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**A STUDY OF SOCIOCULTURAL AND
PSYCHOLOGICAL ADJUSTMENT OF
EXPATRIATES IN LABUAN**



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A STUDY OF SOCIOCULTURAL AND PSYCHOLOGICAL ADJUSTMENT OF EXPATRIATES IN LABUAN

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DECLARATION

The materials in this thesis are original except for quotations, excerpts, and references, which have been duly acknowledged.

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ABSTRAK

KAJIAN SOCIOBUDAYA DAN PSIKOLOGI BAGI EKSPATRIAT DI LABUAN

Kajian ini dilaksanakan bertujuan untuk mengkaji hubungan di antara sokongan penyelia atau rakan sekerja, bantuan logistik, budaya setempat yang baru dan penyesuaian pasangan hidup dari segi penyesuaian diri terhadap pengaruh budaya setempat dan pengaruh psikologi. Kajian terhadap penyesuaian budaya setempat dan psikologi ini telah dijalankan ke atas warga asing di Labuan, Malaysia. Hasil dari kajian ini mendapati bahawa penyesuaian pasangan hidup mempunyai hubungan positif yang sangat penting terhadap pengaruh budaya setempat dan pengaruh psikologi bagi pasangan yang sudah berkahwin. Manakala bagi warga asing yang belum berkahwin, pengaruh budaya setempat yang baru mempunyai hubungan yang penting terhadap penyesuaian budaya setempat. Walau bagaimanapun, faktor organisasi tidak menunjukkan sebarang hubungan yang penting terhadap penyesuaian budaya setempat. Semua faktor kajian tidak menunjukkan sebarang hubungan yang penting terhadap penyesuaian psikologi kecuali bantuan logistik. Malah, hasil kajian ini juga dapat mengumpulkan maklumat yang tersembunyi terhadap warga asing di Labuan dan tanggapan prihatin mereka di sini.



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ABSTRACT

A STUDY OF SOCIOCULTURAL AND PSYCHOLOGICAL ADJUSTMENT OF EXPATRIATES IN LABUAN

This research was done to investigate the relationship of factors like supervisors/co-worker's support, logistical help, and culture novelty and spouse adjustment on two facets of adjustment: sociocultural and psychological adjustment. This research on sociocultural and psychological adjustment of expatriates was carried out in Labuan, Malaysia. The research revealed that spouse adjustment has a significant positive relationship with sociocultural adjustment for married respondents. For single respondents, culture novelty had a significant relationship with sociocultural adjustment. However, organizational factors did not show any significant relationship with sociocultural adjustment. None of the variables showed any significant relationship with psychological adjustment except for logistical help. Beside the results, the research was able to collect insightful information on the current situation of expatriates in Labuan and the common concerns they have.



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CHAPTER 1

INTRODUCTION

1.0 Overview

Expatriation, as defined by Downes, Thomas, and McLarney (2000) is the practice by multinational corporations (MNCs) of sending home country nationals to overseas locations. It can also be extended to all other types of organizations that attempt to “bridge socio-cultural gaps” with business or management partners in other cultural settings and work environment. There has been growing concern regarding the problem of expatriate failure. Expatriate failure is the early return of an expatriate manager to the home country because of an inability to perform in the overseas market. Experts suggest these cost range from \$40,000 to as much as \$250,000 (Griffin and Pustay, 2004). As such global organizations have begun to address adjustment problem faced by expatriates. Individuals may return for a variety of reasons (Black and Gregersen, 1991 a, 1991 b; Black and Stephens, 1989). It may be homesickness or the inability to adjust due to factors like general living condition, culture shock or the inability of the expatriate’s spouse to make the inter-cultural adjustment. The growing body of literature recognizes the need to facilitate expatriate experiences, particularly through the enhanced cross cultural adjustment of the expatriate and their family. Adjustment is multilayered as proposed by Black et al i.e. sociocultural and psychological adjustment. They further incorporate three dimensions of in-country adjustment: (1) adjustment to

work; (2) adjustment to interacting with host nationals and (3) adjustment to general non-work environment.

Labuan is an island located in the Asia-Pacific region, off the coast of East Malaysia. Labuan is an integrated IOFC, offering a wide range of financial products and services including banking and investment banking, insurance etc. Besides being an offshore financial centre it also provides the base for many oil related companies due to the benefits associated with being a duty free island. As such, Plenty of oil companies, and foreign offshore banks do business here. There at present 585-590 expatriates working in Labuan (Source: Immigration Department of Labuan). They are in different fields ranging from Petroleum industry, Services Manufacturing, Education and Commercial. However, the number of female expatriates in Labuan is very low. Moreover, with the expansion of methanol plant in Labuan, upcoming Sabah Shipyard and the recent discovery of deepwater oil by Murphy oil Corporation off the East Coast of Labuan will see an influx of expatriates in Labuan in the near future. In this context it becomes more so important to analyze and study the various interventions to adjustment which can be later used to assist the expatriates in their adjustment process.

1.1 Problem Statement

One of the most challenging tasks for any company operating internationally is to manage its expatriates. The statistics showing their efficiency on that matter are not encouraging. For example, the failure of U.S. expatriates (the percentage who return prematurely, without completing their assignment) is to be in the 20 – 40% range. In Japan, the failure rate is less than 5% for their expatriates.

Working in a foreign environment with different political, cultural and economic conditions, expatriates are confronted with both job-related and personal adjustment problems (Birdseye and Hill, 1995). If ignored, these adjustment problems result in stress inside and outside of an expatriate's professional life and lead to intentions to leave prematurely or actual turnover (Naumann, 1992). This research will try to understand the factors which can affect expatriate adjustment on a foreign land. It will seek to analyze the various variables that have an effect on the different facets of adjustment of expatriates. Prominent concern in the international recruitment and selection literature is that of expatriate failure (Adler 1981, Mendenhall & Oddou 1991, Feldman & Thompson 1993, Harvey 1993, Riusala 2000). Several studies have identified the reasons behind the failure. For instance, premature return of expatriates and the lack of cross-cultural adjustment by expatriates, their spouse or family are some identified features (Black & Gregersen 1991, Black 1992, Shaffer et al. 1999, Riusala 2000) as well as poor performance (Fieldman & Thomas 1992, Stening & Hammer 1992, Feldman & Thompson 1993, Hodgetts 1993, Naumann 1993, Clark, Grant & Heijltjes 2000) that can arise during an international assignment. Indeed, research conducted by Black and Gregersen (1997) indicates that 10 to 20 per cent of United States (U.S.) expatriates sent overseas return prematurely due to dissatisfaction with their job or the impact of culture shock. And one-third of those who stayed for the duration did not perform satisfactory to the expectations of their organizations. Moreover, when an international assignment is not completed, necessitating the replacement of the expatriate (Bird & Dunbar 1991, Swaak 1995, Pucik & Saba 1998), the costs of failure to the MNCs are both direct and indirect. The direct cost includes salary, training costs, and travel and relocation expenses. The indirect cost could be a loss of market share, difficulties with host government and demands that parent country nationals be replaced with host country nationals (Dowling, Schuler & Welch 1994, Stone 1994, Forster 2000). In light

of all these facts this research would aim to study and answer the questions related to sociocultural and psychological adjustment of expatriates in Labuan. It will aim to answer certain questions:

1. What is the level of adjustment of expatriates in Labuan?
2. What makes them adjusted or unadjusted in Labuan?
1. What are the different variables that intervene in the adjustment?
2. What variables affect more than the others in the adjustment of expatriates?

1.2 Objectives of the Study

The purpose of this study is to examine the factors related to adjustment of expatriates in Labuan. To study which factors, if any, are more important which aids or is detrimental in the adjustment process? In the face of competition where companies are going global to retain their competitive advantage, managers are being sent to host national countries to manage their subsidiaries. Expatriates working in a foreign environment with very different political, cultural and economic conditions often face a variety of adjustment problems (Birdseye and Hills, 1995; Du-Babcock, 2000). If ignored, these adjustment problems result in stress inside and outside of an expatriate's professional life and lead to intentions to leave prematurely or actual turnover (Naumann, 1992). It becomes imperative to look into the interventions and variables of expatriate adjustment. There are various dimensions to adjustment: the pre adjustment phase, where it's linked with cross cultural training, there are personality traits which affect the adjustment process. My research objective is to investigate the factors associated with

the adjustment process when the expatriate has already started living in his assigned foreign country. The main objectives of the research are:

1. To study the sociocultural adjustment of expatriates in Labuan
2. To look into the psychological adjustment of expatriates in Labuan
3. To see the relationship between 'cultural novelty' and sociocultural and psychological adjustment of expatriates in Labuan.
4. To study how the adjustment of spouse influence the sociocultural and psychological adjustment of expatriates in Labuan.
5. To study the effect of company's support on sociocultural and psychological adjustment of expatriates in Labuan.
6. To look into how logistical help and sociocultural and psychological adjustment of expatriates in Labuan are related.
7. To study how the demographic factors moderates the relationship between factors of sociocultural and psychological adjustment of expatriates in Labuan.

1.3 Scope of the Study

The research looks into the factors that affect the adjustment of expatriates in a foreign land on a foreign assignment. The research is set in Labuan. Population for the research consists of expatriates working in offshore banks, oil industry, and other services. The expatriates studied for this research would not be limited by the number of years they have been staying in Labuan. It would though confirm with the definition of expatriate used in this study. Previous studies on expatriate's adjustment can be divided into three parts. One that is concerned with the pre expatriation process which involves cross-cultural training, Second the Acculturation process when expatriation

takes place and the third is concerned with repatriation process ; sending back the expatriate to his/her home country after completion of his assignment as an expatriate. The scope of this study would be to look into the sociocultural and psychological adjustment of expatriates already in Labuan. The scope of this study will not look into the personality factors and cross-cultural training that affect adjustment.

1.4 Significance of the Study

The literature on expatriate adjustment has been done in China Turkey, Middle East, Japan, United States of America, Hong Kong. However there were very few researches done on this subject in Malaysia and more so in Labuan. This study hopes to be among the earliest study done on expatriate adjustment in Labuan. This study hopes to add to the existing literature by providing an empirical study on sociocultural and psychological adjustment of expatriates in the Malaysian context.

The study will contribute in understanding the factors that are detrimental or positively related to expatriate adjustment in Labuan. This will not only help the organizations sending expatriates to Labuan to better understand what facilitates their adjustment and also help the Human Resource development to plan better expatriate adjustment. It will also help the government of Labuan to look into factors which are a cause of concern for the expatriate working here. It will help in identifying factors that will help to avoid or at least minimize any adverse consequences linked with expatriation.

1.5 Definition of Key Variables

In this particular study there are a few variables that the researcher wishes to study. The key variables used as a measure in this research are defined and explained. These will also be covered in details in the second chapter of Literature Review.

1.5.1 Expatriates

Expatriates refer to people working and residing in countries other than their native country (Griffin and Pustay, 2004). An employee who has spent the majority of his (her) career working on temporary and/or semi-permanent assignments in overseas locations (Adapted from Heizman *et al.*, 1990; quoted in Gliatis, 1992).

An expatriate is, therefore, any individual who works outside their country of birth but does not immigrate to the country where they work. The modern expatriate, however, is very different from the traditional image of the “middle-class western male” – modern expatriates are often younger, better qualified, more likely to be female and come from many different countries across the globe (Gliatis and Guerrier, 1993).

1.5.2 Adjustment

Adjustment is a subjective/psychological state and refers to the changes which the individuals actively engender or passively accept in order to achieve or maintain satisfactory states within themselves (Torbiorn, 1982). Expatriate adjustment, which has been referred to as acculturation (Mendenhall and Oddou, 1995), adaptation (Stening and Hammer, 1992), adaptation and adjustment (Black et al) is a form of cross-cultural adjustment.

1.5.3 Sociocultural Adjustment

Sociocultural Adjustment relates to the ability to “fit in” or to negotiate interactive aspects of the host culture as measured by the amount of difficulty experienced in the management of everyday situations in the host culture (Ward and Kennedy, 1996). Socio cultural adaptation refers to external psychological outcomes that link individuals to their new context such as the ability to deal with daily problems, particularly in the areas of family life and work (Segall *et al.*, 1999). The sociocultural notion of adjustment is based on cultural learning theory and highlights social behavior and practical social skills underlying attitudinal factors (see Black and Mendenhall, 1991; Furnham, 1993; Klineberg, 1982).

1.5.4 Psychological Adjustment

Psychological Adjustment can be defined as the subjective well-being or mood states (e.g. depression, anxiety, tension, and fatigue) that the person experiences and reacts to. The concept of subjective well-being, corresponding to the psychological aspects of international adjustment, has been theoretically well developed, especially in relation to work and work environment characteristics (Kornhauser, 1965; Caplan *et al.*, 1975; Karasek, 1979). This concept has been applied empirically on the adjustment of expatriate business managers (Arnetz and Anderzen, 1992; Forster, 1997; Nicholson and Imaizum).

There are various features describing the general living condition of a place. Cost of Living, medical services, educational services, recreational activities, food and safety can be used to describe the general living conditions. Many authors underline the role of differences in living conditions the expatriate and his family experience to have an effect

on the level of adjustment (Black and Gregersen; Black, Gregersen and Mendenhall, 1992; Shahnasarian, 1991).

1.5.5 Cultural Novelty

Cultural novelty is associated with novelty in terms of food, housing, living condition, safety, health care facilities, recreation and entertainment. Differences in expectations, language, foods, ways to eat, the concept of personal space, etc., are often stress producing because they may seem neither understandable nor ethically "correct" (Adler, 1986). Walton (1990) suggested that adaptation to a new overseas setting usually began with a period of excitement, followed by disillusionment and then a state of culture shock. The larger the perceived discrepancies between host and native cultures create greater doubts and more serious adjustment problems, as the requisite changes in thought processes and behavior patterns for expatriates are more severe (Mendenhall & Oddou, 1985). It is presumed that culture novelty will mainly influence cultural and interaction adjustment as parent company policies are assumed to carry the main influences for expatriates' work

1.5.6. Organizational Factors

The work climate constitutes what may be labeled as the "immediate culture" to which the expatriate must adapt. It may have a more direct and decisive impact on his decision to remain in the host country and make the necessary effort to adjust to the foreign culture. Black *et al.* outline three organization-related factors: organization culture novelty, company support and logistical help. The first of these describes areas of adaptation problems at the workplace and the other two describe support practices by companies to help expatriates with their problems.

1.5.7. Adjustment of Spouse

The adjustment of spouse and children in a new host country and the impact on the expatriate manager have been investigated by a number of authors, all emphasizing the importance of family roles (*cf.* Torbiorn, 1982; Briody & Chrisman, 1991; Harvey, 1995). Caligiuri et al. (1998, p. 598). They all point to similar evidence whereby family considerations such as support, communication and adaptability were related to effective expatriate work adjustment in host countries. Although there has been some studies of expatriate children in Hong Kong (de Leon & McPartlin, 1995), there are very few empirical studies of the adjustment of expatriate families in Malaysia.

1.5.9. Previous International Experience

This refers to whether the expatriate has worked or lived in a foreign country and has had previous international work experience and if so, the duration of that experience. Research has shown that living in a foreign country is significantly related to interaction and work adjustments (sociocultural adjustment). Previous work experience in a foreign country and its duration is significantly related to high adjustment. Theoretical discussions have, for a long time, included previous expatriate experience as relevant for the adaptation process (Nash, 1967; Church, 1982; Black and Stephens, 1989; Black and Gregersen, 1991c; Nicholson and Imaizumi, 1993; Brewster and Pickard, 1994; Taylor and Napier, 1996a; Aycan, 1997).

1.5.10 Length of Time

Length of time refers to the number of days the person has been in the host country. This can further be explained by the four phase acculturation process (Griffin and Pustay, 2004).

Honeymoon: For the first few days or months the new culture seems exotic and stimulating. Excitement of working in new environment makes employee overestimate the ease of adjusting

Disillusionment: Differences between new and old environments are blown out of proportion. As employee and family face challenges of everyday living, differences become magnified. Many transplanted employees remain stuck in this place.

Adaptation: With time employee begins to understand patterns of new culture, gains language competence, and adjust to everyday living.

Biculturalism: Anxiety as ended as transplanted employee gains confidence in ability to function productively in new culture.

Since socio cultural adjustment is a process over time, regardless whether it is continuously increasing or adopts a curvilinear progression, indicating an early culture shock stage (*cf.* Furnham & Bochner, 1986), the time the expatriates had spent in Labuan was used as a moderating variable in the data analysis.

1.6. Summary

Chapter 1 introduces the readers to the research overview. It also describes the research problem, its objectives and scope and the rational to do the research. It also defines the key variables used for the purpose of this study.

Chapter 2: Literature Review will focus on the previous research done in this field. It will look into details the various studies carried out on the topic of sociocultural and psychological adjustment of expatriates.