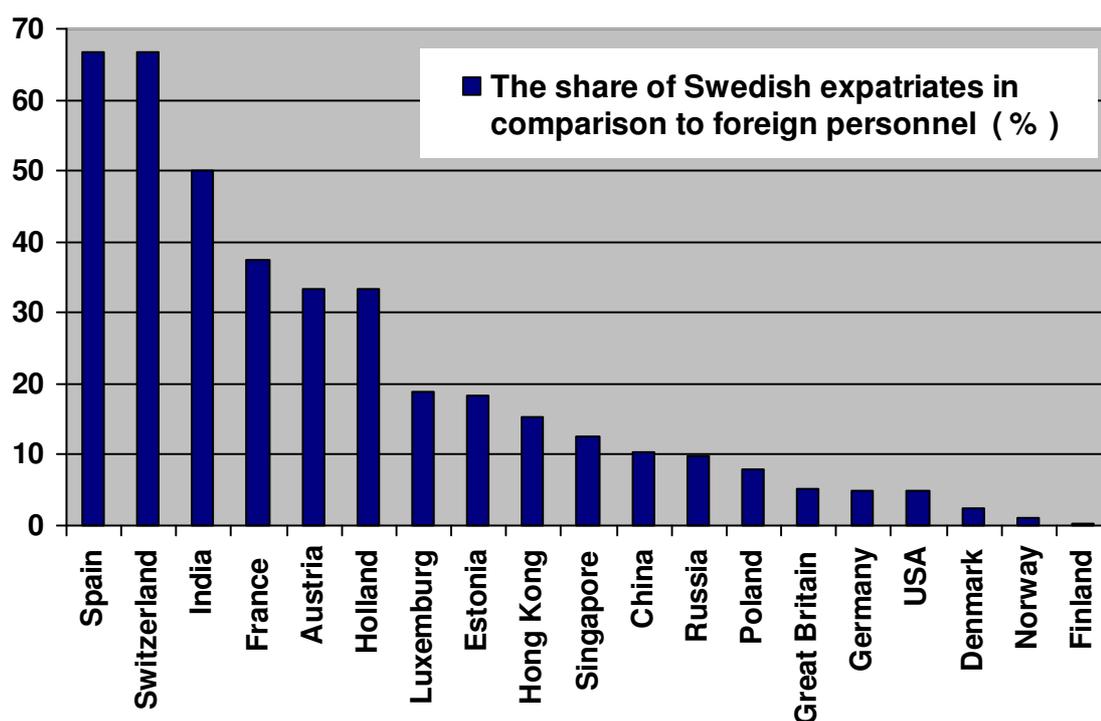
⁵⁸ Handelsbanken, “Investor relations”

⁵⁹ Handelsbanken, “Swedish Business Bank of the Year 2006”

EMPIRICAL FINDINGS AND DISCUSSION

In this chapter we present our empirical findings and discussion. The empirical findings include the results from the interview and the questionnaire

Table 3 - Expatriates from Handelsbanken⁶⁰



Handelsbanken constantly strives to become a larger international bank. One of the main reasons for this is that their client corporations are becoming more

⁶⁰ The manager of the central international division, Handelsbanken

internationalized but also that the bank itself is establishing a greater international presence.⁶¹

The bank uses expatriates mainly to develop personnel, the organization, and to develop the host countries personnel. This is all conducted in order to establish their corporate philosophy within the frame of their operations in the host country. Surprisingly the bank does not use expatriates for filling positions. Instead the bank chooses the best-suited personnel for the assignment to achieve the best results for the entire organization.⁶²

The most important factor that determines how many expatriates that are to be used is in which phase the development of the subsidiary is in the host country. As the subsidiary develops the relative numbers of expatriates decreases with time. The country itself also affects the number of expatriates used; some countries attract more expatriates than others.⁶³

Historically there has been a majority of Swedes among the expatriates. But with an expansion in other countries as well the need for the personnel's competence across the borders is increasing. There are several examples within the bank of expatriates that have his/her origin in one country, has worked for the bank in another county, and is now serving as an expatriate in a third country. Working as an expatriate also leads to personal development; it should be well planned and documented in a PLUS-conversation (conversation to determine the future development of the personnel) and plan of action. It is their belief that expatriation is an important experience and reference when applying for higher positions within the bank. It is of utter importance that the personnel in the bank have international experience within the organization to fulfil customer needs. They also believe that it enriches and contributes to their corporate culture when

⁶¹ The manager of the central international division, Handelsbanken

⁶² Ibid.

⁶³ Ibid.

they expand geographically. Expatriation is also important for the bank to expand the bank's corporate philosophy over the world and to become a stronger and greater concurrent in the global market.⁶⁴

Testing the hypothesis

Hypothesis 1: A higher number of expatriates in countries where the subsidiary has been established for many years indicate that there is a continued need for control.

Handelsbanken feels that it is urgent and highly important to establish the philosophy of the organization from the start when building up a new relationship in foreign countries in order to maintain control. This is conducted by using expatriates that are well aware of the banks philosophy. This is evident from Table 3, where we can see that both India and Estonia where the bank was established in year 2006 both have a high percentage of expatriates. Therefore it is reasonable to believe that the maturity level of the subsidiary affects the staffing policy because of the need for control in order to establish the corporate philosophy. When the subsidiary has reached a sufficient maturity level and the corporate culture has been well established it becomes easier to recruit host country nationals. According to the bank 10 years is a sufficient number of years for the organizational culture to become well established.

What is striking is that there is a high percentage of expatriates in Spain, Switzerland, France, and Austria. In all the above mentioned countries the bank has been present for over 17 years. According to Handelsbanken they recruit host country nationals when the subsidiary has reached a sufficient maturity level, however this seems not to be the case in the above mentioned countries. We believe this can be explained by the fact that Handelsbanken believes it is important that their personnel has international experience, which contributes to

⁶⁴ The manager of the central international division, Handelsbanken

the overall growth of the bank as well as personal development for the employees. As mentioned earlier the country itself affects the number of expatriates because some countries are more popular among expatriates. Considering the fact that the bank has a very low percentage of expatriates in 11 of the 15 countries, in which they have been present for over 10 years, we do not find any strong evidence suggesting that there is a continued need for control later on when the subsidiary has matured. This is quite surprising because we expected to find some evidence suggesting the same results as Marquardt and Boyacigiller found in their studies. We expected there to be a higher number of expatriates because the banking industry is special in the sense that it requires higher control due to the risks handing over loan facilities to independent actors. One explanation can be the subsidiaries are mostly for prior customers in a majority of the countries. They are there in order to ease the banking for the multinational companies that are prior clients.

Hypothesis 2: In less developed countries expatriates will be preferred in order to facilitate the communication flow and for filling positions.

From Table 4 it is evident that Russia and China have a medium human development. However, both China and Russia have a very low percentage of expatriates. This can be explained by the fact that the bank has been present in both countries for over 25 years. This is more than sufficient time for the subsidiary to become well established and embrace the corporate philosophy, thereafter being able to recruit host country nationals.

Table 4 - HDI (Human Development Index) ⁶⁵

Country	HDI-value
Norway	0.965
Sweden	0.951
USA	0.948
Switzerland	0.947
Holland	0.947
Finland	0.947
Luxemburg	0.945
Austria	0.944
Denmark	0.943
France	0.942
Great Britain	0.940
Spain	0.938
Germany	0.932
Hong Kong	0.927
Singapore	0.916
Poland	0.862
Estonia	0.858
Russia	0.797
China	0.768
India	0.611

India has a medium human development and a high percentage of expatriates. This is due to the fact that the bank just recently established there and therefore has a need for control in order to establish their philosophy. This can also be explained by the fact that India is only a medium human developed country and therefore might not have large pools of personnel possessing necessary manpower and technical skills for staffing. In Switzerland there is a high percentage of expatriates and it also scores high on the HDI-index. We believe the high percentage of expatriates in this country can be explained by the fact that Handelsbanken puts great effort into developing their personnel. Switzerland

⁶⁵ United Nations Development Programme, p.35-37

has a highly developed bank sector, which is well known all around the world. Therefore we believe that it is a very attractive country for expatriates to learn the banking business in and therefore attracts more expatriates. As for France, Spain, Austria and Holland that have a high percentage of expatriates as well as a high HDI-score we believe them to also be attractive countries for expatriates. We believe they are attractive because they are all European countries and close to Sweden where the expatriates will have easier adjusting.

From our sample we see no apparent connection between the number of expatriates and the level of development in a country. Firstly because the bank is not established in a country with a low HDI-score, hence we cannot test our hypothesis completely. Secondly because the figures show that even in countries with a medium human development there are very few expatriates, with the exception of India. Therefore we only found weak evidence to support our hypothesis that in less developed countries expatriates will be preferred in order to facilitate the information flow and for filling positions.

Hypothesis 3: A higher cultural distance will lead to a higher number of host country nationals being employed because of their knowledge of the local business and culture.

As seen in Table 3 it is evident that Handelsbanken uses a mixed system when staffing their subsidiaries. In approximately two thirds of the countries the use of expatriates is less than 20 percent. This is explained by the fact that Handelsbanken's philosophy is that knowledge of the local market is a very valuable asset. Therefore they put great emphasis on finding host country nationals for different positions. Using Hofstede's index we found support that this is the case (Table 5).

Table 5 – Countries cultural distance in comparison to Sweden ⁶⁶

Country	Cultural distance
Denmark	Low
Holland	Low
Norway	Low
Austria	Medium
Finland	Medium
Germany	Medium
Great Britain	Medium
Spain	Medium
Switzerland	Medium
USA	Medium
France	High
Hong Kong	High
India	High
Singapore	High

There is a high cultural distance between India and Sweden yet 50 percent are expatriates. This can however be explained by the fact that the subsidiary is newly established in India. Therefore it requires a higher level of expatriates because they have not reached a sufficient maturity level, in order for Handelsbanken to recruit a higher number of host country nationals. France also has a high cultural distance to Sweden with a high percentage of expatriates. The explanation for this could be as mentioned above that France is an attractive country for expatriates.

Countries such as Hong Kong and Singapore which both have a high cultural distance to Sweden have low levels of expatriates. There is also a low percentage of expatriates in China. We have not been able to measure the cultural distance between Sweden and China, however it is reasonable to believe that there is a high cultural distance between China and Sweden. We

⁶⁶ Hofstede, 1991, p.38, 70, 109, 144

believe this is the case because Hong Kong belongs to China and has a high cultural distance to Sweden; hence China most likely will also have a high cultural distance to Sweden. In China, power, relationships and connections are an important influence on getting things done and enforcing business agreements. The key to understanding this is “guanxi” which means relationships.⁶⁷ Employing host country national can provide important links to the local business community gaining new business for the branch.⁶⁸

This supports our hypothesis that a higher cultural distance leads to a higher number of host country nationals employed. We expected this to be the case because prior studies have indicated that in culturally distant countries host country nationals are preferred.

⁶⁷ Hill, 2007, p.108

⁶⁸ Boyacigiller, 1990, p.371

SUMMARY OF CONCLUSIONS

In this chapter we are going to present a summary of our conclusions, limitations, and we will also give recommendations for further studies

The aim of this research paper will be answering the following questions: Are the number of expatriates used affected by subsidiary age, level of development in the host country and/or cultural distance?

We found weak support for our first hypothesis, as the bank does not seem to have a high need of control after the corporate culture has been well established. Of the countries in which the bank has been established for more than 10 years only Spain, Switzerland, France and Austria have a high percentage of expatriates. This does not necessarily indicate that there is a continued need of control as this could be explained by the fact that they might be attractive countries for expatriates.

The second hypothesis could not really be examined because the bank is not present in any less developed countries. The bank is present in three medium human developed countries. In two of the countries there is a very low percentage of expatriates, and in the third country the subsidiary is newly established. The high percentage of expatriates in the third country could be explained by the need for establishing the corporate philosophy.

For our third hypothesis concerning cultural distance we find support that there are a higher number of host country nationals employed in culturally distant

countries because of their knowledge of the local culture and business environment. This is evident by the number of expatriates used in countries with a high cultural distance to Sweden. Especially in China that has a very low number of expatriates, which can be partly explained by guanxi.

Limitations

We have studied the number of expatriates used by Swedish banks. Time and resource limitations narrowed our investigating area to the four major banks in Sweden. The study was further limited when there was only one bank that was able to assist us. As the bank did not have the time and resources to provide us with the number of expatriate managers we only have number for all expatriates. We have also not been able to study the number of expatriates used when the subsidiaries first established because the bank did not have the time and resources to provide that information. Therefore we can not know what the situation was when the bank first established in each country.

Unfortunately because of time and resource limitations we have not been able to conduct in depth interviews. This limits our ability to know in greater depth what the banks expatriate policy is or their motivations for using expatriates are.

Financial aspects that affect the use of expatriates will not be dealt with because of time limitations, and confidentiality issues are avoided as well.

As Hofstede has not included Russia, Luxemburg, China, Poland or Estonia in his research we have not been able to measure the cultural distance between these countries and Sweden.

Further studies

Our expectation with this case study is to add knowledge to the field of expatriation. The results indicate that the use of expatriates differs for different periods of the subsidiaries establishment. The study also shows that cultural distance affects the use of expatriates in a later stage in the development phase. Even though the study was conducted on only one company, we believe that this

might be the case for other Swedish companies as well. Studies with a wider selection of companies in other industries as well may give a more accurate picture of what affects the number of expatriates used. It can be of great interest and importance to investigate what other factors influence the number of expatriates besides culture, age of subsidiary and the level of development in the host country. We therefore recommend conducting further studies in this area. An interesting aspect to study is what contributions expatriates make to the subsidiaries success, or are failures in new markets perhaps affected by expatriates. Another interesting aspect to study would be what kind of setbacks expatriates face in foreign countries.

We hope that with this paper we have motivated others to investigate the area of expatriation. As the world is emerging into a global economy it is important to be aware of what can influence the success or failure of international ventures.

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APPENDIX

Appendix 1

Questionnaire

Our Bachelor thesis deals with the problem statement on how cultural distance affects the number of expatriates used by the four major banks in Sweden. Therefore we are in need of the following information to be able to complete our investigation.

1. a) How many expatriates are there in each country named below?
b) What is the total amount of personnel in each country?

Denmark	a)	b)	Finland	a)	b)
Norway	a)	b)	Austria	a)	b)
Estonia	a)	b)	France	a)	b)
Germany	a)	b)	Russia	a)	b)
Luxemburg	a)	b)	USA	a)	b)
Poland	a)	b)	Spain	a)	b)
Switzerland	a)	b)	China	a)	b)
Hong Kong	a)	b)	India	a)	b)
Great Britain	a)	b)	Singapore	a)	b)
Holland	a)	b)			

Appendix 2

Table 5 – Countries cultural distance in comparison to Sweden⁶⁹
The scores of Hofstede's four dimensions

Sweden	71	31	29	5	
Denmark	74	18	23	16	Low
Holland	80	38	53	14	Low
Norway	69	31	50	8	Low
Austria	55	11	70	79	Medium
Finland	63	33	59	26	Medium
Germany	67	35	65	66	Medium
Great Britain	89	35	35	66	Medium
Spain	51	57	86	42	Medium
Switzerland	68	34	58	70	Medium
USA	91	40	46	62	Medium
France	71	68	86	43	High
Hong Kong	25	68	29	57	High
India	48	77	40	56	High
Singapore	20	74	8	48	High
	Individualism versus Collectivism	Power Distance	Uncertainty Avoidance	Masculinity versus Femininity	Cultural distance

⁶⁹ Hofstede, 1991, p.38, 70, 109, 144