**Applying Critical Realism to the MNC:**

**Exploring New Realities in Staffing and Expatriation**

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**Abstract**

This chapter argues that critical realism (CR) offers an ontological position suited to understanding the dynamic relations between multinational companies (MNCs) and the complex political spaces within which they operate. After outlining the core assumptions of CR, the key arguments are elaborated through two case studies which focus on issues of staffing and expatriation. The first case concerns recent developments in the Middle East, highlighting the shifting reality of nationality-based definitions of staffing the MNC, and the second examines the internationalisation of Chinese firms, exploring the way MNCs restructure space to retain access to home-country advantages.

**Keywords**

Chinese MNCs; critical realism; expatriation; Gulf Cooperation Council states; MNC staffing.

**Introduction**

This chapter makes the case for the utility of a critical realist ontology in understanding the dynamic relations between multinational companies and the complex political spaces within which they operate. We suggest that critical realism (CR) offers an ontological position suited to illuminating organizations which operate at multiple levels, as exemplified by the MNC. To study organizations which are multi-levelled and span multi-scalar spaces, one needs to see reality as layered and context sensitive, and we argue that CR offers such a perspective and can act as an effective ‘under-labourer’ for analyses of MNC dynamics. Critical realism represents *a collection of ontological and epistemological assumptions*, to which individual empirical studies may more or less fully conform. We outline the nature of these core assumptions, and suggest how they might help in illuminating the shifting and complex terrain of the multinational firm.

We discuss at length two illustrative examples of contemporary developments in the field of international staffing in order to do this. The first relates to the creation of a divide between citizen and non-citizen employees in the Gulf States, and the second to the re-definition of the costs, advantages and use of expatriates with the entry of Chinese MNCs into international business, especially in Africa. Both of these represent instances where key social actors, including at the MNC level, rather than applying set or ‘ideal’ patterns of behaviour to new contexts, are *reflexive of context* at the same time as they enact new patterns and *re-define* the particular sets of material circumstances they encounter. Critical realism allows both for consideration of context and also a more sophisticated understanding of agency, without conflating one with the other, and we suggest this twin approach offers a more robust ontological position than is found in much of the mainstream literature. In particular our illustrative cases present a reality which challenges the ideal-typical, functionalist and ahistorical models prevalent within the international HRM literature on staffing and expatriation.

The chapter is structured as follows. We begin by briefly considering mainstream international business and comparative institutionalist theorisations of the MNC, and in particular we present a more developed critique of the international HRM field concerning staffing and expatriation. We highlight a tendency within these literatures towards static models, of both forms of capitalism and of management strategies, combined with a lack of adequate consideration of agency. We then outline the core principles of critical realism and suggest how these might add value to the study of the MNC in context, in comparison with mainstream approaches. Following the two illustrative cases, we draw conclusions and reflect on the extent to which CR offers a fruitful point of departure in this field of research. The chapter is exploratory, seeking at the same time to encourage a fresh conceptualisation of the MNC as well as advance a novel application of realist ideas.

**Mainstream approaches to MNCs and international staffing**

In terms of the available approaches to theorising MNCs, and the way the relationship between actors and institutions is conceptualized, a number of dominant established positions are discernible. The mainstream is represented by international business (IB) scholars, who have stressed how institutions impose constraints upon strategic choice, with MNCs forced to adapt their strategies and structures to the institutional environments of diverse host countries. Here, the actions of headquarters and subsidiary management are mainly understood as determined by external economic, technological and business network structures. However, as Geppert & Dörrenbächer (2014) comment, within this literature the dynamic role of agency and micropolitics within MNCs tends to be underplayed. There is a rather unidirectional view of institutions, taking institutions as stable and determining of social agency, and not adequately accounting for the fact that MNCs have considerable room for *strategic responses* to institutions, often involving the creative reinterpretation and redeployment of resources for new purposes (Saka-Helmhout & Geppert 2011). Moreover, the question of *how* actors engage in this institutional work remains largely unanswered. As such, there is a need for a more adequate theorisation of the role of *MNC agency* within the IB approach.

In part as a corrective to mainstream IB analyses, which apply rationalistic ideas of how MNCs operate and function, institutionalist research argues that no organization can be understood without recognising its social embeddedness in the wider society, and stresses the role of social institutions and different institutional environments in the social constitution of MNCs. The comparative institutionalist (CI) approach examines how institutions interact to form distinct ‘varieties of capitalism’ (VoC), emphasising how and why institutions differ, and seeing institutions not only as constraints but also as resources (Crouch 2005; Djelic & Quack 2003; Hall & Soskice 2001; Jackson & Deeg 2008). Institutional arrangements provide the foundation on which the competitive advantage of firms and their national economies rest, so that employers as key actors, who have organised their strategies around these institutions, will be reluctant to change them. However, although the VoC position combines economic and institutional analysis, it ultimately adheres to a functionalist understanding of capitalist employment models, which are stylized and abstract rather than historically grounded and evolving. Critics of the VoC approach typically remain within an institutionalist framework, but reject its rather static, dualistic and determinist approach (Hancké, Rhodes & Thatcher 2007; Kostova, Kendall & Dacin 2008; Smith 2005; Wood & Lane 2011). A large set of comparative studies indicate that national economies can stay competitive and efficient through a diverse set of employment relations solutions, which are functionally equivalent. Geppert & Dörrenbächer (2014: 233) make a similar point in observing that power and politics are ‘conceptualized in a rather static and over-socialized way, in which interests and identities are understood as being ingrained as key features of the national business systems which have developed in a path-dependent way’. The CI literature can thus tend towards ‘comparative statics’, failing to account for the varied ways in which capitalism is embedded within societies (something which we illustrate later in the chapter).

The limitations in the mainstream IB and CI approaches highlights the need for theoretical positions that are more sensitive to reflexivity and give greater recognition to the reality of MNC actors interacting within more dynamic and concrete contexts. As Geppert & Hollinshead (2014) point out, MNCs have an inherent social and political complexity, and negotiated courses of action – formulated by major stakeholders including management and employees – extend the boundaries of predictable behaviour within institutional and normative systems. One attempt to more thoroughly capture these dynamics is through the concept of ‘transnational social space’ (TSS), which describes the arena in which global socio-economic action takes place, where multiple social relationships emerge, power is exercised, and consensus, conflict and resistance are played out (Morgan, Whitley & Moen 2005). Similarly, but perhaps more robustly, the System-Society-Dominance (SSD) framework emphasises that ‘internationalized workplaces condense the effects of globalizing capitalist forces, national institutional rules, and world best practice work and employment standards within local and unique work situations … [but] it is only through social interaction that groups and individuals negotiate which of these divergent (and perhaps competing) ways of working … will actually shape particular work situations’ (Smith 2005: 620).

What these more socio-political perspectives indicate is that MNCs operate within an array of politically contested ‘social spaces’ (Edwards & Bélanger 2009). In a recent review of theoretical developments in the field, Geppert & Hollinshead (2014) observe that MNCs are exposed to ‘a global mosaic of societal, institutional and socio-economic influences’ (p.195) and they conclude that ‘the conceptual armoury provided by time-honoured varieties of capitalism analysis is losing currency … [and] an alternative ‘conceptual apparatus’ … will be necessary in order to capture the new dynamics and related problems of management and labour within contemporary capitalism’ (p.197). We would suggest that research into MNCs would benefit from a more robust ontological position that can simultaneously capture two core features of MNC dynamics. First, whilst MNCs are clearly shaped by their embeddedness in national-institutional complexes, more attention needs to be given to grasping the underlying *mechanisms of institutional transformation*, in order to move beyond ‘comparative statics’ and offer more historically-sensitive and contextual accounts of institutional change. Second, and relatedly, greater recognition is needed that this institutional creation and re-creation is a continual process of reproduction which is nevertheless performed by *active and reflexive agents*, and this is how MNCs shape institutions, in particular at moments of heightened reflexivity. We contend that critical realism offers this more rounded ontology and allows these twin dynamics to be captured. Institutional actors within stratified organizations, and inherent tensions and contradictions between levels and spaces, can readily be explored through critical realism.

Before elaborating the core principles of this approach and presenting our cases, we first consider in more detail the specific literature that has developed within the field of international business around staffing and the use of expatriate managers in MNCs. This is important as our cases focus directly on these issues. We argue that this literature epitomises the tendency towards rather static and acontextual accounts, both of national capitalisms and of approaches to staffing the MNC, with a particular categorical definition of MNC managers emerging, as well as a dominant functionalist, managerial and firm-centric discourse. We have taken three review papers on expatriates and MNC staffing as providing a robust overview of the field (Collings, Scullion & Dowling 2009; Dabic, González-Loureiro and Harvey 2015; Littrell, Salas, Hess, Paley & Riedel 2006). These are review papers from established experts in the field.

The discourse in this field began with identifying ideal types of international staffing – ethnocentric, polycentric and geocentric – as staffing cohorts to be strategically deployed by a central HQ (Perlmutter 1969). This set a frame for subsequent categorisations – parent-country nationals (PCNs), host-country nationals (HCNs) and third-country nationals (TCNs) (Morgan 1986), or home, host and third country nationals (Harzing 2001) – that continued within a functionalist and ideal typical stratification of ‘balanced staffing’. Through these archetypes, country context, as historical reality, was removed.

Underpinning early classifications was considerable practitioner orientation – Morgan was international director of the US MNC Bechtel when he developed his oft repeated schema. The field emerged through problems of ‘expatriation failure’ in US corporations, the early returns of managers, and grew as training and learning interventions by HR practitioners to reduce this risk found a ready market in US and later other MNCs (Tung 1987). Although broadening subsequently, in essence the expatriate field remained a positivist, functional and strongly pragmatic strand of HR writing. The literature on expatriates over the last 40 years has been dominated by a firm-centric debate about mechanisms for the efficient deployment of elite staff to overseas operations.

In a review of 438 papers covering four decades of research on expatriates in MNCs, Dabic et al. (2015) document the construction of discourse on what they call ‘‘privileged’ workers overseas’ – that is, the elite within the multinationals’ internal administration, who move through the company from HQ to subsidiary or between subsidiaries, acting as ‘human glue’ (Kamoche 1996: 239) and embodied command of senior management across the geography and hierarchy of the international firm. They show that US researchers and journals have dominated the field, reflecting the strength of the US economy and US MNCs, and therefore not surprisingly ‘research has been mainly governed by US perspectives’ (ibid. p.6). While champions of European expatriate research exist (Scullion & Brewster 2002) they largely follow US discourse on research themes. This involves concerns with a categorical definition of expatriates as elite managers, who flow through the firm on ‘assignments’, negotiating the cultural space between ‘home’ and ‘host’ societies, where issues are individualised as problems of cultural adjustment (Mendenhall & Oddou 1985) – performance, dual careers, and turnover risks that can nevertheless be muted by pragmatic interventions of pre-departure training and good organisation within the MNC (Scullion & Brewster 2002).

The top-10 most cited papers on expatriates ‘deal with HRM practices concerning the ways of managing properly the expatriates’ cases in multinational corporations – most of them relating to the career development field’ (Dabic et al. 2015: 323). Looking beyond the top-10, through a key word search of 438 papers, the authors note that ‘one-third of the papers used the following keywords: assignment/s, adjustment, management and international’ (ibid: 324). The central focus of these papers was on ‘researching the essential question: how expatriates may help improve a company’s performance’ (ibid: 324). The word ‘theory’ is present in only 40 of the 438 papers, while ‘models’ are used in 96 papers. ‘It seems that we are still at the stage of empirically testing the few existing theories on the topic of expatriation’ (ibid: 325).

Other reviews (Collings et al. 2009), while looking wider than traits of expatriates for ‘global staffing’, nevertheless define this in a way that reproduces attention to managerial elites within the organisation. Global staffing is defined as ‘the critical issues faced by multinational corporations with regard to the employment of home, host and third country nationals to fill key positions in their headquarter and subsidiary operations’ (Collings & Scullion 2006: 3). The functions are ‘key’ – that is, central to HQ managerial interests; the focus is the internal labour market of the firm; the method of utilisation is ‘employment’ (typically permanent employment); the categorisation of staff within the established three-fold categorisation, and the agential actors, are all within the firm. Global staffing here remains an organisation activity to find the ‘appropriate mix’ of home, host and third country nationals to ‘achieve learning, innovation and corporate integration’ (Collings et al. 2009: 1253).

Research in the 1990s examined the ‘stages of the expatriate cycle’, such as performance (Janssen 1994; Schuler, Fulkerson & Dowling 1991) and return or repatriation (Harvey 1989; Mendenhall, Dunbar & Oddou 1987; Scullion 1992). European and Asian researchers examined the control role which PCN expatriates often undertake in foreign subsidiaries – this was on the back of the expansion of Japanese firms to Europe, Asia and America, and tied to a ‘transfer’ discussion (Brewster 1993; Harzing 1999, 2001; Scullion 1992). Collings et al (2009: 1260) suggest that this focus on management control through expatriation was something new and denied by mainstream literature, but it was present in early papers and is therefore nothing new. In a sophisticated review of international staffing in the MNC, Briscoe, Schuler & Tarique (2012) list some 21 types of international employees, emphasising the outdated nature of the three-fold categorisation (PCN, HCN, TCN) for more globalised environments with more diverse workforces, where increased migration has given MNCs and workers more choice. However, the authors proceed to apply the same ‘types of questions’ for these new ‘global enterprises’ to ‘better manage their global workforces’ (ibid, p.213), which reproduces virtually the same checklist of cross-cultural competency training, international compensation, repatriation etc. In other words, it remains *decontexualised* abstracted thinking within the same discourse – functionalist, managerial and firm centric. They also return to the three-fold classification of staffing when applying this checklist – perhaps 21 types of international employees are difficult to plan for.

In summary, we can see that 40 years of research into expatriates has produced a narrow frame of discourse relating to actions through the HR department within the context of the organisation, that affect expatriate management career development though pragmatic interventions for assignment adjustment to ensure organisational efficiency between home and host cultural spaces. In this literature there is *limited context* to the firm, *limited context* to the country of origin, and no attention to the *political economy of capitalism* and to how firms fit into new developments, both cyclical and structural. For example, commodity chain analysis does not appear, and yet this has profound importance for the movement of labour within the firm. Overwhelmingly, it presents a flat, functionalist world, where problems are solved pragmatically by far sighted management (and researchers) and by good training directed at other managers. The dominant discourse to emerge reduces MNCs to ‘international firms’ without context or history. Where the occasional national prefix appears, such as Japanese, it invariably exists purely to demonstrate ‘cultural’ difference – the opposition between collective and individual ‘cultures’ of the US and Japan, *a la* Hofstede (Yamazaki & Kayes 2007). But in general contexts are aggregated into ‘host’ and ‘home’ settings – with abstracted variables such as ‘institutional distance’ (Kostova & Zaheer 1999) or ‘cultural toughness’ (Mendenhall & Oddou 1986) measured or scaled in ahistorical and decontextualized ways (see McSweeney 2002 for critique). Here, all expatriates are (elite) managers with differing personal traits or capacities for working abroad, and all international companies are considered to be in need of cross-cultural or acculturation training, diversity management training, and communication and personal effectiveness training for elite staff in order that they can manage overseas staff effectively.

In this review of the literature on mainstream approaches to MNCs, and in particular in our extended discussion of international staffing and expatriation, we have identified a tendency towards static accounts of context and an ontologically flat, functionalist view of the world, with little sense of the dynamic nature of reflective agency, and an inability to adequately capture and interpret the varied reality of contemporary developments.

**Critical realism**

Because critical realist ontology offers a view of reality as multi-layered, it stresses that theory is context-bound and historically constituted, and as such the idealist or rationalist models and ‘typologies’ considered above, which view the world in an ideal-typical and abstracted way, are considered obstacles to understanding. Such ideational constructs tend to create a world, rather than help to see it. Realist research uses theoretical categories in an interactive way, rather than seeking a confirmatory process of testing and applying universal concepts.

Critical realism is expanding in business and management studies, from pioneering general developments (Fleetwood 2005; Fleetwood & Ackroyd 2004) to more specific applications in discrete management fields, such as strategy (Herepath 2014), institutional entrepreneurship (Leca & Naccache 2006), leadership (Kempster & Parry 2011), discourse analysis (Thompson & Harley 2012), and institutional complexity and change (Ackroyd 2011; Delbridge & Edwards 2013). It has also provided theoretical interventions into on-going debates about social constructionism (Newton, Deetz & Reed 2011) as well as essentialism and constructionism (O’Mahoney 2012). Recent writing, in which both authors have been engaged, has examined the application of CR ideas to research methods in the business and management field (Edwards, O’Mahoney & Vincent 2014; Miller & Tsang 2011) and to specific methods such as case studies (Easton 2010; Morais 2011; Wynn & Williams 2012; Kessler & Bach, 2014).

At the ontological core of critical realism is the premise that social action occurs subject to relatively enduring economic and social-structural arrangements (e.g. established laws and institutions). These arrangements do not strictly determine action, but they constitute the objective reality within which it takes place, and hence are reflected in the motives and meaning systems of social actors. Social structures serve as ‘generative mechanisms’ that give rise to action, manifest not in the form of deterministic outcomes, but rather as empirical tendencies. Human actors thus do not create structures from nothing; rather, they reproduce or transform them (Archer 1995, 2007).

Constructionist (relativist) approaches suggest that ‘true’ knowledge of an external ‘reality’ is impossible because there is no external reality outside of texts or discourses. Many (strong) social constructionists argue that knowledge is entirely discursive. Research textbooks will tend to contrast this constructionist, inductive and interpretive approach, which is typically aligned with qualitative methods, with objectivist (positivist, deductive and empiricist) approaches, which are typically aligned with quantitative methods. What is distinctive about the critical realist ontology is that, in contrast to these two dominant positions, it entails a *double recognition*, insofar as it holds that an (objective) world exists independently of people’s perceptions, language or imagination, whilst also stressing that part of that world consists of subjective interpretations which influence the ways in which it is perceived and experienced. Following Delbridge & Edwards (2013), the origins of institutional sources of action are therefore seen as *historical*, yet the outcome of past actions does not determine action in a straightforward way, because actors in equivalent settings will often follow *different paths of action*. As such, the impact of institutional contexts upon the action of different actors is contingent upon *reflexive agents* conceiving of and pursuing what might be possible. Critical realism thus considers action as *inherently reflexive*. Human actors are social agents developed within definite circumstances, who never simply reflect back those conditions but rather experience them through interpretation, remaking and self-conscious agency.

Within critical realism, the relationship between generative mechanisms and action is conceived using a stratified or *layered* ontology. Bhaskar (1978) describes three inter-related and ordered ontological domains: the real, actual and empirical. A realist ontology assumes the world to consist of generative mechanisms or causal powers located in the *real* domain, whose activation may, or may not, generate events in the *actual* domain. Under this stratified ontology, human action is conceived as both enabled and constrained by social structures, but this action in turn reproduces or transforms these structures (Leca & Naccache 2006). Seeing generative mechanisms as ‘tendencies’ draws our attention to the *indeterminacy* of causal powers. Rules, norms and institutions develop logics independent of the choices of individual actors, and causal powers are not necessarily activated. As such, ‘the potential of entities to possess, exercise and actualise powers provide critical realists with a more sophisticated and nuanced representation of social reality which is in stark contrast to flatter empiricist or constructionist approaches where things either are, or are not’ (O’Mahoney & Vincent 2014: 24). As Davies (2008: 26) notes, critical realism thus proposes a subtle and complex view of society in which human agents are neither passive products of social structures nor entirely their creators, but rather are ‘placed in an iterative and naturally reflexive feedback relationship to them’.

Crucially, then, critical realism considers concepts *in context* – that is, the social construction of meaning in different situations – and rejects the structuralist idea of trans-historical and trans-spatial concepts that retain meaning independent of application. For example, MNC expatriates are frequently assumed to be a stable category and group, and yet in the case of Chinese MNCs, which we discuss below, there is clear segmentation between the mass and the elite of Chinese expatriate workers. These insights can be rendered explicable through a realist ontological lens. As we highlight below, remaining sensitive to the shifting political economic reality that MNCs operate within (as opposed to an assumption of static ‘national models’) combined with a focus on the complexity of staffing processes (as opposed to deploying the standard typologies available in the mainstream literature) allows for a more nuanced understanding of current developments. Critical realism offers this level of context-sensitivity.

In the next section we consider the particular issue of expatriates (and, within this, citizens and non-citizens) and analyse concrete situations where the actual structure of staffing deviates from the established categories in the literature of ‘expatriates’, ‘locals’, ‘third country actors’ and ‘home and host actors’. This is because the generative mechanisms within the MNC-society relationship are causally different, as we discuss in our cases. In these illustrative examples we critique the dominant discourse on staffing the MNC, through an exploration of new actors and new situations where the existing ideal-typical frames (discursive categories) are unable to explain the underlying mechanisms of staffing strategies. Rather, new actors are overturning these categories and developing a new language reality to staffing the MNC.

**New realities in staffing and expatriation – two illustrative cases**

We are using the two cases below as illustrative of new trends in staffing international firms that challenge the existing discourse. The cases are based on secondary sources, and are purely illustrative of the importance of examining cases in context, something critical realism endorses. In setting up our cases we have benefited from new writing on comparative case methods that use a critical realist perspective. Kessler & Bach (2014) note the tension between context and causation in all case study research. With comparative cases it is easier to move away from local contextualization, towards questions of causation, especially where the purpose of case selection is theoretical, explicit and purposeful. Central to selection choice is what the researcher is looking to reveal: typically, either patterns of similarity or patterns of difference between a case and its environment or institutional field. If the purpose of case choice is *selection-for-difference* and difference is indeed found in the cases, this confirms the continued diversity of an institutional field, and role of agency (in our example, MNCs) in reproducing diversity. However if similarity is found between cases, this unexpected finding suggests a role for deeper mechanisms or social constraints in the context, and the limitation of agency to effect change in a field. If the purpose of making comparisons is *selection-for-similarity* and similarity is found between cases, this indicates the strength of institutional constraints on organizations/actors and the limitation of agency and freedom. But where difference is found between cases, this suggests there is room for social action and latent agency remains in a field.

Our comparative illustrative cases are set to explore the existing literature on staffing MNCs. Both cases examine the place of context: in one, the regional-political context of the Middle East, and in the other, the context of emerging market MNCs, more expressly the case of Chinese MNCs operating overseas. In both we are selecting-for-difference and highlighting the importance of looking at the interaction between existing material structures and the actions of MNC actors, rather than being guided in our understanding merely through established typologies and frameworks on expatriates, which emphasise the importance of MNCs staffing following fixed choices – expats, locals and third country actors. In addition our illustrative cases examine the core assumption that staffing the MNC is an *administrative function* of the firm – a widespread, unconscious assumption built into the dominant discourse on expatriates and MNC staffing. We test these assumptions by taking a new region of MNC location (the Middle East) and MNCs from a new player (China). Without anticipating our findings too much, we think the comparisons show the space for new agencies in the internationalisation process – the state and international employment agencies – and as such highlight the openness of the field of staffing the international firm, against a literature we judge to be stale and closed.

Our first case concerns the creation of a divide between citizen and non-citizen employees in the Gulf States and the heavy use of a residual category of international staff, third country nationals, in a setting where they are the dominant group. The second case considers the re-definition of the costs, advantages and use of expatriates on an unprecedented scale with the direct entry of Chinese MNCs into overseas business. Critically, both cases allow for a recasting of the existing understanding of staffing within MNCs.

Constituting a New Status Divide in the Workforce within the MNC

There is a shifting context to what constitutes an employee within the MNC, and this exposes the conceptual shortcomings of established terms for employees – especially the binary differentiation between parent country nationals (PCNs) and host country nationals (HCNs), with third country nationals (TCNs) appearing as a residual category and ‘generally viewed as a compromise between PCNs and HCNs’ (Tarique & Schuler 2008: 1400). These categories have been politically structured through the discourse of nationality, but this is lost in their application, and they do not allow the researcher to uncover the growing diversity within labour markets, the increased transnationalisation of employment, and the re-politicisation of employees into citizen and non-citizen categories (Sater 2014). The case of employment in the Gulf Cooperation Council (GCC) states (Saudi Arabia, Kuwait, Bahrain, United Arab Emirates, Qatar and Oman) is particularly useful here, as this re-introduces the political nature of the existing designations, while simultaneously pointing to shortcomings in the presumed distribution of staff between the three categories.

In the GCC states the workforce is stratified into local, professional-managerial expatriates (who may enter as self-assigned or sent employees) and a vast army of vulnerable migrants filling skilled and routine construction, service and manufacturing posts. All migrants require visas, all are short-term, and all are non-citizens.[[1]](#footnote-1) As noted by Hanieh (2010: 68),

‘The GCC states possess perhaps the most extreme illustration of temporary labour flows of any region in the global economy (with the possible exception of coastal China). In all of these states the majority of the working population are temporary, migrant workers with no citizenship rights. In some GCC countries, migrant workers exceed 80% of the labour force. These workers perform virtually all of the productive labour in the Gulf economies in addition to service, clerical, retail and domestic work’.

In the GCC states ‘third country nationals’ are the dominant category of employees, but this category is segmented along occupational, nationality and class lines, and therefore has little explanatory power – that is, connection with reality – in itself. Producing this bifurcation between citizen and non-citizen employees has been a highly political process (Sater 2014), and not the technical, rational, neutral process of ‘balancing staffing’ projected by the dominant discourse.

Historically, the expansion of the oil industry in the Gulf States was initially controlled by foreign MNCs that employed local workers (see Vitalis 2009 for the case of Saudi Arabia). There was a conventional divide between foreign managers in top positions and local workers in lower-level positions. But in the post-war period of anti-colonial struggles this pattern was disrupted. Following repression of protests there was a recasting of the structure of the working classes in the GCC countries, and the creation of ‘citizen and non-citizen workers’ as the bifurcation in the labour market that developed along political-national lines. The workforce was subdivided, and moved away from subaltern status to citizen, with a new politicised division in the working population between migrant and non-migrant. This changed the economics of labour hiring, as the wages for migrant workers were set in their *home* country and not in the country where they worked. So, against the stress on the high costs of non-local staffing of the MNC in the mainstream management literature, the process of using TCNs, through migrant labour into the region, meant labour costs were controlled by the reserves of labour available on a regional and even on a global scale (Baldwin-Edwards 2005). As such, ‘temporary migrant workers find themselves competing with hundreds of millions of fellow workers dispersed across the Middle East and South Asia’ (Hanieh 2010: 81).

Theoretically, the segmented labour market and stratified hierarchy in the GCC countries is not the outcome of corporate rationality in MNC staffing, but a political-economic process of states interacting with their position within global capitalism and creating what Harvey (2001: 304) notes as capitalism’s ability to generate an ‘expansion in the exploitable population’ at home, which is achieved by ‘labour surpluses imported from abroad’ (Scott, S. 2013: 305). In the Middle East it has been the ‘state’s technologies of autocratic power’ (Buckley 2013: 259) that have allowed such a huge expansion of international migrants, within tight political controls. In the *Khafala* labour regime that governs foreign workers in cities like Dubai, ‘every foreigner seeking to work in Dubai must be sponsored by a UAE citizen who assumes both legal and economic responsibility for the worker throughout the length of their contract’ (*ibid*).[[2]](#footnote-2)

A critical realist ontology, in this case, exposes the layering of staffing as *historically constituted* through the process of initially employing local nationals, to using near locals (other Arab nationals), the displacement of non-nationals (e.g. Palestinians), and the shift to using non-Arab nationals. This pattern was *political* and not simply economic – the removal of Palestinians and Yeminis from Saudi Arabia related to their political activity and not their economic activity (Vitalis 2009). Third country nationals are no longer a *residual* but a *core* labour category. Moreover, TCNs are not some preferred outcome where all parties win and the MNC strategically balances its staffing. It rather represents a re-racialisation of the workforce, diversity not leading to opportunity, but ethnic segregation and sorting – the micro reproducing the macro pattern of international dominance and subordination – and is referred to in a recent paper on job allocation as ‘cultural sorting’ (Al Ariss & Guo, 2016: 584):

‘Most international employees in our study [of the United Arab Emirates] mentioned that, for example, Indian employees were preferred for certain types of jobs because Indian workers were perceived as being submissive and respectful in dealing with others, or as having cultural norms highly similar to those of the Arabic culture. Similarly, Pakistanis were described as especially hardworking and were welcomed in unskilled jobs. Filipinos were valued in hospitality and service sectors for being friendly and helpful. In top management positions, international employees from Western countries such as the United States or Canada were preferred.’

But it is not only the question of nationality of staffing which needs re-formulating, as the means to recruiting staff has also changed. The expansion of TCNs increased the power of labour market intermediaries, such as international employment agencies (including state ones), which are created in the process of making a citizen-bifurcation in the labour markets. The functionality of staffing as assumed in the dominant discourse – whereby different categories of staff bring different functional outcomes for MNCs, such as knowledge of local markets for HCNs, or familiarity with organizational rules for PCNs (Borg & Harzing 1995) – can be questioned as staff with *employee* status decline relative to those with *temporary contract* status (Coe, Johns & Ward 2007; Coe, Jones & Ward 2010; Peck, Theodore & Ward 2005). Hence, if most workers are migrants on temporary contracts and supply of labour does not come through the MNC as regular employees integrated within the internal labour markets of the organization – which is the dominant assumption in HRM staffing theory – but rather via employment agents in the home country of the migrant workers (Baruah 2006; Connell & Burgess 2013: 2173), then the functional roles of different categories of workers within the MNC can be challenged.

Empirically, it is easy to portray the GCC cases as extreme or rare, but this misses the emergence of greater workforce diversity in other spaces. Singapore, for example, has around a third of its labour force composed of migrant workers, and in certain economic sectors these ‘flows of temporary migrant labour have become predominant (examples include Mexican agricultural workers in Canada, Filipino women employed as nurses, teachers and domestic workers in Asia and the Middle East, and undocumented North Africans working in marginal service jobs in Europe)’ (Hanieh 2010: 72). This relates to systemic trends in opening up new workers to global labour flows (Freeman, 2005). Theoretically, the case reveals tensions between MNC-directed and state and employment agency directed internationalisation (Zheng & Smith, 2015).

Some HR writers have noted this change, but remain wedded to a cost and efficiency based explanation for it. For example, Tarique & Schuler (2008: 1400-01) note that ‘with the rising costs associated with expatriates, North American MNEs have decreased their reliance on the ‘traditional expatriate’ and have turned to TCNs and HCNs as vital sources of staffing, for both non-managerial and managerial positions … MNEs [have] shifted their staffing focus from one primarily driven by the parent country to one better described as ‘global’’. Yet within this literature there remains a view of such staffing as functional to the optimum balance within the organization, with different categories performing different efficiency functions within the firm, and while country context is considered, it is treated as a ‘moderator’ and not as a contradiction or challenge to such firm-centric approaches. A critical realist comparative approach notes that local context and institutional dynamics have created particular agents and demonstrated very different staffing strategies from those projected in the dominant literature.

Rethinking the Role of Expatriates from an Emerging Economy – the Chinese MNC

With the rise of MNCs from China we have witnessed a deepening use of expatriates, as Chinese firms expand from home to international operations. MNCs from China are staffed by managers, engineers, technicians and workers from China to a greater extent than witnessed in other recent processes of global expansion, such as Japanese or Korean companies. Zheng & Smith (2015) and Smith & Zheng (2016a; 2016b) highlight the scale of use of expatriated labour from China within Chinese MNCs abroad. Whereas the typical scale of expatriate deployment is less than one percent of total employees, in the Chinese case the total numbers of expatriates exceeds locally recruited workers – an inverse of the norm.

Table 1. Chinese expatriates and locally recruited employees 2011-2013

|  |  |  |
| --- | --- | --- |
| Year | Total Expatriates by end of year (percentage in total workforce) | Total Locally Recruited Employees by end of year (percentage in total workforce) |
| 2011 | 812,000 (58.77%) | 569,711 (41.23%) |
| 2012 | 850,000 (58.48%) | 603,593 (41.52%) |
| 2013 | 853,000 (56.57%) | 654,809 (43.43%) |

*Source: Annual Report of China International Labour Cooperation 2013/2014*

This empirical observation has not yet been integrated into existing staffing theory, which tends still to deal with ideal types developed during a period when US and European MNCs dominated the global economy (an exception is Zheng 2013). MNCs from emerging economies, when they are considered, are thought most likely to conform to existing practices, and are not seen as transformational of the field.

High use of expatriates in Chinese MNCs has been observed in many situations, especially in Africa: ‘The Chinese firms working on big construction projects tend to insist on importing their own workforce from China, instead of employing local people’ (Zheng 2008: 6). Smith (2013), in a study of Chinese investment in mining in Papua New Guinea, notes that at the ‘beginning of the production phase (late 2012), more than a thousand workers were employed by the project, nearly two thirds of them Chinese.’ Production increased to around 4,000 workers, but the ‘percentage of Chinese workers has remained fairly constant, at more than 60 per cent.’ (ibid: p.184-5). Lee (2009: 651-652) notes that in the Zambian mine she researched there were almost 200 Chinese expatriates (managers and technicians – but also some workers) to around 2000 local employees; and in the Chinese owned Tanzanian textile mill, there were 25 Chinese managers to around 1200 locals. In Nigeria China’s investments are ‘carried out largely by state-owned enterprises or joint ventures with subsequent FDIs accompanied by Chinese workers, and large amounts of supplies sourced directly from China’ (Scott, E. 2013: 37). It is frequently noted on resource investment projects that large Chinese companies effectively bring the state with them. Hence, resource-based investment by Chinese state owned enterprises (SOEs) is not simply a question of profit maximisation, but involves political considerations (Carmody, Hampwaye & Sakala 2012). Therefore ‘as SOEs appear to pursue complex and costly investment initiatives and frequently make risky acquisitions, theories are limited in explaining Chinese OFDI with strong state ownership and involvement (Alon, Chang, Fetscherin, Lattemann & McIntyre 2009; Quer, Claver & Rienda 2012)’ (Deng, 2013: 519). Smith & Zheng (2016a, 2016b) explore in more detail the different forms of ownership in relation to internationalisation, and differences between large SOEs, local authority SOEs, and private and quasi-public-private forms (see also Goodman 2014, Li, 2014).

Of particular significance is the creation of Chinese Special Economic Zones (SEZs) where Chinese MNCs dominate many production processes (Lee 2009). Research on labour management in the copper belt in Zambia, where one such SEZ is being constructed, suggests an ‘enclave’ form of investment, with Chinese MNCs recreating environments similar to those in China, and hence reducing the institutional friction between labour flows from China to MNCs within the SEZ. While some have noted that, other than in Egypt, ‘there is little information on environment and labour standards or problems in these zones, as most zones have not yet started operation’ (Brautigam & Tang 2011: 45), others have explored the use of such enclaves as a means of transferring (neo-liberal) casualised labour conditions from China to Africa through the conduit of SOEs within the SEZ structures (Lee 2009, 2011). Brautigam & Tang (2011) miss the fact that within the Egyptian SEZ, Chinese firms were exempt from labour regulations pertaining in the rest of the country, and although nominally only 10% of the workforce was supposed to be non-Egyptian, Chinese firms in the SEZ use local employment agencies, which can be a mechanism for introducing significant numbers of Chinese workers: ‘as Egyptian sub-contractors carry-out the work, they dispose themselves of any obligations towards locals. In the case of China’s construction contracts, it has offered governments a price list. Utilisation of Chinese labour is cheaper than employing local labour’ (Scott, E. 2013: 22).

Some suggest that Chinese investment in Africa is a case of a ‘Chinese practice of ‘national self-exploitation’ by importing their labour’ (Mohan 2013: 1263). In setting up the case that Chinese MNCs are unique – in connecting the reserves of labour at home with their OFDI and constructing investment vehicles (such as SEZs) that facilitate the movement of Chinese workers from China to the overseas investment site, and as such retaining home-country competitive advantages – we need to be cautious of stereotyping. A realist approach would argue that there is also a need for case-by-case sensitivity to avoid the blanket label of ‘Chinese’ capital (Haglund 2009). This is well captured in a recent paper on Chinese MNCs in Africa which noted that ‘the evidence on Chinese labour importation varies according to the nature of the project, the Chinese firm involved, productivity levels and the labour market conditions in Africa (Chen & Orr 2009). Yan & Sautman (2013) show that wages in Chinese firms are not necessarily lower and that unionization levels in Chinese firms are not so different from those in other sectors’ (Mohan 2013: 1263-1264).[[3]](#footnote-3) Kamoche & Qixun Siebers (2014) examine multiple Chinese investments in Kenya, and also stress diversity in the use of Chinese workers: ‘it may appear that Chinese companies import manual labourers, but in reality skilled workers are brought in to fill specific gaps’ (2014: 14). But they go on to say that low pay and low overtime rates made it difficult to attract Kenyan labour and it was therefore not simply ‘skilled’ Chinese workers that were recruited but those willing to work at rates and hours closer to Chinese home-country practices. In other words, firms continued to tap home-country labour. It is also important to remember that China remains a developing country, and therefore Chinese workers are seeking international opportunities, and international employment agencies are expanding to deliver workers independently of Chinese MNCs. [[4]](#footnote-4)

In the case of China we would again suggest that a greater sensitivity to diverse realities is offered by a critical realist position. We need to critique the idea of the ‘national’ in MNCs, as they have to negotiate spatial and institutional territories that are highly politicised spaces, bounded by state or political actors. Various new institutional spaces try to remove the MNC from national state controls – such as ‘special economic zones’ and other such territorial vehicles (see Zhang & Peck 2013) used to facilitate greater freedom for the MNC to move and remove themselves – but these are also created political spaces. The idea of the national also implies a level of ‘integration’ and a focus on ‘function’ that is unrealistic when there can be increased divisions within and between national and other actors (Azmeh & Nadvi 2013). Contradictions between layers/levels or different ‘scales’, as geographers like to emphasize, are increasingly important within a more globalizing context. Finally, the functionalist view central to traditional international business, which looks for maintenance of systems and integration – the MNC as an integrated or integrating actor – is misplaced when there are layers of contradictory and conflicting action.

This case, like the first, illustrates the openness of staffing, the role of agency in the form of MNCs from emerging economies like China to transform what it means to be an expatriate, and the scope for transferring workers from the country of origin through the MNC into international operations without incurring high costs, but gaining greater management control in the process (Smith & Zheng, 2016b). The firm has agency to treat expatriation more openly than the literature suggests. The case of expatriates working in MNCs in the Middle East region reveals the convergence of global ranking of labour markets with more racialized and citizenship structured international staffing. New actors are central here: the state and international employment agencies. These two contrasting cases were theoretically selected to test existing theory of staffing the MNC, and in different ways they challenge the de-contextualised, functionalist, managerial and firm-centric approach, revealing the need for more sensitivity to history and context, and more awareness of new actors in staffing decisions.

**Conclusions**

For critical realist researchers, open systems, such as organizations, contain complex and unpredictable feedback loops that prevent history being conceived as determined or predictable. Critical realists therefore adhere to a stratified or ‘depth’ ontology, whereby reality is ‘multiply determined’, with no single mechanism determining the whole. Rather, multiple causes must be teased out from detailed explorations of the setting. Applying these ontological assumptions to the study of MNCs means that their practices are treated as the emergent outcomes of a complex socio-historical interaction between pre-existing structures and ongoing power struggles within and between elite and subordinate groups, both within and outside the MNC, as they engage in various political strategies and tactics aimed at promoting their relative position and interests.

In this approach situated or contextualised knowledge is therefore of paramount importance, rather than the reproduction of standardised typologies that are deemed universal and research strategies focused on testing for the degree of their application or representativeness. The core premise of critical realism is that the full value of detailed micro level data can only be realized if these data are situated and interpreted in their historical, economic and social contexts. In relation to MNC research, critical realism thus offers the opportunity to illuminate the ‘connective tissue’ between the agency of key social actors and the structured context of global, national and sector-level constraint and facilitation. It also offers opportunities, as discussed in our illustrative cases, to explore how new agencies (the Chinese MNC for example) or new transnational spaces (the GCC countries) provide conditions for re-scaling and re-defining such core management practices as staffing the firm. One can think of this dynamic as a *process of reflexivity* whereby new agents construct the given repertoire of practices in novel ways.

The chapter has highlighted this in the context of two particular, and quite different, illustrative examples of MNC staffing. In each case a critical realist ontological lens allows for a more subtle appreciation of the complexity of MNC organizational dynamics, as well as serving as a useful corrective to the rationalistic assumptions within some of the established international business and international HRM literature. Our cases show MNC agents interacting with new structural realities. The country-of-origin effect has been expanded in the case of Chinese MNCs, and the way states in the Middle East structure citizenship influences MNC choices. As noted by Delbridge & Edwards (2013: 9), a critical realist position acknowledges that ‘agents do not experience structures uniformly; rather, they have differing perceptions and depth of knowledge of their contexts, which has implications for how we explain reflexivity and the social construction of actor positions’.

We have also used critical realism to explore the claims of discourse (Thompson & Harley 2012). The dominant and pervasive literature on staffing and expatriation, built up over 40 years, which we have reviewed above, does not capture the objective reality of staffing in our cases – one regional growth point for international capitalism (the Middle East), and one new set of actors (MNCs from China). In both cases, agents and spaces are doing new things. By grounding the dominant discourse on international staffing within this new situation of new players in capitalism, we can begin to unpack an established framework that no longer reflects actual processes of MNC staffing. These new players operate with rules that work for them (*localistic* claims) or more ambitiously set new rules that everyone else will need to regard (*general* claims). We need more research before these practices can be said to reflect *China effects* – country of origin legacies - or new conditions of capitalism within a more globalised and neo-liberal form (Smith & Zheng, 2016b), but even if not generalised, the new regions and new country players hold up significant ‘divergences’ in themselves to question the utility or comprehensiveness of the existing discourses around staffing the MNC. The field is more open, and both our cases imply a critique of existing approaches to comparative business in general, and to understanding MNC staffing in particular. Mainstream analyses too often tend towards stasis, identifying cultural and/or institutional differences as permanent ‘givens’, when in fact international workplaces operate in spaces that are dynamic and contested. And the established and dominant typologies for interpreting staffing processes within MNCs likewise provide too rigid and rationalistic a view of empirical developments.

Considering the implications of the changing nature of staffing the MNC, we can see that what occurs as an outlier in one region can come into the mainstream, and challenge existing typologies, for example the established division of staffing strategy into the pursuit of PCNs, HCNs and TCNs. The case of staffing in the Gulf States reminds us of the political nature of these existing designations, while simultaneously pointing to shortcomings in the presumed distribution of staff between the three categories. Moreover the bi-furcation between citizen and non-citizen employee has been a highly political process, not the technical, rational, neutral process projected by many writers on MNC staffing. In our second case concerning the rise of MNCs from China, we see a process of employment wherein MNCs are constructing international spaces and organizational structures to continue to access labour reserves in China. The creation of Chinese Special Economic Zones suggests an ‘enclave’ form of investment, with Chinese MNCs recreating environments similar to those in China and acting as a primary conduit for linkages between the Chinese employment system and Africa. China is also establishing an ‘economic and technological zone’ in each country in central and eastern Europe, indicating that this particular transnational social space is the preferred investment site for outward FDI from China (Jacoby 2014: 212). A critical realist frame of analysis remains sensitive to this empirical complexity, recognising that China does not present a single integrated business model, but rather several models, and seeing the MNC as negotiating a spatial and institutional territory that is a politicised space, bounded by state or political actors.

These examples furthermore highlight the realist argument that existing categories are the outcome of past actions, yet these do not determine action for new players (Chinese MNCs, for example) in a straightforward way, because MNC actors entering equivalent settings are able to follow different paths of action. Some agents see opportunities, where others see constraints, or change rules that others thought unchangeable. They also challenge rationalistic models of MNC behaviour, encouraging us to look more rigorously at the reality of material circumstances. Chinese MNCs, for example, are entering global capitalism in a particular way, at a particular time, and have been positioned in the international division of labour as the main manufacturer of many consumer products, which are produced for international brands in developed economies. The position of MNCs within the GCC states is different again, as state actors in these countries enter global capitalism by developing the means to absorb migrant labour at all levels of the economy – creating capitalist society through the use of ‘third country nationals’ in ways which force a redefinition of the current language of MNC staffing.

A critical realist ontological lens thus exposes the layering of staffing as both *historically constituted* and, at the same time, an intensely *political process*. Our two cases reveal the benefit of CR in encouraging sensitivity to the construction of MNC staff on a case-by-case basis, in order to accommodate the diverse realities of both local context and institutional dynamics. They indicate the context-dependency of staffing models such as expatriation, suggesting there is no context-free application. The importance of situating the expatriate debate within the constraints of local, home and regional labour market dynamics clearly comes to the fore.

This chapter has offered substantive illustrations of the appropriateness of CR-informed research on MNCs. Critical realism does not specify any particular research approach or method, but represents a collection of ontological and epistemological assumptions, to which individual studies or theoretical frameworks may more or less fully conform. Precisely because of its commitment to an inherently complex, open and stratified (social) universe, as a philosophy of science critical realism cannot provide all of the concepts or methods that are necessary for empirical research. Instead, it offers a *set of orientating concepts* that act as an ‘under-labourer’, providing resources which can be drawn upon to create more accurate, if still fallible, explanations of (social) phenomena.

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1. ‘The Khafala system of short-term contract labour recruitment means that many migrant workers are caught in a system of few protections and extreme vulnerability (Fernandez 2010). Between repaying loans for relocation and deductions for living costs, such workers can find themselves destitute, and in some cases confined to camps, or, in the case of domestic service workers, not allowed breaks or to leave the private houses they are employed in (Fernandez 2010)’ (Connell & Burgess 2013, pp. 4170-71). [↑](#footnote-ref-1)
2. In the GCC ‘…an extremely narrow definition of ‘citizenship’ came to overlay the spatial structuring of class. In each of the GCC states, citizenship was restricted to a tiny proportion of the population who were provided with varying levels of access to the benefits accruing from oil revenues. These ranged from cheap housing, education and other state benefits for the average citizen, to massive economic grants, contracts, and ‘sustainers’ for members of the ruling elite and wealthiest merchant families. The nature of the working class was transformed in this process. Rather than native workers, those who did most of the work in the Gulf States were brought from outside the country as temporary migrant labour. Citizens moved up the ladder – taking jobs in higher-level managerial positions and the government sector. The formation of class through this spatial process enabled Gulf regimes to construct a powerful system of control over the vast majority of the resident population, while consolidating and binding citizen support behind the ruling monarch’ (Hanieh 2010, p. 75). [↑](#footnote-ref-2)
3. ‘In terms of labour recruitment from China at the Bui Dam, for example, most labourers and semi-skilled workers are Ghanaian. The contract with Sinohydro capped the upper limit of Chinese labour on the project at 600. Interestingly, the Chinese have brought in sixty Pakistanis to operate the heavy equipment; they are treated as ‘Chinese’ for the ‘imported labour’ quota but are even cheaper than Chinese workers.’ (Mohan 2013: 1264-5). ‘By contrast in Angola, which is still recovering from civil war and where many projects are in specialist sectors, the level of [Chinese] labour importation is higher (Corkin 2012).’ (Mohan 2013: 1265). [↑](#footnote-ref-3)
4. ‘A significant but overlooked dimension of China's role in Africa is the inward migration of Chinese people. The figures are notoriously unreliable but we know of significant inflows in South Africa, Nigeria, Sudan, Angola, Mauritius and Zambia. In these and other countries the presence of Chinese businesses is transforming retail and service sectors. Many bring entrepreneurial skills and capital, which is vital for Africa, yet where relatively unskilled workers are brought in they displace African labour. More proactive African governments are building localization agreements into the investment and loan packages offered by the Chinese in order to guarantee contracts for African firms and workers, but it remains to be seen how far such clauses are honoured or whether African firms and labourers have acquired the necessary expertise’ (Mohan & Power 2009: 26). [↑](#footnote-ref-4)