An empirical analysis of success in overseas assignments for both Japanese expatriates and MNCs: a psychological contract perspective

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Abstract

Research objectives

This study attempts to provide the theoretical underpinning and empirical justification for hypotheses concerning the impact of psychological contract (PC) fulfillment on success in the expatriation and repatriation of Japanese expatriates and Multinational Corporations (MNCs). A widely held belief about overseas assignments from firms embedded in high-context cultures, such as Japan’s, is that PCs exist by default and serve to bind expatriates to their firms as firmly as steel. To the best of the author’s knowledge, this is among the very first attempts to clarify the roles of PC fulfillment in expatriation and repatriation success in a high-context culture, such as Japan.

Methodology

This study constitutes exploratory research, using quantitative analysis as the main research method and a qualitative approach as a complement. A questionnaire survey was conducted, and data from 111 Japanese expatriate respondents were analyzed using t-tests, factor analysis, and OLS multivariate regression analysis. To develop the
hypotheses, a multiple case study approach was adopted using the qualitative analysis method of Christensen (2009). These cases are from Japanese expatriates of different Japanese MNCs and industries. In the latter part of this study, a multiple case analysis was also used to complement the quantitative methods in order to identify the deep impact factors and consequences underlying the statistical data. These four cases involve interviews with four human resources managers at four Japanese MNCs.

Findings

A distribution matrix representing the degree of PC fulfillment among Japanese expatriates and MNCs reveals that most Japanese expatriates and MNCs fulfill their PCs to a relatively great extent. Among the 111 samples, there are 88 in which the PC fulfillment of both individuals and organizations is higher than the median. This is rare and praiseworthy, given the new environment being created by Japan’s performance-based pay system. Most Japanese expatriates and headquarters fulfill their PCs at a higher rate than do MNCs from individualist cultural environments and countries with performance-based pay systems (to which Japan’s human resources management system is shifting, after having been career employment-based). Among the 111 respondents, only 10 turned to other companies after expatriation without coming back to headquarters. Interviews with the human resources managers of Japanese MNCs revealed that, though some companies performed M&A with Western companies and introduced performance-based pay systems in their overseas subsidiaries, the system for expatriates working in Asia remained career employment; positions were prepared for them after expatriation. These Japanese MNCs also fulfill their PCs with Japanese expatriates at a higher level than do MNCs in individualist cultural environments or countries with
performance-based pay systems. This finding suggests that the case of expatriates differs to that of general employees in Japan. In multinational Japanese businesses, traditional human resource management still exists, and it has not changed to reflect the new economic environment or the shift from career employment to a performance-based pay system.

Using OLS regression models, this study tested hypotheses developed from extant literature and practical cases of Japanese expatriates. The results based on empirical data showed statistically significant effects of expatriates’ and organizations’ PC fulfillment on both short- and long-term assignment success. Most of the hypotheses on the success of individuals’ and organizations’ expatriation and repatriation are supported.

This study examines the influence of the PC fulfillment of both expatriates and organizations as well as the interactive effect of these two parties with interaction terms for the expatriation and repatriation success of individuals and organizations. The results show that the PC fulfillment of both parties is important for the successful expatriation of individuals and that the interactive effect of the two parties has no significant impact. On the other hand, the PC fulfillment of both individuals and organizations has a significant impact on individual repatriation success, and the interactive effect of the two parties increases their impact.

The results thus show that, for organizational repatriation success, the PC fulfillment of only the organization has a significantly positive effect while, for organizational expatriation success, the PC fulfillment of only individuals has a significantly positive effect. These tendencies can also be observed in the descriptive statistics, which show that the PC fulfillment of organizations has a higher correlation with the repatriation success of both individuals and organizations than it does with that of individuals. On the other
hand, the PC fulfillment of individual has a higher correlation with the expatriation successes of both individuals and organizations than it does with that of organizations. Moreover, the interactive effect of the PC fulfillment of the two parties has no significant influence on success in the expatriation or repatriation of organizations.

To summarize, the empirical analysis finds that, generally, the higher the PC fulfillment of expatriates and organizations, the higher the degree of success in the expatriation and repatriation of both Japanese expatriates and MNCs. However, the importance of the PC fulfillment of individuals and organizations for overseas assignment success differs profoundly between expatriates and organizations. The empirical analysis further reveals that age and outside environment impact factors also influence overseas assignment success. Developing human resources and achieving expatriation success for both individuals and organizations are most effective when expatriate employees are in the early stages of their careers. Furthermore, senior expatriates play important roles in the repatriation success of organizations. Moreover, the outside environment (such as economic crises) also impacts overseas assignment success. Regarding Japanese MNCs, the analysis indicates that the impact factors for assignment success include not only PC fulfillment but also the outside environment and regional variety, such as the financial situation, international relationships, and foreign cultures. Other factors, such as international business strategies, M&A, and the centralization of decision-making power, influence the number of Japanese expatriates but not assignment success.

**Theoretical contributions**
This study contributes to PC theory in several ways. First, this study extends PC theory by quantitatively examining the influence of PC fulfillment on the success in the expatriation and repatriation of both Japanese expatriates and MNCs. Most of the research on the PCs of Japanese individuals and organizations is limited to general employees in the domestic context. Yan et al. (2002) added to a new research field by using PC theory to analyze repatriation success, but their approach was qualitative and focused on Western expatriates. Second, this study has developed new measures of the PC fulfillment of Japanese expatriates and MNCs, based on Hattori’s (2013) approach. This study aims to fill the research gap concerning the influence of PC fulfillment on both Japanese expatriates and MNCs.

**Practical implications**

Individual expatriation success needs both the efforts of expatriates and support from organizations and superiors, while organizational expatriation success depends on the efforts of expatriates. Human resources management and superiors at MNC headquarters must support the repatriated expatriate individual for organizational repatriation to succeed, regardless of whether the expatriate is highly loyal and works hard to contribute to the organization or not. Individual repatriation succeeds—enabling the individual to pursue continued development and obtain attractive assignments, promotions, and greater responsibility—when the expatriate as well as human resources management and superiors at MNC headquarters are highly loyal and cooperate effectively over the long term. For expatriates of Japanese MNCs, factors, such as working hard, being highly loyal, and providing good performance are fruitful ways to achieve satisfactory compensation, promotion, and a bright career. Expatriates of Japanese MNCs who seek
individual success in expatriation (in terms of task performance; skill building, learning, and growth; and job satisfaction) or in repatriation (in terms of continued development, attractive future assignments, promotion, and greater responsibility) after expatriation must not only work hard while being highly loyal but also strive to obtain the support of superiors and human resources managers at headquarters. It is equally important to keep abreast of the organization’s PC fulfillment because a PC is an interactive and dynamic process. Some MNCs are better able to adjust their overseas assignment strategies to meet the changing external environment than others. Therefore, it is important to confirm one’s expectations and perceptions of PC fulfillment through effective communication.

This study also shows that the organizational expatriation success (in terms of the accomplishment of organizational tasks and achievement of key organizational objectives) of Japanese MNCs requires them to increase the motivation and performance of their Japanese expatriates. In this way, the expatriates will work hard to achieve organizational goals and pursue skill building and growth; they will thus be able to accomplish tasks such as global talent development, international business or marketing exploration, and subsidiary control. It is also important to pay attention to the age of expatriate trainees, as this study indicates that expatriation success is greater for both organizations and the expatriates themselves among younger expatriates. Thus, for effective global development and expatriation target achievement, MNC headquarters should select younger employees for overseas assignments.

Meanwhile, human resources managers of Japanese MNCs striving for organizational repatriation success (in terms of retention of repatriated employees, utilization of new expertise, and transfer of expertise) should improve their human resources management
system and build a positive workplace environment to support repatriated expatriates, such as by ensuring the communication required to understand their expectations, providing fulfilling training programs, reasonable evaluation systems, and long-term career design, and showing consideration for the expatriates’ families. The empirical results show that older expatriates do better during repatriation: they prefer to remain at headquarters instead of leaving and display a more effective utilization of the experience and social capital they obtained from their overseas assignment during expatriation. Therefore, repatriating older expatriates may be an effective way to ensure organizational repatriation success.

As globalization proceeds, many MNCs are trying to establish uniform human resources management systems. In this process, cultural and regional variety is an important factor impacting the success of international assignments; for example, social and economic inequality is a wide ranging international factor. Therefore, a global human resources management system must be able to adapt to different regions and cultures. This requires a standardized and localized global talent management system.

**Limitations and issues for future research**

While this study makes several contributions to empirical research on the effects of PC fulfillment on expatriation and repatriation success for both Japanese expatriates and MNCs, it has several limitations that future research could address. First, the PCs and their fulfillment examined in this study have Japanese characteristics; for example, some Japanese companies expect employees to work overtime, and some employees expect only a stable work environment instead of career advancement. The literature shows that PCs and their fulfillment vary across cultures. Therefore, future research could examine
how to generalize the influence of PCs on expatriates and MNCs for a variety of cultures. Second, this study uses industry dummy variables to control for the influence of organizations. Future research could use other variables, such as regional variety, cultural factors, and international economic, political, and environmental impacts, which would clarify whether there is a weak or strong impact on expatriate assignment success. Third, the importance of international human resources management is increasing as the number of MNCs continues to grow. It would thus be advisable to obtain more samples from both parties and conduct more rigorous statistical analyses on degrees of overseas assignment success. In addition, an individual’s perception of PC fulfillment differs from that of an organization. Therefore, future research could also investigate organizations’ perceptions of expatriates’ PC fulfillment, and then match them with the perceptions of individuals.