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ABSTRACT

This study explores the question of under what conditions Japanese MNCs appoint parent country nationals to foreign affiliates. In addition to simple linear relationships, we examine moderating effects of the two kinds of experiences: international and host country experiences. Using data on 519 foreign affiliates of 26 Japanese MNCs, we found that the global integration imperative, the local market orientation, the country risk, and the unavailability of competent local managers affected expatriation decisions of Japanese MNCs. The results also revealed that these main effects were moderated by MNC's international and host country experiences.

Key words: expatriate staffing policy, international experience, host country experience, foreign affiliate, Japanese MNC

INTRODUCTION

Over the years, globalization has made multinational corporations (MNCs) face a complex and turbulent business environment. In such an environment, the effective deployment of human resources across foreign affiliates can be considered one of the critical factors to gain competitive advantages. This has led researchers to extensively investigate international staffing policies of MNCs, where they often point out that compared to US and European counterparts, Japanese MNCs tend to adopt ethnocentric staffing policy for foreign affiliates. In other words, Japanese MNCs prefer to staff foreign affiliates with parent country nationals (PCNs) (Beamish and Inkpen, 1998; Belderbos and Heijltjes, 2005; Tung, 1984). This distinct feature of Japanese MNCs with regard to expatriate staffing policy may provide researchers with an interesting research setting. Therefore, this study attempts to explore an expatriate staffing policy of Japanese MNCs. Although previous studies have emphasized a tendency of Japanese firms to extensively staff foreign affiliates with PCNs (Kopp, 1994; Tung, 1984), we adopt a contingency approach for expatriation decisions (Belderbos and Heijltjes, 2005; Delios and Björkman, 2000; Gong, 2003). In addition, we will explore not only simple linear relationships between expatriate staffing policy and its determinants (e.g. Boyacigiller, 1990; Delios and Björkman, 2000; Harzing, 2001) but also moderating effects of the two kinds of experiences: international experience and host country experience.

In the following sections, we review existing literature on expatriation decisions, and then develop hypotheses with respect to the moderating effects of international and host country experiences on the relationships between expatriate staffing policy and its determinants. The hypotheses are examined using

foreign affiliates of large Japanese manufacturers as a sample, and results of the empirical analysis are reported. Finally, we summarize the implications of this study with its limitations.

LITERATURE REVIEW

Previous studies have explored the reasons why headquarters send PCNs to foreign affiliates based on the assumption that PCNs and host country nationals (HCNs) are two different types of human resources (Bonache, Brewster, and Suutari, 2001; Harzing, 2001; Tan and Mahoney, 2004). In general, PCNs are assumed to have firm-specific capabilities such as the personal relationships with managers at headquarters, information channels, and the knowledge of operating processes (Festing, 1997; Tan and Mahoney, 2004). In addition, through a socialization process held during the work period at a parent firm, they may come to better understand, assimilate, and internalize common values, beliefs, assumptions, and goals of their parent firm (Bonache et al., 2001; Delios and Björkman, 2000). As a result, they try to maintain an MNC's economic interests and adhere to goals of an MNC as a whole (Cray, 1984; Eisenhardt, 1985; Kobrin, 1988; Ouchi, 1979; Tan and Mahoney, 2004). In contrast, HCNs are assumed to possess better knowledge of local conditions. Knowledge that is required for foreign operations seems to be classified into two categories: general knowledge and market-specific knowledge (Carlsson, Nordegren, and Sjöholm, 2005; Johanson and Vahlne, 1977). General knowledge could be acquired from international operations in general and transferred from one country to another (Carlsson et al., 2005). It pertains to marketing methods and common characteristics of certain types of customers and suppliers (Johanson and Vahlne, 1977). On the other hand, market-specific knowledge could be gained primarily through experience in a host country market (Carlsson

et al., 2005; Johanson and Vahlne, 1977). It is concerned with characteristics of a specific host country market including business climate, culture, structure of the market system, and traits of individual customers (Johanson and Vahlne, 1977). Generally, HCNs are assumed to possess the latter—market-specific knowledge including cultural, economic, political, and legal aspects of a host country (Harzing, 2001; Kobrin, 1988). Therefore, for the purposes of improving the level of local responsiveness and the consequent competitiveness in host country markets, MNCs need to effectively use the talents of HCNs (Adler and Ghadar, 1990; Bonache et al., 2001).

Japanese firms have been reported to extensively rely on PCNs to manage foreign affiliates (Beamish and Inkpen, 1998; Kopp, 1994; Legewie, 2002; Tung, 1984). However, a recent study showed the empirical result that was not consistent with conventional knowledge about expatriate staffing policy of Japanese firms. Investigating changes in the number of PCNs at Japanese foreign affiliates from 1960 to 1993, Beamish and Inkpen (1998) reported that the number of Japanese expatriates is declining. In addition, recent empirical studies on expatriate staffing policy of Japanese firms indicate that they adopt a contingency approach for expatriate policy (Belderbos and Heijltjes, 2005; Delios and Björkman, 2000; Gong, 2003). For example, Belderbos and Heijltjes (2005) reported that equity position of Japanese parents and relative size of foreign affiliates had the positive impact on an assignment of PCNs while local sales ratio and experience in host countries were negatively associated with the assignment of PCNs. Similarly, Gong (2003) showed that Japanese MNCs used more PCNs for foreign affiliates when cultural distance between host and home countries was large. He also found that the relationship between the cultural distance and the use of PCNs were moderated by the age of foreign affiliates. In addition,

Jaussaud, Schaaper and Zhang (2001) reported that Japanese firms sent more PCNs to developing countries than industrialized countries since qualified local managers are usually less available in developing countries. Similarly, comparing Japanese affiliates in US with those in China, Delios and Björkman (2000) found that the control function of PCNs were more prominent in China than in US. They also showed that PCNs played a more significant knowledge-transfer role in technology- and marketing-intensive industries in China than in US. Unlike conventional wisdom that Japanese firms use large numbers of PCNs, these studies indicate that their expatriate staffing policy may be much more complicated than we assumed. The gap between conventional wisdom and actual Japanese expatriate policy may result from the fact that most previous studies on Japanese firms examined the simple linear relationships between several explanatory factors and the use of PCNs. It seems that further studies are necessary to explore the complex nature of expatriate staffing policy of Japanese firms.

In the next section, hypotheses are developed about determinants of expatriation decisions of Japanese MNCs. Determinants are proposed in terms of strategic imperatives of foreign affiliates and host country specific factors. In addition to linear relationships, the moderating effects of international and host country experiences are suggested.

HYPOTHESES DEVELOPMENT

MNCs are generally confronted with two kinds of pressures: the global integration pressure to maximize efficiency of the entire global network and the local responsiveness pressure to sense and respond to local differences (Bartlett and Ghoshal, 1998). The pressure for global integration would make MNCs place the first

priority on pursuing efficiency of global operations. The precedence of the global efficiency over an individual foreign affiliate's efficiency may bring about the economic incentive misalignment between headquarters and the affiliate (Tan and Mahoney, 2004). It is probable that managers at a foreign affiliate do not act to achieve goals of an MNC as a whole; they may seek the economic interests of the affiliate. However, MNCs could overcome the problem of economic incentive misalignment by staffing foreign affiliates with PCNs since they are usually known for better control over foreign affiliates, better coordination on foreign operations, and better alignment of economic incentives between the headquarters and foreign affiliates (Bonache et al., 2001; Boyacigiller, 1990; Cray, 1984; Delios and Björkman, 2000; Eisenhardt, 1985; Kobrin, 1988; Ouchi, 1979). Therefore, we expect that:

Hypothesis 1a: The likelihood that PCNs are appointed to foreign affiliates is greater when the global integration imperative is high.

As foreign affiliates get mature, the problem of economic incentive misalignment between headquarters and foreign affiliates may be alleviated because HCNs gradually become socialized through working at the affiliates (Gong, 2003; Jaeger and Baliga, 1985). In addition, firm-specific capabilities required to integrate the global operations would be transferred from a parent firm to foreign affiliates over time (Belderbos and Heijltjes, 2005). HCNs will learn such capabilities, observing action of PCNs. Moreover, when MNCs have a broad experience in the global market, they may possess training programs to socialize HCNs who work for foreign affiliates. Also, internationally experienced MNCs may have a standardized procedure and system to integrate their global operations. Thus, the necessity for PCNs

may be reduced as MNCs accumulate host country and international experiences. These imply that decisions by headquarters to send PCNs to foreign affiliates may change in accordance with the degree of international and host country experiences. Therefore, it is hypothesized that:

Hypothesis 1b: Host country and international experiences moderate the relationship between the global integration imperative and an appointment of PCNs to foreign affiliates.

MNCs will receive the pressure for local responsiveness when they attempt to penetrate host country markets (Bartlett and Ghoshal, 1998). When their orientation towards local markets increases, operations of foreign affiliates will become more specialized, since the affiliates need to respond to local differences and deal with transactions with local suppliers and buyers. To deal with idiosyncrasy of host country markets, a great deal of local knowledge is required on the part of a foreign affiliate. Headquarters would believe that HCNs generally possess knowledge of local contexts including cultural, economic, political, and legal aspects of a host country (Harzing, 2001; Kobrin, 1988; Tarique, Schuler, and Gong, 2006). This may discourage headquarters to send PCNs to foreign affiliates when their local market orientation is high. Therefore, we hypothesize:

Hypothesis 2a: The likelihood that PCNs are appointed to foreign affiliates is smaller when the local market orientation is high.

Advantage of HCNs over PCNs in dealing with difficulties arising from the local market penetration may decrease over time. As foreign affiliates operate their business at local markets, host country-specific knowledge will be accumulated within organizations. Such accumulated knowledge may be transferred

from foreign affiliates to a parent firm (Belderbos and Heijltjes, 2005), which enables PCNs to better understand local conditions (Gong, 2003). This may increase the ability of PCNs to handle local differences and deal with local entities at host country markets (Gong, 2003). Also, accumulation of general knowledge through international experiences of MNCs may support the implementation by PCNs of the local market penetration. Using general knowledge acquired through their international experience, MNCs could establish a standardized procedure to respond to and adjust to local differences. That may decrease an MNC's dependence on HCNs. Thus, MNCs with more host country and international experiences may less rely on HCNs to manage foreign affiliates even when pursuing the penetration into local markets.

Hypothesis 2b: Host country and international experiences moderate the relationship between the local market orientation and an appointment of PCNs to foreign affiliates.

Exogenous environmental factors would affect an MNC's expatriation decisions (Boyacigiller, 1990; Harzing, 2001); such external factors include country-level risks. PCNs may be in difficulty when they are confronted with uncertainty derived from the country risk. Facing with instability of a host country's environment, MNCs may demand the support by HCNs because they are regarded as experts at dealing with a host country environment. However, MNCs may try to overcome unpredictability arising from a volatile environment by exercising tight control over foreign affiliates (Anderson and Gatignon, 1986). Tight control may be rational because the likelihood of loss of income or assets might be substantial in a volatile host country environment (Harzing, 2001). When controlling tightly over foreign affiliates, the level of information flow will increase

between headquarters and the affiliates (Boyacigiller, 1990). The increased level of information flow between them is accompanied by the necessity of good communication. Efficient and effective communication between headquarters and foreign affiliates will be accomplished through the assignment of PCNs to foreign affiliates (Festing, 1997; Tan and Mahoney, 2004). These arguments lead to a set of competing hypotheses.

Hypothesis 3a: The likelihood that PCNs are appointed to foreign affiliates is smaller when country risk is high.

Hypothesis 3b: The likelihood that PCNs are appointed to foreign affiliates is greater when country risk is high.

An MNC's host country experience may moderate the relationship between the level of country risk and expatriation decisions. Through experience in a host country, PCNs would be accustomed to and understand a host country's unstable and volatile environment. They will gradually recognize how to cope with such macro level risk. Thus, accumulation of host country experience may reduce the necessity of the use of HCNs in host countries with volatile environments. In contrast, as host country experience is accumulated within MNCs, they may understand the nature of the host country risks and acquire the knowledge of how to manage foreign operations in such a volatile environment. As a result, they may come to carry out management of foreign affiliates without tight control through PCNs even in an unstable environment. Consequently, a rationale for tight control through the extensive use of PCNs may be diluted over time. Thus, it is hypothesized that:

Hypothesis 3c: Host country experience moderates the relationship between the degree of country risk and an appointment of PCNs to foreign affiliates.

Edström and Galbraith (1977) argued that one of reasons why MNCs send PCNs to foreign affiliates is a lack of talented personnel in host countries. Other researchers have also argued that MNCs use PCNs because they cannot find qualified local talent in host countries (Daniels and Radebaugh, 1998; Edström, 1994; Kobrin, 1988; Richards, 2001). When headquarters perceive that local personnel are incapable of managing foreign affiliates, they would hesitate to leave management of the affiliates in the hands of HCNs. Therefore, in cases where a pool of capable managers is poor within a host country, MNCs will appoint competent PCNs to foreign affiliates.

Hypothesis 4a: The likelihood that PCNs are appointed to foreign affiliates is greater when competent managers are unavailable in a host country.

The relationship between unavailability of competent managers in a host country and the use of PCNs may be moderated by host country experience of MNCs. MNCs with a broad host country experience may have the knowledge of how to identify and educate potential local managers. In contrast, it will be difficult for MNCs with scant host country experience to find and develop qualified human resources. Therefore, we propose that as MNCs accumulate host country experience, they may come to less rely on PCNs even in host countries that lack a pool of competent managers.

Hypothesis 4b: Host country experience moderates the relationship between the degree of unavailability of competent managers and an appointment of PCNs to foreign affiliates.

METHOD

Sample and data collection

Hypotheses developed in the preceding section are concerned with expatriate staffing policy of Japanese MNCs. Of 100 largest Japanese firms in terms of total sales as of 2002, we selected only manufacturers because financial institutions, service firms, and wholesalers are reported to have a strong tendency to rely on PCNs (Beamish and Inkpen, 1998). Forty-seven of 100 largest Japanese firms were financial institutions, service firms, or wholesalers. The remainder, 53 firms, was manufacturers. Of 53 large Japanese manufacturers, 9 firms whose ratio of foreign sales to total sales is less than 10 percent were also excluded. Because the Japanese law does not require these firms to report the accounting information regarding foreign operations, it is difficult to obtain necessary data of their foreign operations. In addition to the 9 manufacturers, 18 manufacturers lacked critical data; these were also excluded. Finally, our sample included foreign affiliates of 26 Japanese large manufacturers. Industries of 26 manufacturers in our sample include food (1), chemical (2), glass (1), rubber product (1), construction (1), steel (3), metal (2), electric machinery (5), machinery (3), transportation machine (6), and other products (1). Sample-bias was checked by conducting t-tests with regard to the number of employees, total sales, and a ratio of foreign sales to total sales. With regard to the three variables, there were no significant differences between 26 manufacturers included in the final sample and excluded 27 manufacturers. T-values were .269 for the number of employees, 1.638 for total sales, and .739 for the ratio of foreign sales.

Primary data for foreign affiliates were collected from Kaigai Shinshutsu Kigyo Soran 2002 (Yearbook of Japanese Investments

Overseas. Hereafter, *Soran*), which offered data on foreign affiliates where a Japanese firm possesses 10 percent or more of ownership. MNCs may maintain an equity position in a local unit for reasons other than proactively involving in the management of such units (Osborn and Baughn, 1990). In such cases, MNCs are reported to frequently hold only minor equity positions (Paik and Sohn, 2004). Thus, foreign affiliates in which a parent firm possesses less than 20 percent of equity ownership were excluded from our sample. As a result, 519 foreign affiliates of 26 Japanese MNCs were included in the final sample.

Measures

Dependent variable. A dependent variable, an assignment of PCNs to foreign affiliates, was operationalized in two ways: a ratio of Japanese to total employees at a foreign affiliate, and the nationality of foreign affiliate CEOs. The nationality was coded as 1 when CEO was a Japanese national and otherwise 0.

Global integration imperative (GLOBL). A dummy variable was used to represent the degree of a global integration imperative of foreign affiliates. Primary purposes of each foreign affiliate assigned by parent firms were listed in *Soran*. Foreign affiliates were regarded as having a high global integration imperative when their primary purpose was: to produce products/components exported to Japan; to produce products/components exported to third countries; to establish a global production network; to establish a global distribution network. Foreign affiliates having a high global integration imperative were coded as 1 and otherwise 0.

Local market orientation (MARKT). Foreign affiliates that were

regarded as having the high local market orientation were also identified in *Soran*. Foreign affiliates whose primary purpose was the local market penetration were classified as having the high local market orientation. Foreign affiliates having the high local market orientation were coded as 1 and otherwise 0. Note that foreign affiliates may have the high global integration imperative and the high local market orientation simultaneously. In this study, we examine only main effects of the two variables.

Country risk (CRISK). Political risk has been considered one of critical country-level risks confronted by MNCs (Boyacigiller, 1990; Kobrin, 1978; Thunnell, 1977). Data on political risk were collected from The World Competitive Yearbook 2001. The book offers ratings which present political stability. We multiplied the scores by -1 to represent political instability.

Unavailability of competent local managers (MANGR). Unavailability of competent local managers was measured by an average score of the two items from the World Competitive Yearbook 2001. One is the availability of local senior managers, which represents the extent to which competent managers are available in local labor markets. The other is the competence level of local managers, which represents the extent to which domestic managers are competent compared to international managers. To measure the unavailability of competent local managers, we multiplied the average scores by -1.

Moderators and control variables. Age of foreign affiliates was used as a proxy for *Host country experience* (HOSTE). To measure it, the log of years from establishment of a foreign affiliate was calculated. *International experience* (INTLE) was operationalized by the number of foreign affiliates worldwide possessed by a parent firm. The log of the number of foreign

affiliates was used to measure international experience of Japanese MNCs. Equity ownership possessed by Japanese parent firms (OWNER) was incorporated as a control variable because majority-owned foreign affiliates may be more important to parent firms (Harzing, 2001). Equity ownership of a Japanese parent was measured by the log of ownership stake. In addition, cultural distance was controlled because it may increase uncertainty in managing organizations (Boyacigiller, 1990; Gong, 2003). Cultural distance between host countries and Japan (CULTR) was measured by the often-used measurement developed by Kogut and Singh (1988), using data from Hofstede (1980, 1991). Further, regional headquarters (RHEAD) are thought of being tightly tied with other foreign affiliates within a region. Thus, they may be staffed with more PCNs. For this reason, a dummy variable that represents regional headquarters was incorporated as a control variable. Foreign affiliates that were established to function as regional headquarters were coded as 1, and otherwise 0.

RESULT

For a ratio of PCNs to total employees at a foreign affiliate, OLS regressions were conducted, while for the nationality of foreign affiliate CEOs, logistic regressions were conducted. Correlation coefficients were calculated for variables used in this study (Table is omitted). Because CRISK and MANGR were highly correlated ($r = -.77, p < .001$), we adopted two base models (see Tables 1 and 2). For the other variables, we checked that all variance inflation factors were less than 2, indicating the absence of the severe multicollinearity problem.

Table 1. Results of OLS Regressions

Dependent variable: a ratio of PCNs to total employees				
	Model 1		Model 2	
	b	S.E.	b	S.E.
Const.	.45***	.07	.39***	.10
GLOBL	-.10***	.02	-.10***	.02
MARKT	-.07***	.02	-.07***	.02
CRISK	-.01*	.00		
MANGR			-.02*	.01
HOSTE	.01	.01	.01	.01
INTLE	-.09***	.01	-.09***	.01
OWNER	.08**	.02	.09***	.02
CULTR	-.00	.01	.00	.01
RHEAD	.12***	.03	.12***	.03
F	20.75***		20.48***	
R square	.25		.25	
Adjusted R square	.24		.24	

*** $p < .001$ ** $p < .01$ * $p < .05$ † $p < .10$

Table 1 represents results of OLS regressions for a ratio of PCNs to total employees at a foreign affiliate. From Table 1, MARKT and CRISK were significant and negative. H2a was supported; it appears that the local market orientation has a negative impact on reliance on PCNs to manage foreign affiliates. H3a was also supported, suggesting that higher country risk results in the fewer portion of PCNs at a foreign affiliate. Although GLOBL and MANGR had a significant effect on expatriate staffing policy, the signs of the coefficients were opposite to our expectation. Unlike our prediction, the global integration imperative and the unavailability of competent local managers were negatively related to the use of PCNs for foreign affiliates. Among

moderators and control variables, INTLE, OWNER, and RHEAD were statistically significant. Internationally experienced Japanese MNCs seem to less rely on PCNs to manage foreign affiliates. Also, the more ownership position a Japanese MNC has in a foreign affiliate, the more PCNs are used. In addition, it appears that more PCNs are assigned to foreign affiliates when they serve as regional headquarters.

Table 2. Results of Logistic Regressions

Dependent variable: the Nationality of CEOs at foreign affiliates

	Model 3		Model 4	
	b	S.E.	b	S.E.
Const.	5.10***	1.21	6.98**	1.57
			*	
GLOBL	-.07	.25	-.07	.25
MARKT	-.45†	.26	-.47†	.26
CRISK	.14*	.06		
MANGR			.43**	.15
HOSTE	.14	.21	.14	.21
INTLE	-.71**	.23	-.70**	.22
OWNER	3.22***	.39	3.18**	.38
			*	
CULTR	.16	.11	.10	.11
RHEAD	.32	.64	.33	.64
Correct ratio	81.7		81.3	
-2Log Likelihood	465.54		463.93	
Model Chi-square	109.78***		111.39**	
			*	
Pseudo- R square	.29		.29	

*** $p < .001$ ** $p < .01$ * $p < .05$ † $p < .10$

Table 2 represents results of logistic regressions for the

nationality of CEO at a foreign affiliate. From Table 2, MARKET was significant with an expected sign. Thus, H2 was supported for an appointment of CEOs, implying that local market orientation leads to the use of local nationals for a top position at a foreign affiliate. CRISK and MANGR were positively associated with the nationality of CEO. This supports H3b, suggesting that when country risk is high, PCNs are likely to be assigned as CEO at a foreign affiliate. H4a was also supported, indicating that Japanese MNCs are likely to compliment a lack of local managers with PCNs. Among moderators and control variables, INTLE and OWNER were statistically significant. Japanese MNCs having a large equity ownership at foreign affiliates are likely to assign PCNs as affiliate CEOs, while those with more international experience seem to less use PCNs for affiliate CEOs.

Table 3. Interaction effects on a ratio of PCNs to total employees

	Host country experience	International experience
GLOBL	n.s.	.07**
MARKT	n.s.	-.05†
CRISK	n.s.	-
MANGR	-.03*	-

*** $p < .001$ ** $p < .01$ * $p < .05$ † $p < .10$ n.s.: not significant

Tables 3 and 4 show the results of interaction terms. One interaction effect was tested at a time; we ran 20 regressions to test all interaction terms because we had two base models. We report only results of interaction terms due to space limitation. Even though the interaction terms with GLOBL and MARKET were tested for the two base models, we reported only one of the two results (i.e., a base model with CRISK) because we had

almost the same results for the two models. Results confirmed that international and host country experiences moderated the linear relationships between expatriate staffing policy and its determinants. Interpretation of the interaction terms will be discussed in the next section.

Table 4. Interaction effects on the nationality of foreign affiliate CEOs

	Host country experience	International experience
GLOBL	1.06*	1.13*
MARKT	n.s.	-.90†
CRISK	-.23**	-
MANGR	-.40†	-

*** $p < .001$ ** $p < .01$ * $p < .05$ † $p < .10$ n.s.: not significant

DISCUSSION AND CONCLUSION

The main effects of global integration imperative and local market orientation were negative, which seem to be moderated by host country and international experiences. Tables 3 and 4 reported three significant and positive interaction terms of the global integration imperative and two kinds of experiences. The results indicate that internationally experienced Japanese MNCs tend to appoint more PCNs to foreign affiliates when the affiliates have the high global integration imperative. The results also suggest that compared to less experienced counterparts, Japanese MNCs with more international and host country experiences tend to assign PCNs as CEO at a foreign affiliate when it has the high global integration imperative. Although we expected that more experienced Japanese MNCs use fewer PCNs when foreign affiliates have the high global integration imperative, we had an opposite result. Similarly, we had results opposite to our

expectation about interaction terms for local market orientation. Our results imply that internationally experienced Japanese MNCs tend to more rely on HCNs to implement the local market penetration. Overall, results about moderating effects of host country and international experiences were all opposite to our expectation. Although we attempted to explain reasons for moderating effects by assuming learning by both PCNs and HCNs, further theoretical development is required to uncover the question of why host country and international experiences moderate the impact of strategic imperatives on an expatriate staffing policy.

We had a set of competing results for the relationship between country risk and expatriation decisions. For a ratio of PCNs to total employees at a foreign affiliate, H3a was supported, while H3b was supported for an appointment of CEO at a foreign affiliate. Our results may depict one aspect of Japanese MNCs' behavior in a volatile environment; in an unpredictable and unstable environment, Japanese MNCs may tightly control foreign affiliates through assigning PCNs as CEO and simultaneously make the best use of local knowledge possessed by HCNs. As for interaction terms, we found that the more host country experience Japanese MNCs accumulate, the less hesitant they are to assign HCNs as CEO even in an unpredictable environment. However, in the initial stage, Japanese MNCs may emphasize the tight control through Japanese CEO in a volatile environment due to limited host country experience. We also had contradicting results for H4a. The result appeared in Table 2 indicates support for H4a for an appointment of CEO at a foreign affiliate, whereas for a ratio of PCNs, Table 1 reports a significant but negative coefficient. This may be attributed to the existence of a moderator. Results in Tables 3 and 4 support H4b; compared to those with scarce host country experience,

Japanese MNCs with substantial host country experience seem to less rely on PCNs to manage foreign affiliates even when host countries have a limited pool of competent HCNs.

This study examined determinants of expatriate staffing policy for foreign affiliates of Japanese MNCs. Our underlying position is that Japanese MNCs do not always rely on PCNs to manage foreign affiliates, whereas researchers often point out that their expatriate staffing policy is characterized as ethnocentric. Our results found that expatriation decisions of Japanese MNCs are contingent on several factors, which supports our underlying idea. Specifically, we found that the global integration imperative, the local market orientation, the country risk, and the unavailability of competent local managers reduce a ratio of PCNs to total employees at a foreign affiliate. We also found that the country risk and the unavailability of competent HCNs increase the probability that PCNs are assigned as a foreign affiliate CEO while the local market orientation decreases the probability. In addition to these linear relationships, we found that these main effects were moderated by international and host country experiences of Japanese MNCs. Our results of interaction terms implied complexity of their expatriation decisions. Experienced Japanese MNCs appear to make different decisions on expatriation from less experienced counterparts even when they are confronted with the same situations.

Although we believe that our results make a contribution to the literature on expatriate staffing policy of MNCs, they are not without limitations. Our sample consists of foreign affiliates of only 26 Japanese large manufacturers. This research design reduces the generalizability of our findings. Another limitation is concerned with measurements. Due to unavailability of relevant data, we used dummy variables to represent the

strategic roles of foreign affiliates—the global integration imperative and the local market orientation. In addition, we examined only main effects of these strategic roles of foreign affiliates on expatriation decisions. Future research should examine the interaction effect of the global integration imperative and the local market orientation. Moreover, our results are based on cross-sectional data. This implies that although findings in this study suggest causal relationships, interpretation of these relationships is subject to limitations. Finally, this study did not incorporate variables representing performance of foreign affiliates. Thus, we failed to give the performance implications. Future research should examine a relationship between expatriation decisions and a foreign affiliate performance.

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