STAFFING SUBSIDIARIES OF MULTINATIONAL FIRMS: ENVIRONMENTAL ANTECEDENTS AND SUBSIDIARY LEVEL OUTCOMES

DISSERTATION

Presented in Partial Fulfillment of the Requirements for the Degree Doctor of Philosophy in the Graduate School of The Ohio State University

By

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The Ohio State University

2002

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ABSTRACT

Operating in diverse national environments, multinational enterprises (MNEs) can staff overseas subsidiaries with parent country nationals (PCNs), host country nationals (HCNs), third country nationals (TCNs), or any mix of the three, defined as subsidiary staffing modes. The choice of staffing modes leads to a staffing composition, defined as the distribution of PCNs, HCNs, and TCNs in subsidiaries of MNEs. As globalization of businesses increases, a multinational team or workforce has become a reality. The MNE staffing literature has given insufficient attention to national cultural and strategic contingencies of staffing mode choices, and the evolution of staffing modes over time. Previous research in MNE staffing has been mainly focused on staffing of expatriate PCNs and impacts at the individual level. As a result, we know little about the impact of staffing composition on subsidiary outcomes. The objective of this dissertation is to systematically theorize the environmental antecedents of subsidiary staffing modes in MNEs, and the impact of staffing composition on subsidiary outcomes.

The dissertation consists of two essays. Based on a review of the MNE staffing literature, the strategic international human resources management (SIHRM) literature, and the domestic staffing literature, the first essay proposes environmental antecedents of subsidiary staffing modes in MNEs. Grounded in the person-environment (P-E) fit perspective, the first essay classifies the environmental antecedents into four dimensions: national, strategic, organizational, and job contexts. It develops propositions regarding the

impact of fit at each environmental dimension on the choice of staffing modes. To make the model dynamic, the first essay also discusses the role of time in the relationships between environmental variables and staffing modes. Finally, it proposes a four-dimension model of fit assessment, and discusses its implications for individual and organizational performance in the context of subsidiaries of MNEs.

As an initial effort to validate the model, the first essay presents two empirical tests of the competing theoretical predictions from agency and institutional theories regarding the impact of cultural distance on the utilization of expatriate PCNs. Agency theory suggests an expatriate PCN-oriented staffing mode under high cultural distance. Expatriate PCNs have better fit with parent firm values and goals. The increased fit reduces uncertainty and agency cost in managing a culturally distant subsidiary. Institutional theory suggests the opposite because an expatriate PCN-oriented staffing mode decreases fit to the local institutional environment, and therefore compromises subsidiary legitimacy in the local environment.

I conducted a two-study, three level examination of the competing explanations. Eighty-one subsidiaries of foreign MNEs operating in the U.S. participated in a survey study. Results revealed that cultural distance was positively related to the proportion of expatriate PCNs at the CEO, top management team, and employee levels, but was statistically significant only at the employee level. In another sample of 861 subsidiaries of Japanese MNEs, I found that cultural distance was positively related to the utilization of PCNs at the CEO, top management team, and employee levels. However, as years of operation increased, the positive effect decreased.

Based on a review of the MNE staffing literature, SIHRM literature, and the organizational demography and diversity literature, the second essay proposes a process

model in which staffing composition in nationality (i.e., PCNs, HCNs, and TCNs) influences affective, behavioral, cognitive, and strategic outcomes at the subsidiary level, which in turn affect subsidiary financial performance. Grounded in organizational learning and social identification theories, the second essay offers testable propositions regarding the relationships between staffing composition and subsidiary outcomes. It also discusses the role of time in the relationships between staffing composition and subsidiary outcomes. The second essay provides two empirical tests of the competing and convergent predictions regarding the direct relationship between staffing composition and subsidiary performance. Hypotheses were tested in a survey study and an archival study. The survey study results revealed that heterogeneity of staffing composition at the employee level had a negative impact on subsidiary return on asset. The interaction between staffing composition at the employee level and years of operation had a positive impact on subsidiary return on asset. The interaction between staffing composition at the top management level and years of operation had a positive impact on subsidiary labor productivity. The archival study results revealed that staffing composition at both employee and top management levels had a negative impact on subsidiary labor productivity. Years of operation moderated the relationship such that the longer the operation, the more likely that a heterogeneous staffing composition benefited subsidiary labor productivity.

ACKNOWLEDGMENTS

I would like to thank Professor Stephen Hills. His invaluable advice has guided me through the Ph.D. program and the dissertation research. He has taught me how to conduct independent research, and how to lead the academic life as a personal journey. His spiritual support has helped me through the dissertation research process. Professor Robert Heneman's teaching in strategic human resource management and compensation, together with Professor Barney's teaching in strategic management, has shaped my interest in strategic human resources management. Professor Oded Shenkar has been helpful in my dissertation research. His open-mindedness has influenced my integrative research approach, and my interest in international human resources management. Professor Mike Peng provided insightful and timely comments on several drafts of the dissertation. As a junior faculty member, he has generously shared with me his academic experience. Among the faculty members, I would also like to thank Professor David Greenberger, who has been very supportive and encouraging during times of difficulties.

Special thanks are extended to my parents. While they had little chance to get education, they have encouraged and supported me to pursue my degree in the U.S. They have taught me one truth: Knowledge is the only wealth a man has, and hard work is the key to success. I would like to thank my wife Xiaoyun, who has accompanied me through the lonely and sometimes depressing intellectual journey. Her sacrifice is beyond words.

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FIELDS OF STUDY

Major Field: Labor and Human Resources

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CHAPTER 1

INTRODUCTION

"Staffing is the mutual process by which the individual and the organization become attached to form the employment relationship" (Heneman, Heneman, & Judge, 1997: 4). To staff overseas subsidiaries, a multinational enterprise (MNE) can choose from parent country nationals (PCNs), host country nationals (HCNs), third country nationals (TCNs), or any mix of the three, defined as staffing mode. The MNE staffing literature has mainly focused on staffing issues related to expatiate PCNs (Harvey, Speier, & Novecivic, 2001) such as expatriate selection criteria, cross-cultural training, and overseas adjustment (Black & Mendenhall, 1990; Black, Mendenhall, & Oddou, 1991; Spreitzer, McCall, & Mahoney, 1997; Tung, 1981). There is a great need to explore how MNEs choose from alternative staffing modes.

The MNE staffing literature has traditionally focused on job factors. Lack of qualified local nationals has been cited as one major reason for staffing overseas subsidiaries with expatriate PCNs (McGoldrick, 1997; Tung, 1987). The literature has addressed inadequately the impacts of environmental variables on the choice of staffing modes. For example, cultural distance has been treated as a job factor that requires cultural skills on the part of expatriate PCNs when overseas assignments involve interaction with HCNs (Tung, 1981, 1998). Embedded in diverse national environments (Rosenzweig & Singh, 1991),

subsidiaries of MNEs serve as catalysts for expanding contingencies of staffing modes to include the national cultural environment. As an environmental variable, cultural distance has been suggested to influence the sequence of foreign investment, entry mode choices, and subsidiary performance (Shenkar, 2001). Cultural distance may as well act as an environmental force that affects the choice of staffing modes. The sheer heterogeneity of a subsidiary's environment, however, makes it difficult to develop a comprehensive but parsimonious and unified model of environmental antecedents of subsidiary staffing modes. The strategic context of staffing has received little attention (Engelhoff, 1988; Scullion & Brewster, 2001). While researchers have recently developed and validated generic international strategies that MNEs may pursue (Bartlett & Ghoshal, 1998; Harzing, 2000; Porter, 1986), implications for subsidiary staffing have yet to be explored (Bonache, Brewster, & Suutari, 2001).

Staffing modes may change over time. Strategic international human resource management (SIHRM) theorists suggest that subsidiary HRM systems/practices should fit the stages of subsidiary development (Milliman, Von Glinow, & Nathan, 1991), indicating that staffing modes may change as a subsidiary evolves. Kobrin (1988) found that the U.S. MNEs reduce the number of expatriate PCNs over time. Beamish and Inkpen (1998) recently found a similar trend in Japanese MNEs. However, this temporal dimension has been missing in discussions of relationships between environmental variables and subsidiary staffing modes.

Researchers have recently called for studying HRM in the context of organizations and their external environments (Jackson & Schuler, 1995). SIHRM models suggest a number of contextual antecedents of subsidiary HRM systems/practices such as cultural

distance and international strategy (Milliman et al., 1991; Schuler, Dowling, & De Cieri, 1993; Taylor, Beechler, & Napier, 1996). The person-environment (P-E) fit perspective (Chatman, 1989; Holland, 1997; Schneider, 1987; Schneider, Smith, & Goldstein, 2000), a framework developed in domestic staffing and vocational behavior literature, also suggests a number of environmental variables such as organizational values. The P-E fit perspective suggests that organizations select individuals with similar characteristics, or individuals with qualities that meet the demands arising from the environment (Edwards, 1991; Muchinsky & Monahan, 1987). Fit between individuals and the environment increases individual well-being, job performance, and organizational effectiveness (Kristof, 1996). The P-E fit perspective provides an overarching framework for developing a model of the environmental antecedents of subsidiary staffing modes.

The purpose of this essay is to delineate the environmental dimensions important for the choice of subsidiary staffing modes, and develop propositions regarding the impacts of environmental variables on staffing mode choices. Given that the MNE staffing literature has been "fundamentally descriptive in character and generally lack a theoretical foundation" (Bonache et al., 2001: 3), developing such a theoretical model of environmental antecedents of staffing mode is necessary and timely. The prominence of each staffing source can be measured either in terms of its number relative to others or in terms of the influence of positions they hold (Rosenzweig & Singh, 1991). Therefore, this essay discusses the reliance on each staffing mode as well as the level of the position each source may occupy.

In this essay, I begin with a brief review of the MNE staffing literature, and then proceed to review SIHRM models and the domestic staffing literature. Following the

review, I present a dynamic model of environmental antecedents of subsidiary staffing modes in MNEs based on the P-E fit perspective. After laying out the conceptual model, I propose testable propositions. I then discuss implications of four levels of environmental fit assessment for subsidiary staffing in MNEs.

As an initial attempt to validate the model, I empirically test two competing theoretical predictions regarding the impact of cultural distance on the utilization of expatriate PCNs. Agency theory (Eisenhardt, 1988; Jensen & Meckling, 1976) calls for an expatriate PCN-oriented staffing mode under high cultural distance. Expatriate PCNs have better fit with parent firm values and goals. The increased fit reduces uncertainty and agency cost in managing a culturally distant subsidiary. Institutional theory (DiMaggio & Powell, 1983; Meyer & Rowan, 1977; Zucker, 1987) suggests the opposite because an expatriate PCN-oriented staffing mode decreases fit to the local institutional environment, and therefore compromises subsidiary legitimacy in the local environment. I first report a survey study of subsidiaries of foreign MNEs operating in the U.S., and then an archival study of subsidiaries of Japanese MNEs. The first essay concludes with a discussion of the findings, contributions to MNE staffing research, and theory development.

CHAPTER 2

LITERATURE REVIEW AND MODEL DEVELOPMENT

2.1 Definitions of Terms

MNEs are firms with operations in at least one foreign country. PCNs are those who are citizens of the country where the MNE is headquartered. Due to the fact that expatriates are predominantly PCNs, the literature uses them interchangeably (Delios & Bjorkman, 2000). HCNs are those who are citizens of the country where the overseas subsidiary is located, where that subsidiary is operated by an MNE headquartered in another country. TCNs are those who are citizens of one country, working in a second country, and employed by an MNE headquartered in a third country. Research suggests that MNEs especially Japanese MNEs employ a very small number of TCNs (Peterson, Napier, & Shin, 1996; Tung, 1982). Staffing mode is defined as the choice among PCNs, HCNs, TCNs, or any combination of them.

2.2 MNE Staffing Literature

The MNE staffing literature traditionally has focused on staffing issues related to expatriate PCNs (Harvey et al., 2001). Major issues being studied include expatriate selection criteria (Adler & Bartholomew, 1992; Hossain & Davis, 1989; Spreitzer et al., 1997; Tung, 1981, 1998), cross-cultural training and development (Black & Mendenhall,

1990), and cross-cultural adjustment (Black et al., 1991; Tung, 1987). While there is a wide recognition of high expatriate failure rate (Black et al., 1991; Tung, 1987), there seems to be insufficient research on alternative staffing modes.

The MNE staffing literature has provided only a partial picture of how staffing might be related to the environmental conditions surrounding a firm (Egelhoff, 1988; Scullion & Brewster, 2001). Cultural distance, with a couple of exceptions (Boyacigiller, 1990; Harzing, 2001), has mainly been considered as a job factor that affects expatriate selection criteria (Spreitzer et al., 1997; Tung, 1981, 1998) and cross-cultural training rigor (Black & Mendenhall, 1991). The argument goes that if the overseas assignment requires a significant degree of interaction with local nationals, then cultural skills should be emphasized in both selection and training; otherwise, technical skills should be the focus (Tung, 1981, 1998). This view assumes that overseas assignments of a technical nature can be performed in the social and cultural vacuum. However, even jobs of a technical nature may require a significant amount of interaction with HCNs especially outside the workplace. Cultural distance, as an environmental variable, may necessitate a staffing mode other than the expatriate PCN-oriented approach. The national cultural origin of an MNE may affect staffing. It has been widely recognized that national culture affects HRM practices cross-nationally (Hofstede, 1980; McEvoy & Cascio, 1990; Moore & IsHak, 1989). However, the impact of a MNE's national cultural imprint on subsidiary staffing mode choices has yet to be examined.

There is little attention to the strategic context of staffing mode choices (Bonache et al., 2001; Scullion & Brewster, 2001). One study found that the degree of change inherent in a subsidiary's strategy, operationalized as product change and manufacturing

technology change, was positively related to the percentage of PCNs in key subsidiary management positions, and that foreign product diversity and product modification differences had the opposite effects (Egelhoff, 1988). Researchers have recently developed and validated three generic international strategies: Multi-domestic, global, and transnational (Bartlett & Goshal, 1987a, 1987b, 1998; Harzing, 2000; Porter, 1986). MNEs pursuing a global strategy strive to integrate and rationalize a series of linked operations across the globe to obtain economies of scale. MNEs pursuing a multi-domestic strategy aim at meeting differentiated local needs and being locally responsive. MNEs following a transnational strategy need to be both globally integrated and locally responsive. There has been no theoretical and empirical examination of the impact of international strategy on staffing mode choices. Other strategic variables such as an MNE's firm-specific human resources, which have been suggested as a crucial factor for superior firm performance (Barney, 1991), have been neglected.

Finally, the MNE staffing literature has mainly focused on CEOs or top managers (Egelhoff, 1988; Harzing, 2001; Kopp, 1994). It is important to examine staffing mode choices at the employee level as well. Staffing composition at the employee level may affect subsidiary learning and innovation (Evans, 1986; Harvey et al., 2001; Schuler et al., 1993). Indeed, the organizational demography and diversity research suggests that heterogeneity of staffing composition may increase group or organizational creativity but decrease integration (Alexander, Nuchols, Bloom, & Lee, 1995; Milliken & Martins, 1996; Smith, Smith, Sims, O'Bannon, & Scully, 1994; Williams & O'Reilly, 1998). In particular, nationality composition at the workforce level impacts individual affective outcomes (Bochner & Hesketh, 1994). Environmental variables may directly affect

staffing at the employee level. For example, organizational value fit affects the attraction, selection, and attrition of lower level employees (Schneider, 1987; Kristof, 1996).

Subsidiary staffing modes change over time. Researchers observed that MNEs reduce the use of expatriate PCNs over time (Beamish & Inkpen, 1998; Kobrin, 1988). The relationship between environmental antecedents and staffing mode choices may change as well. However, this dynamic dimension has not been incorporated in discussions of environmental antecedents of subsidiary staffing modes.

Summary. The MNE staffing literature lacks a systematic and dynamic analysis of environmental antecedents of subsidiary staffing mode choices. In the next two sections, I briefly review the domestic staffing literature and SIHRM models to identify important environmental determinants of staffing modes. I then present a dynamic model of the environmental antecedents of subsidiary staffing modes.

2.3 Insights and Lessons from Related Literature

The domestic staffing literature and SIHRM models are highly relevant to the development of a model of environmental antecedents of staffing modes. Domestic staffing literature has traditionally focused on the job context, and the fit between an individual's qualification and job requirements (P-J fit) is the major criterion for staffing decision-making (Werbel & Gilliland, 1999). Recently, changes have been taking place in corporate America: Business environment has become increasingly turbulent, organizations have become flatter, work is increasingly organized around teams, and job contents change constantly (Werbel & Gilliland, 1999). These changes demand higher organizational flexibility and adaptation, which in turn calls for workforce flexibility. The person-

organization fit (P-O fit) perspective (Chatman, 1989; Schneider, 1987; Schneider et al., 2000) responds to the new imperatives by incorporating organizational value fit as a necessary component in staffing decision-making. Research suggests that P-O fit increases individual job satisfaction, organizational commitment, task performance, contextual performance, and decreases stress and turnover (Kristof, 1996).

The domestic staffing literature indicates that a model of the environmental antecedents of subsidiary staffing modes should incorporate P-O fit with regards to values and goals. MNEs have been conceived as a group of geographically dispersed and goal-disparate organizations that include their headquarters and different national subsidiaries (Ghoshal & Bartlett, 1990). As such, the value and goal congruence between subsidiary employees and headquarters could have significant implications for control over subsidiaries and the coordination between subsidiaries and headquarters. Fit at the MNE level may require that MNEs take an expatriate PCN-oriented approach to subsidiary staffing. For example, fit with corporate top management attitudes (Perlmutter, 1969) or corporate HRM systems (Millman et al., 1991) may affect the choice of staffing modes.

The P-O fit perspective has not included unique organizational contingencies such as organizational strategy and a firm's strategic human resource possession. Only a few scholars suggest that staffing practices should be linked to and support organizational strategy (Olian & Rynes, 1984). Different organizational strategies require different employee role behaviors and skills to implement them (Schuler & Jackson, 1987). Research suggests that organizational strategy affects the characteristics of CEOs being selected (Guthrie & Datta, 1998; Guthrie & Olian, 1991). Recent SIHRM models suggest

that MNEs' international strategies affect HRM systems/practices in overseas subsidiaries (Schuler et al., 1993; Taylor et al., 1996). Different staffing modes provide access to different bodies of knowledge. MNEs pursuing a certain international strategy may adopt a staffing mode that provides critical knowledge for formulating and implementing that particular strategy. The nature of an MNE's strategic human resources may affect its approach to subsidiary staffing as well. Tacit or firm-specific human resources (Barney, 1991; Bonach & Brewster, 2001; Polanyi, 1966) may only be transferred through expatriate PCNs.

The domestic staffing literature has not included the broader national environment as a contextual variable. MNEs operate simultaneously in multiple countries. The context for staffing necessarily includes national environments including cultural, political, and economic environments. For individuals in subsidiaries of MNEs, the environment includes job, organization (including the parent organization), and national cultural environments. In particular, national cultural differences or lack of cultural fit affect not only individual level (Black et al., 1991), but also subsidiary level outcomes (Newman & Nollen, 1996; Shenkar, 2001). Indeed, SIHRM models propose that cultural distance is a major determinant of the similarity between subsidiary and parent HRM systems/practices (Milliman et al., 1991; Schuler et al., 1993; Taylor et al., 1996). SIHRM models also suggest other environmental variables such as the structure of an MNE's international operations. In particular, Milliman et al. (1991) suggest that IHRM practices should fit the organizational life cycle stages, indicating that a dynamic view of staffing modes is necessary.

2.4 Model Development

The brief critical review suggests a variety of environmental variables that affect staffing mode choices. In this section, I delineate four environmental dimensions, define environment and environmental fit, and classify environmental antecedents identified earlier into the four dimensions. I then present a dynamic model of the environmental antecedents of staffing modes.

Theoretical Foundation

The P-E fit perspective has long been attractive to psychologists. Fit has significant consequences at both individual and organizational levels. At the individual level, " A "match' or "best-fit' of individual to environment is viewed as expressing itself in high performance, satisfaction, and little stress in the system, whereas 'a lack of fit' is viewed as resulting in decreased performance, dissatisfaction, and stress in the system" (Pervin, 1968: 561). Research found that fit increases individual work adjustment (Dawis & Lofquist, 1984), job satisfaction (Hesketh & Gardner, 1993), commitment, work performance, and career success, while it decreases turnover, stress, and absenteeism (Bretz & Judge, 1987; Kristof, 1996).

Organizational level outcomes of fit have been less examined. Schneider (2001) argues that fit may increase efficiency through increased harmony, cooperation, and high level of morale, but may decrease long-run effectiveness of the organization through resultant inability to adapt to larger environmental turbulence. The P-E fit perspective has implications for the choice of subsidiary staffing modes. Different staffing modes lead to different degrees of fit of those being chosen to different environmental dimensions. The choice of staffing modes may have significant implications for individual and

organizational effectiveness. The critical question is who fits better to which environmental dimension and when. For example, an expatriate PCN-oriented staffing mode fits less well to the local cultural environment, and often leads to high expatriate failure (Black et al., 1991), whereas a HCN-oriented approach fits less well to parent organizational values, and may lead to ineffective control and coordination.

For the purpose of this essay, two issues are critical. The first is dimensions of environment. The term "environment" in the P-E fit perspective has been used at different levels including vocation (Holland, 1997), organization (Chatman, 1989; Schneider, 1987), and job. In the traditional personnel selection research, job is implicitly assumed as the environment for individuals (Werbel & Gilland, 1999). Recent research suggests that the organization acts as an environment, and that fit with the organization with regards to values and goals affects individual outcomes such as turnover and commitment (Kristof, 1996). The attraction-selection-attrition (ASA) model (Schneider, 1987; Schneider et al., 2000), a frequently cited P-E fit model, suggests that organizations attract, select, and retain those who fit its values and goals. The vocational choice literature suggests vocation as an environment, and fit to the vocation impacts individual outcomes such as career success (Bretz & Judge, 1994; Holland, 1997). A few researchers argue that staffing practices may need to fit organizational strategies (Olian & Ryans, 1986), suggesting that the strategic context may act as a unique dimension of environment as well. Different organizational strategy may demand different role behaviors and skills (Schuler & Jackson, 1987), therefore calls for different staffing modes.

Earlier literature review suggests that national cultural environment is important as well. As a leading P-E fit scholar states: "... These are clearly not universal values and so at least one other variable, national culture, must enter the equation for person-environment fit research. It must but has not." (Schneider, 2001: 148). IHRM is characterized by multiculturalism and geographical dispersion. Individuals are living and performing in the host cultural environment, and inability to adapt has been described as a major reason for expatriate failure (Tung, 1987). To the best of my knowledge, only one study (Parkes & Bochner, 2001) examined the person-national culture fit hypothesis, and found that collectivists were more committed to their organizations and had longer tenure than individualists in Asia, as compared to Australian organizations.

To integrate the heterogeneous dimensions of environment, I define environment as the context within which individuals carry out task activities. This definition enables me to include all dimensions of environment: National, strategic, organizational, and job environments.

The second issue is the definition of fit. Edwards (1991) put forth a "demands-abilities" perspective. The demands-abilities perspective suggests that P-E fit occurs when an individual's abilities meet organizational demands. Other researchers suggest "supplementary fit" (Muchinsky & Monahan, 1987). "Supplementary fit" exists when an individual possesses similar characteristics as other individuals in an environment. In this dissertation, I define fit as the following: An individual is said to fit the environment if and only if the individual possesses similar characteristics (i.e., traits, values, attitudes, and beliefs) as those in the environment, or his or her knowledge, skills, and abilities meet the demands arising from the environment. This definition uses "environment"

instead of "organization" due to the much broader focus of this dissertation work, and the all-encompassing nature of the definition of environment proposed in this dissertation.

The P-E fit perspective provides an overarching framework for developing a model of environmental antecedents of staffing modes. As the antecedents in this dissertation are environmental variables, and the critical underlying issue is about environmental fit, the P-E fit perspective also serves as the thread that connects together seemingly heterogeneous environmental variables. Because of the heterogeneity of environmental variables, however, I will also apply theories specific to individual environmental variable in developing propositions.

The Model Portrayed

The dynamic model of environmental antecedents of subsidiary staffing modes in figure 1 presents four dimensions of environment: National, strategic, organizational, and job environments. The job dimension has been discussed intensively, and therefore will not be discussed further in this dissertation. The model includes the job dimension to maintain the completeness of the model. The model summarizes specific environmental variables under each dimension. The national environmental dimension includes parent country culture, cultural distance between the parent and the host country, host country political risk (Boyacigiller, 1990), host country labor laws (Dowling, Welch, & Schuler, 1999), and host country education level (a proxy for qualified local nationals). The strategic environment includes an MNE's international strategy, and the nature of an MNE's strategic human resource possession. The organizational environment includes MNE top management attitudes, structure of international operation, subsidiary size (Youssef, 1975), and purpose of subsidiary (i.e., manufacturing, marketing, sales and

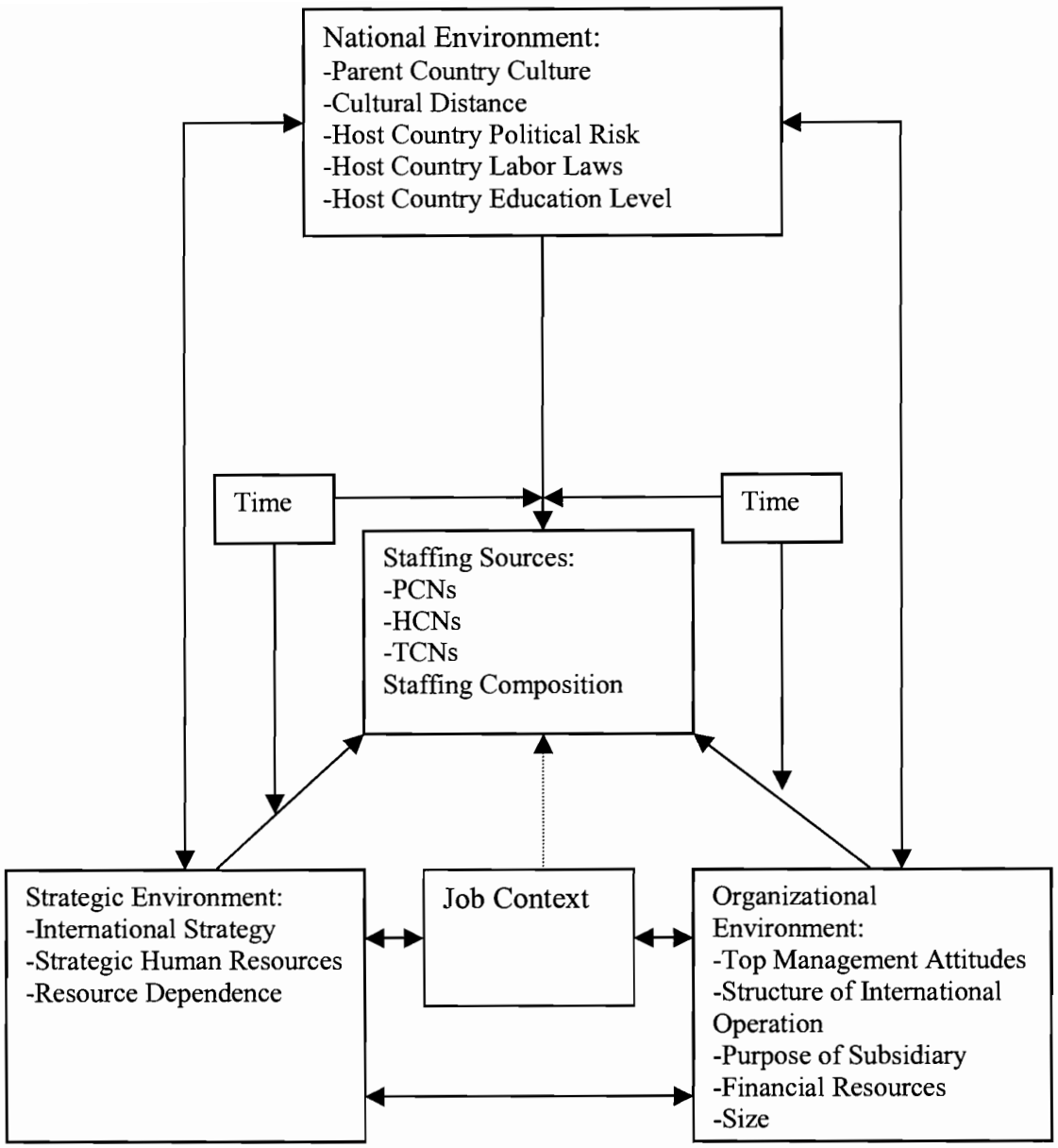

Figure 1: A Dynamic Model of Environmental Antecedents of Subsidiary Staffing Modes in MNEs

distribution). These environmental variables may have impact on staffing mode choices at employee level, top management level, or both. The proposition section will differentiate levels of staffing if appropriate.

Among the national environmental antecedents of staffing modes, an MNE's parent country culture has received little attention. HRM practices vary across nations (McEvoy & Cascio, 1990; Moore & IsHak, 1989). The variations in MNEs' HRM practices in overseas subsidiaries may partly reflect national cultural imprints of different MNEs (Hofstede, 1980; Kirkman & Shapiro, 1997). Research suggests that national culture impacts MNEs' compensation and benefits practices (Schuler & Rogovsky, 1998; Townsend, Scott, & Markham, 1990). The model suggests that national cultural imprints of an MNE affect its staffing mode choices in overseas subsidiaries. Specifically, power distance and uncertainty avoidance (Hofstede, 1980) are likely to have positive effects on the utilization of PCNs in managerial positions in overseas subsidiaries. Uncertainty avoidance refers to people's relative tolerance for ambiguity in a society, and power distance is the degree to which the inequality between superiors and subordinates is seen as acceptable and necessary (Hofstede, 1980). Preliminary evidence suggests that Japan, which has higher power distance and uncertainty avoidance scores compared to the U.S. and most European countries, also employs more PCNs in managerial positions in their overseas subsidiaries (Kopp, 1994; Peterson et al., 1996; Tung, 1982).

Subsidiaries are nested in a diverse environment, which includes not only the parent firm and country, but also the local environment (Rosenzweig & Singh, 1991). Multiple environments constitute multiple and potentially conflicting sources of external authorities and demands (Sundaram & Black, 1992). Specifically, subsidiaries face the conflicting

forces for compliance with local norms and practices, and for consistency with the parent firm and country (Kostova & Zaheer, 1999; Rosenzweig & Singh, 1991). The simultaneous demands for consistency complicate staffing mode choices.

International strategy (Schuler et al., 1993; Taylor et al., 1996) may affect subsidiary staffing mode, but has received little attention in the literature. Porter (1986) and Bartlett and Ghoshal (1987a, 1987b, 1998) suggest three types of international strategy: Global, multi-domestic, and transnational. Different types of individuals have different degrees of demands-abilities fits to different international strategies (Edwards, 1991). For example, HCNs have better demands-abilities fit to the strategic demands of serving local needs under the multi-domestic strategy. To successfully formulate and implement a certain international strategy, a MNE may adopt a certain staffing mode because one national group is better suited to address a particular strategic concern than the other (Schuler & Jackson, 1987). The nature of an MNE's human resources may affect subsidiary staffing mode. Tacit and firm-specific human resources may necessitate an expatriate PCN-oriented approach because of their fit to the strategic task of transferring tacit and firm-specific knowledge to overseas subsidiaries.

Earlier review also suggests that organizational value fit is likely to affect staffing decisions (Chatman, 1989; Schneider, 1987; Schneider et al., 2000). An MNE's top management attitudes directly affect its choice of staffing sources (Perlmutter, 1969). MNEs with ethnocentric attitudes recruit and develop PCNs for key positions everywhere in the world, MNEs with polycentric attitudes recruit and develop HCNs for key positions in their own country, whereas MNEs with geocentric attitudes pick the best people around the world for key positions around the globe (Perlmutter, 1969). From the P-E fit perspective, those

who do not fit certain managerial attitude will not be attracted to and will likely to depart from the subsidiaries over time (Schneider, 1987; Schneider et al., 2000). The homogenization of staffing composition may occur first at the top management level, and then diffuse to the employee level (Schneider, 1987).

To make the model comprehensive, I also include other environmental antecedents of staffing modes such as host country political risk, host government labor laws, availability of qualified local nationals, and purpose of the subsidiary (i.e., manufacturing, marketing, sales and distribution). These antecedents are beyond the scope of this dissertation because they are either well understood or less theoretically interesting.

Based on the literature review, this dissertation further proposes that time moderates the effects of national, strategic, and organizational variables on the choices of staffing modes. For example, at the early stages of subsidiary formation, expatriate PCNs are the best candidates for transferring firm-specific resources to overseas subsidiaries, and for reducing uncertainty. Over time, subsidiaries accumulated resources and capabilities from headquarters, and may have developed their own capabilities. This increases a subsidiary's ability to further absorb knowledge from headquarters. MNEs may gradually learn how to manage HCNs, and how to design effective control mechanisms. Finally, expatriate PCNs are often costly and have high failure rate (Tung, 1987). Thus, over time, an expatriate PCN-oriented staffing mode may become less desirable even under high cultural distance.

CHAPTER 3

DEVELOPMENT OF PROPOSITIONS

The propositions presented in this section will be discussed in terms of national, strategic, and organizational environment. The time dimension will be included in the discussion of specific environmental variables.

3.1 National Cultural Environment

Parent country culture. Previous survey studies (Chang & Taylor, 1999; Kopp, 1994; Tung, 1982) found significant differences in the utilization of expatriate PCNs in subsidiaries of MNEs from different countries. However, the underlying rationale has not been articulated (Chang & Taylor, 1999). MNEs are anchored in a set of national cultural characteristics. These cultural characteristics affect the way MNEs staff their overseas subsidiaries (Ferner, 1997; Hofstede, 1980).

Hofstede (1980) suggests that nations vary along the dimension of uncertainty avoidance, and that uncertainty avoidance affects management practices of MNEs. For example, high uncertainty avoidance cultures are more likely to adopt a seniority-based pay system (Schuler & Rogovsky, 1998). MNEs from high uncertainty avoidance cultures are more likely to utilize PCNs in management positions because of their lower

tolerance for uncertainty. Expatriate PCNs especially veterans from the parent firm have a greater supplementary fit with the parent firm and country values. This similarity reduces both perceived and actual uncertainty in managing overseas subsidiaries.

Control in organizations is related to the concern about uncertainty. Expatriate PCNs may better meet the demand for organizational control. Utilization of expatriate PCNs increases the direct/formal bureaucratic control through personnel selection (Baliga & Jaeger, 1984). Fit of values and goals improves indirect/informal control over the subsidiary, and the coordination between the subsidiary and headquarters (Ouchi, 1979). Furthermore, it makes the understanding of subsidiary claims, actions, and performance easier, and perhaps more accurate because of the shared cultural background and frames of reference (Roth & O'Donnell, 1996). The net result is the reduced uncertainty in managing overseas subsidiaries. Thus,

> Proposition 1a: MNEs from high uncertainty avoidance cultures are likely to have an expatriate PCN-oriented staffing mode in managerial staffing in their overseas subsidiaries.

Power distance may affect the choice of staffing modes as well (Hofstede, 1980). Power distance affects staffing mode choices through its effect on interpersonal trust (Doney, Cannon, & Mullen, 1998; Hofstede, 1980; Shane, 1992). Hofstede (1980: 384) states that "a smaller power distance leads to the feasibility of control systems based on trust in subordinates, in larger power distance countries, such trust is missing". For example, Researchers found that Peruvian workers (high power distance) had a lower level of interpersonal trust compared to the U.S. workers (low power distance) (Doney et al., 1999; Williams, Whyte, & Green, 1966). The interpersonal trust in high power

distance cultures is likely to be restricted to the superior-subordinate dyad. The level of trust on culturally distant HCNs is likely to be even lower because of the dissimilarity in values. This lower level of trust on HCNs may prompt MMEs to staff subsidiaries with more expatriate PCNs especially veterans from the parent firm.

Power distance corresponds to a need for centralization (Wong & Birnbaum, 1994). The more centralized decision-making style in higher power distance cultures (Shane, 1992) may increase the utilization of PCNs in top management positions in overseas subsidiaries. PCNs, who are raised in the high power distance culture, may fit the decision-making style better than other nationals. Thus, I propose

> Proposition 1b: MNEs from high power distance cultures are likely to have an expatriate PCN-oriented staffing mode in managerial staffing in their overseas subsidiaries.

Cultural distance. Cultural differences between the parent and the host country may affect staffing mode choices (Boyacigiller, 1990). A subsidiary faces not only a local environment, but also the parent organization and country (Rosenzweig & Singh, 1991). As a result, a subsidiary simultaneously faces the force for congruence with local institutional environment, and the force for consistency with the parent firm. The need for compliance with local practices calls for a staffing mode that is congruent with the local environment, whereas the need for consistency with the parent side of environment demands a staffing mode that fits to the parent firm and country.

According to agency theory, MNEs should take an expatriate PCN-oriented staffing mode because the similarity of values and goals between expatriate PCNs and its parent firm reduces uncertainty and agency costs in managing overseas operations.

Institutional theory (Zucker, 1987) suggests that MNEs should staff subsidiaries with HCNs to increase the fit with local cultural environments so as to gain legitimacy in the local environment. These two competing aspects of fit are both within the scope of the P-E fit perspective. Table 1 summarizes the two theories as they underpin the impact of cultural distance on the choices of staffing mode, as detailed below.

Agency theory examines the principal-agent relationship in which the principal delegates work to the agent, and the agent performs tasks on the principal's behalf (Eisenhardt, 1989; Jensen & Meckling, 1976). As principals and agents have divergent interests, the central issue is the design of an optimal control mechanism that makes the agent behave in the principal's interests (Eisenhardt, 1989; Jensen & Meckling, 1976). A MNE consists of a group of geographically dispersed and goal-disparate organizations that include its headquarters and the different national subsidiaries (Ghoshal & Bartlett, 1990). The subsidiary-headquarter relationship is a form of extended agency relationship that can be and has been fruitfully investigated as the principal-agent dyad relationship (Chang & Taylor, 1999; Roth & O'Donnell, 1996). Three forms of control can be used to align an agent's behavior with the principal's interests: (a) Outcome control when complete and accurate performance information is available, (b) behavior control if complete information about work processes and individual behaviors is available, and (c) cultural control through shared values and goals if neither of the above information is available, accurate, and complete (Eisenhardt, 1985, 1989; Ouchi, 1978).

Basis of Comparison	Agency	Institutional
Assumption	• Divergence of interests • Self-interest • Bounded rationality • Risk aversion	• Legitimacy is important for survival • Legitimacy is gained through mimicking local practices
Problem domain	• Agency problem	• Legitimacy problem
General prescription	• Agency cost reduction through design of control mechanisms	• Gaining legitimacy through congruence with local practices
The role of cultural distance	• Increases agency problem • Increases difficulty in behavioral and outcome monitoring	• Increases the pressure for congruence with local practices
Dimension of fit	• Fit to parent firm values • Fit to parent country values	• Fit to host national cultural values
Solution	• Expatriate PCN staffing	• HCN Staffing

Table 1: Competing Fit Dimensions from Agency and Institutional Theoretical Perspectives

In the context of overseas subsidiaries of MNEs, performance information may be non-comparable due to differences in accounting procedures, varying levels of market maturation, and volatility of exchange rate, which, in conjunction with agents' risk aversion, make outcome-based control less than optimal (Eisenhardt, 1985; Gregersen & Hite, 1996; Schuler, Fulkerson, & Dowling, 1992). As cultural and physical distance increase, information asymmetry becomes more serious, complete and accurate information about subsidiary employee actions and performance becomes more difficult and expensive to obtain, and subsidiary actions become harder to interpret (Chang & Taylor, 1999; Roth & O'Donnell, 1996), which complicate both behavioral and outcome control. Behavioral monitoring involves high control cost, and demonstrates almost no inter-level consistency (Ouchi, 1978). Furthermore, it constrains employee discretion in responding to local needs, and results in unenthusiastic and purely compliant response that are detrimental to subsidiary performance (Eisenhardt, 1985; Ouchi, 1979).

Expatriate PCNs have already internalized values and goals of the parent firm through the earlier socialization process. Because of the shared values and goals, these individuals are likely to act in accordance with parent strategic intent, and thus are more trusted by headquarters (Egelhoff, 1988; Kobrin, 1988). Staffing subsidiaries with expatriate PCNs may be a low cost cultural control mechanism that simultaneously grants subsidiaries flexibility in choosing actual course of actions to achieve headquarter objectives.

Stated in the P-E fit terms, the fit of values and goals between headquarters and expatriate PCNs improves coordination between subsidiaries and headquarters, exerts implicit cultural control over culturally distant subsidiaries, and ensures that subsidiaries

will behave in accordance with parent values and goals (Eisenhardt; 1985; Ouchi, 1979). Stated in another way, expatriate PCNs have a better demands-abilities fit to the task of control and agency cost reduction. At the employee level, as cultural distance increases, MNEs are less likely to select HCNs and TCNs, who are also less likely to be attracted to, and are more likely to depart from subsidiaries due to the decrease in the fit of HCNs and TCNs to MNEs' managerial attitudes, values, norms, and management styles that reflect MNEs' national cultures (Schneider, 1987). Stated differently, expatriate PCNs have better supplementary fit to the parent firm and country values. Thus,

Proposition 2a: Cultural distance will be positively related to an expatriate PCN-oriented staffing mode in overseas subsidiaries.

Gaining legitimacy through increased supplementary fit to the host national environment is important for subsidiary survival (Kostova & Zaheer, 1999). Centering on the issue of organizational legitimacy, institutional theory (Zucker, 1987) provides a contrasting perspective towards the impact of cultural distance on the choice of staffing modes. In an institutionalized environment, social processes, obligations or actuality come to take on a rule like status in social thoughts and actions. Organizations are influenced by pressures arising from the environment, and have to comply with these pressures to gain legitimacy and survival (Meyer & Rowan, 1977; Zucker, 1987). Organizations are designed to insure survival by mimicking local practices, and adopting the surrounding cultural values and norms (DiMaggio & Powell, 1983; Meyer & Rowan, 1977).

Forces for compliance with local practices can stem from the legal regulations imposed by national governments on MNEs, and the cultural expectations in the host environment (DiMaggio & Powell, 1983), the latter of which presents a greater challenge to

subsidiaries in establishing legitimacy (Kostova & Zaheer, 1999). To the extent that the host environment stakeholders, e.g., host government, HCNs, and labor unions, impose specific regulations or cultural expectations regarding HRM in a subsidiary, a MNE may have little choice but to comply (Rosenzweig & Singh, 1991). The higher the cultural distance, the stronger the force for congruence with local practices. The higher pressure leads to higher adaptation of HR practices to fit to host country norms and practices (Kostova & Zaheer, 1999; Milliman et al., 1991).

Staffing subsidiaries with HCNs is a personnel practice insisted on by many host governments (Dowling et al., 1999; Robock & Simmonds, 1977). The higher the cultural distance, the more likely that a subsidiary will be under higher pressure from the host institutional environment to comply with legal and cultural expectations arising from the host environments (Meyer & Scott, 1983). Conformity adds legitimate elements to a subsidiary, and enables the subsidiary to gain support from and secure its long-run survival in the host environment (Meyer & Rowan, 1977). The inability of expatriate PCNs to adjust to the local cultural environment creates a legitimacy problem. Staffing subsidiaries with HCNs eliminates adjustment and legitimacy problems because HCNs have supplementary and demands-abilities fit with the host environment.

Proposition 2b: Cultural distance will be negatively related to an expatriate PCN-oriented staffing mode in overseas subsidiaries.

To summarize, the direction of effect for cultural distance can go both ways based on agency and institutional theories. Time provides a convergence point for the two contrasting perspectives. Over time, MNEs become proficient in transacting with and managing culturally distant HCNs or TCNs through a learning-by-doing process. Learning

improves communication with culturally distant agents, enables more efficient and effective information search and exchange, and therefore reduces problems of information asymmetry and incomplete information. This tends to alleviate the problem of bounded rationality, and enable the design of better control mechanisms such as the employment contract. Experiential learning also increases the understanding of culturally distant agents' behaviors and underlying motives (Kostova & Zaheer, 1999), which not only lubricates transactions, but also decreases agents' opportunistic behaviors by reducing privately held information. Finally, longer presence in the host country may facilitate the formation of trust relationship with local nationals through repeated transactions (Axelrod, 1984). From the institutional theoretical perspective, subsidiaries may localize its personnel gradually as a result of the isomorphism process driven by the institutional pressure. Longer operation in a host country reduces agency costs, deepens local isomorphism, and therefore decreases the reliance on PCNs. To summarize, time narrows the different predictions of agency and institutional theories. Thus,

> Proposition 2c: Time (measured in years of operation in a host country) will moderate a positive relationship between cultural distance and an expatriate PCN-oriented staffing mode in overseas subsidiaries such that the longer the operation, the less likely that subsidiaries will have an expatriate PCN-oriented staffing mode under high cultural distance.

3.2 Strategic Environment

International strategy. International strategy constitutes the strategic context of staffing mode decision-making. MNEs can adopt global, multi-domestic, or transnational

strategies (Bartlett & Ghoshal, 1987a, 1987b; Porter, 1986). The primary concern of global strategy is efficiency, which is achieved through integrating and rationalizing a series of linked operations across the globe. Since an MNE's competitive position in one country is significantly affected by its position in other countries, the key issue becomes the control and coordination of activities across different national subsidiaries (Porter, 1986; Roth, Schweiger, & Morrison, 1991). Expatriate PCNs have better qualifications to meet this strategic demand (i.e., better demands-abilities fit) because they share parent values, goals, and tend to have a better understanding of the global strategic thrust of the parent firm.

The primary concern for multi-domestic strategy is local responsiveness. Under a multi-domestic strategy, products are differentiated to meet local demands, marketing strategy is customized according to local cultural values and norms, and policy is differentiated to conform to different government demands (Bartlett & Ghoshal, 1987a, 1987b, 1998; Porter, 1986). The strategic need for local responsiveness necessitates an HCN-oriented staffing mode in subsidiaries because they have a better demands-abilities fit by virtue of their natural familiarity with local conditions (Schuler et al., 1993).

MNEs pursuing a transnational strategy strive to achieve global integration and local responsiveness simultaneously (Batlett & Ghoshal, 1987b, 1998). To achieve both objectives, MNEs may need to staff their overseas subsidiaries with both PCNs and HCNs. Furthermore, knowledge and innovation are generated jointly and shared worldwide in MNEs pursuing a transnational strategy (Bartlett & Ghoshal, 1998). This strategic task is more effectively accomplished by a heterogeneous staffing mode - a combination of PCNs, HCNs, and TCNs - because it facilitates information transmission, learning, and creativity (Cohen & Levinthal, 1990; Harvey, Speier, & Novicevic, 1999a; Kristof, 1996). Stated in

the P-E fit terms, a heterogeneous staffing mode generates a better demands-abilities fit. The challenge for MNEs pursuing a transnational strategy is to legitimize heterogeneity but manage it appropriately by balancing different perspectives (Bartlett & Ghoshal, 1998). Thus,

> Proposition 3a: MNEs pursuing a multi-domestic strategy are more likely to employ an HCN-oriented staffing mode in overseas subsidiaries than MNEs pursuing a global strategy or transnational strategy.
>
> Proposition 3b: MNEs pursuing a transnational strategy are more likely to have a heterogeneous staffing mode in their overseas subsidiaries than MNEs pursuing a global or multi-domestic strategy.

Strategic human resources. An MNE's strategic human resources possession consists another dimension of the strategic context. Tacit and firm-specific human resources provide a MNE with a competitive edge over its competitors (Barney, 1991; Prahalad & Hamel, 1990). Human resources include managerial and technical know-how, and the values and beliefs embedded in corporate culture (Barney, 1986; Lado & Wilson, 1994). These firm specific resources are embedded in individuals, groups, and organizations.

For MNEs with tacit and firm-specific human resources, the challenge is to effectively leverage these resources to overseas subsidiaries and exploit them on a global basis (Bartlett & Ghoshal, 1987a; Kostova 1999; Torbiorn, 1994). It is difficult if not impossible for individuals to articulate to others their tacit knowledge (Polanyi, 1966), which frustrates the attempt to transfer this type of resources through formal training. Moving expatriate PCNs to subsidiaries is an effective way to transfer knowledge since individuals can transfer their tacit knowledge to other tasks and contexts (Argote, 1999;

Bonache & Brewster, 2001). For tacit and firm-specific knowledge embedded in groups, it may necessitate the transfer of groups of expatriate PCNs especially veterans from the parent firm (Bonache & Fernandez, 1999).

Transferring knowledge embedded in technology is most successful when it is accompanied by transferring a few individuals as well because "individuals capture the tacit knowledge, the subtlety, and the understanding behind the technology" (Argote, 1999: 90; Galbraith, 1990). Knowledge embedded in organizational structures and routines can be transferred relatively easily. Transferring expatriate PCNs from the parent firm to subsidiaries would be a better way to leverage these resources because these individuals develop a better understanding of this type of know-how through experiential learning over a long period of time.

The transfer of values embedded in corporate culture, which has been regarded as a source of sustained competitive advantage (Barney, 1986; Fiol, 1991; Lado & Wilson, 1994), necessitates expatriation because expatriate PCNs are in a better position to transmit the parent organizational culture to subsidiaries (Edstrom & Galbraith, 1977). Staffing subsidiaries with expatriate PCNs also facilitates knowledge transmission from the parent firm because of shared language and prior related knowledge of the parent (Bower & Hilgard, 1981; Cohen & Levinthal, 1990).

In conclusion, expatriate PCNs have better demands-abilities fit to the strategic task of transferring tacit and firm-specific human resources to overseas subsidiaries. Survey research suggests that knowledge transfer and cultural transmission are among the major reasons for expatriation and international managerial transfer (Baliga & Jaeger, 1984; Edstrom & Galbraith, 1977; Martinez & Jarillo, 1989; McGoldrick, 1997). Over

time, HCNs gain the tacit and firm-specific knowledge from expatriate PCNs. They may further develop their own unique resources and capabilities based the experiential learning from expatriates (Birkinshaw & Hood, 1998). HCNs also learn parent cultural values through expatriates' socialization activities. Learning helps a subsidiary establish absorptive capacity for future learning from the parent (Cohen & Levinthal, 1990), leading to a lower need for expatriate PCNs over time.

Proposition 4a: MNEs with tacit and firm-specific human resources are more likely to employ an expatriate PCN-oriented staffing mode in staffing managerial, technical, or professional positions in their overseas subsidiaries.

Proposition 4b: Over time, MNEs are likely to reduce the reliance on an expatriate PCN-oriented staffing mode in staffing managerial, technical, or professional positions for the purpose of transferring tacit and firm-specific human resources.

3.3 Organizational Environment

Top management attitudes. The P-E fit perspective suggests that top management attitudes affect staffing modes from both the MNE and individual perspectives through the attraction-selection-attrition process (Schneider, 1987; Schneider et al., 2000).

In MNEs with ethnocentric managerial attitudes, parent working methods and culture are regarded as being superior and decisive for the organization of subsidiaries. MNEs with ethnocentric attitudes are likely to attract, select, and retain PCNs because of their better fit to the parent firm values (Schneider, 1987; Schneider et al., 2000). However, ethnocentric attitudes towards host countries will change in the positive direction over time. The longer the subsidiary operates in the host country, the more the

interaction with HCNs, and the more positive headquarters' attitudes towards HCNs will be (Allport, 1954). In addition, availability of qualified HCNs will increase over time, which tends to reduce an MNE's ethnocentric attitudes as well. The reduced ethnocentric attitude leads to a lower utilization of PCNs.

MNEs with polycentric managerial attitudes acknowledge variations in cultural values and norms across borders, and regard HCNs as being the best in serving the local market. This type of MNEs is likely to attract HCNs, who are also likely to be selected and retained because they have better demands-abilities fit (i.e., they have better knowledge, skills, and ability) to the task of serving the local market. MNEs with geocentric attitude recruit the best mangers in the world regardless of nationality. This type of MNEs attracts, selects, and retains not only PCNs and HCNs, but also TCNs who possess valuable managerial and technical skills.

Proposition 5a: As a result of the fit-seeking process, subsidiaries of MNEs with ethnocentric attitudes are more likely to have an expatriate-PCN oriented staffing mode than subsidiaries of MNEs with the polycentric or geocentric attitudes.

Proposition 5b: As a result of the fit-seeking process, subsidiaries of MNEs with geocentric managerial attitudes are likely to have the most heterogeneous staffing mode among subsidiaries of the three types of MNEs.

Proposition 5c: Over time, MNEs will reduce ethnocentric attitudes towards host countries, and in turn, their reliance on the expatriate PCN-oriented staffing mode in overseas subsidiaries.

Table 2 summarizes all the propositions discussed so far.

CHAPTER 4

DISCUSSION OF THE MODEL

The concept of environment is not precisely defined in the domestic staffing literature. It refers to the job, the organization, or the vocation of an individual. MNEs simultaneously operate in multiple countries, and the heterogeneity of national environments poses the issue of national cultural fit. MNEs thus serve as catalysts for refining and expanding the dimensions of environment. This essay provides a broad definition of environment, and clearly delineates four dimensions of environment: National, strategic, organizational, and job environments. This essay further systematically classifies the environment variables into four dimensions.

The four dimensions of fit have significant implications for subsidiary staffing in MNEs. Fit to each environmental dimension is associated with different levels (i.e., individual, and organizational levels) and dimensions (e.g., adaptation, job proficiency, and legitimacy) of performance. Table 3 summarizes the four dimensions of fit, and the impacts on individual and organizational performance. Assessment of fit at different levels may suggest different choices of staffing mode. From the perspective of organizational fit, MNEs should staff subsidiaries with expatriate PCNs because of their better supplementary fit to parent organizational values. From the standpoint of national

cultural fit, however, MNEs may need to staff subsidiaries with HCNs because gaining legitimacy requires supplementary fit to local cultural environment. A potential way to solve this dilemma is to inpatriate HCNs to the parent firm for intensive socialization training (Harvey, Buckley, & Novicevic, 2000; Harvey et al., 1999a), and then send them back to subsidiaries where they originally came from. In doing so, MNEs must keep in mind the potential clash between the corporate culture and national cultures of HCNs (Schneider, 1988), and the integration and adjustment problems that inpatriates may experience (Harvey, Sperier, & Novicevic, 1999b).

As a final note, I would like to propose a logical sequence of fit assessment. The first assessment targets national cultural environment fit. Although fit at this level can be understood as fit with and thus legitimacy in the host culture, it can also be understood as supplementary fit with parent firm values for the sake of reducing agency costs. The second fit assessment deals with the demands-abilities fit to the strategic demands of MNEs. The third is the organizational fit, the fit to top management attitudes, values, and norms. Fit at the organizational level affects not only individual performance, but also the efficiency in controlling subsidiaries and the coordination between subsidiaries and headquarters. The last step is the assessment of person-job fit, which is important for individual task performance. The sequence of assessing fit suggests that decision-making at one level should logically precede decision-making at the other level. For example, if an individual does not fit the national cultural environment, he or she is unlikely to be effective even if he or she fits the strategic demand, the organization, and the job.

Proposition 1a: MNEs from high uncertainty avoidance cultures are likely to have an expatriate PCN-oriented staffing mode in managerial staffing in their overseas subsidiaries.

Proposition 1b: MNEs from high power distance cultures are likely to have an expatriate PCN-oriented staffing mode in managerial staffing in their overseas subsidiaries.

Proposition 2a: Cultural distance will be positively related to an expatriate PCN-oriented staffing mode in overseas subsidiaries.

Proposition 2b: Cultural distance will be negatively related to an expatriate PCN-oriented staffing mode in overseas subsidiaries.

Proposition 2c: Time (measured in years of operation in a host country) will moderate the relationship between cultural distance and an expatriate PCN-oriented staffing mode in overseas subsidiaries such that the longer the operation, the less likely that subsidiaries will have an expatriate PCN-oriented staffing mode under high cultural distance.

Proposition 3a: MNEs pursuing a multi-domestic strategy are more likely to employ an HCN-oriented staffing mode in overseas subsidiaries than MNEs pursuing a global strategy or transnational strategy.

Proposition 3b: MNEs pursuing a transnational strategy are more likely to have a heterogeneous staffing mode in their overseas subsidiaries than MNEs pursuing a global or multi-domestic strategy.

Table 2: Summary of Propositions in the Model (propositions in italic type are tested in this dissertation)

Proposition 4a: MNEs with tacit and firm-specific human resources are more likely to employ an expatriate PCN-oriented staffing mode in staffing managerial, technical, or professional positions in their overseas subsidiaries.

Proposition 4b: Over time, MNEs are likely to reduce the reliance on an expatriate PCN-oriented staffing mode in staffing managerial, technical, or professional positions for the purpose of transferring tacit and firm-specific human resources.

Proposition 5a: As a result of the fit-seeking process, subsidiaries of MNEs with the ethnocentric attitudes are more likely to have an expatriate-PCN oriented staffing mode than subsidiaries of MNEs with the polycentric or geocentric attitudes.

Proposition 5b: As a result of the fit-seeking process, subsidiaries of MNEs with the geocentric managerial attitudes are likely to have the most heterogeneous staffing mode among subsidiaries of the three types of MNEs.

Proposition 5c: Over time, MNEs will reduce the ethnocentric attitudes towards host countries, and thus the reliance on the expatriate PCN-oriented staffing mode in overseas subsidiaries.

Table 2 (Cont'd): Summary of Propositions in the Model (propositions in italic type are tested in this dissertation)

Environmental Dimension	Decision Factors	Theoretical Underpinning	Fit Assessment	Performance Dimensions
1. National Cultural	Institutional pressure Agency cost	Agency theory Institutional theory	Person-culture fit	Organizational level: -Legitimacy -Agency cost Individual level: -Adaptation
2. Strategic	International strategy Resources	Resource-based view	Strategic fit	Organizational level: -Synergy -Efficiency
3. Organizational	Values Goals	Person-Organization fit Attraction-selection-attrition	Person-organizational fit	Organizational Level: -Efficiency Individual level: -Organizational citizenship behavior -Satisfaction -Commitment -Retention
4. Job	Knowledge Skills Ability	Person-job fit	Person-job fit	Individual Level: -Job proficiency

Table 3: Dimensions of Environmental Fit Analyses and Implications for Performance.

CHAPTER 5

EMPIRICAL STUDY 1

As an initial effort to validate the model developed earlier, I conducted two empirical studies to examine the competing theoretical predictions from agency and institutional theories regarding the impact of cultural distance on the utilization of expatriate PCNs. Specifically, propositions 2a, 2b, and 2c are tested in two empirical studies - one survey and one archival study.

5.1 Survey Sample and Procedure

The U.S. subsidiaries of foreign MNEs listed in the Directory of Foreign Firms Operating in the United States (Uniworld, 2000) constituted the population from which the sample was drawn. The directory is specialized in foreign MNEs. It provides address, phone number, major industry, CEO/president name, and parent ownership share for the U.S. subsidiaries of foreign MNEs. The directory contains subsidiaries of MNEs from both developed and developing countries, and therefore represents great variations in MNE nationalities and cultural differences.

Previous MNE staffing studies have not focused on subsidiaries of foreign MNEs operating in the U.S. The U.S. environment may present some unique challenges for

foreign MNEs. Compared to an international survey, the current approach reduced cost considerably, and enhanced the ability to control the data collection process. By holding the host country constant, the sampling approach ensured control over extraneous variables pertaining to the host environment, which in turn reduces sample size requirement.

To determine the sample size, I conducted a power analysis. Without sufficient prior information about effect size, I assumed the population R^2 to be about .45, and each of the 13 predictors (including control variables and independent variables) to make a unique contribution of .03 = sr^2. If so, I need a sample size of 152 to have a power of .80 to reject the null hypothesis at $\alpha = .05$ level (Cohen & Cohen, 1983). Assuming a 15% response rate, I need 1,169 firms to start with. I randomly drew 1,169 firms from the above directory. Among all the states/cities, New York has the largest number of subsidiaries of foreign MNEs. After the "9.11" event, I took out 25 firms in the World Trade Center and 1 Liberty Plaza. This reduced the sample size to 1,144.

I followed the standard survey procedure suggested by Dillman (2000). I sent a pre-notice letter to the CEO/president of each subsidiary on September 25, 2001. In the letter, I explained the purpose of the study and potential benefits for participants, and requested CEOs to fill out the survey. On October 2, 2001, I sent a package, which contains a cover letter, a survey questionnaire, and a return envelope with prepaid postage, to each respondent. In the cover letter, I explained the purpose of the study, potential benefits for participants, and the procedure for filling out the survey. On October 17, 2001, I sent out a thank-you postcard to respondents to express appreciation and to remind those who had not responded yet. On October 24, 2001, I again sent a

package containing a replacement survey, a cover letter, and a return envelope to each respondent. I conducted the last follow-up on December 9, 2001. Personalized correspondence can improve response rate (Dillman, 2000). Therefore, I signed every correspondence to each respondent.

After the initial contact, fifty-six firms declined to participate. Another 130 surveys (11% of the total sample) were undeliverable. This reduced the effective sample size to 958. Eighty-one subsidiaries returned completed surveys, representing a response rate of 8.5%. The parent firms of the subsidiaries in the final sample came from the following 21 countries/regions: Australia, Austria, Canada, Chile, Denmark, Great Britain, Finland, France, Germany, Hong Kong, Iran, Italy, Japan, Netherlands, Russia, South Korea, Singapore, Spain, Sweden, Switzerland, Turkey, and United Arab Emirates.

There was a three-week period after the initial mailing of survey when no completed survey was returned, making it difficult to distinguish between those returned because of the initial mailing and those because of the second mailing. Subsidiaries in the final sample tend to be of small and medium size in terms of number of employees ($\underline{M}$ = 157) and capital ($\underline{M}$ = $10.6M). Firms in the final sample were wholly owned subsidiaries ($\underline{M}$ = 98%). The average length of operation in the U.S. was 19.8 years.

The final sample was generally representative in terms of industry. For the subsidiaries in the final sample, 51% (compared to 45% in the directory) were in manufacturing, 19% (compared to 26% in the directory) in trade, 14% (compared to 15% in the directory) in finance, insurance, and real estate, 11% (compared to 8% in the directory) in transportation and public utility, and 5% (compared to 6% in the directory) in service industry. The directory does not provide information on a subsidiary's total

number of employees, capital invested in a subsidiary, a subsidiary's sales volume, and years of operation in the host country, therefore I made no comparison in these regards.

5.2 Dependent and Independent Variables

Staffing mode. At CEO level of analysis, I asked CEOs to provide the nationality of subsidiary CEO/President/General Manager. This variable was dummy coded with "1' represented PCNs and "0" otherwise. At the top management team level of analysis, I asked the CEOs to provide the number of top managers who are PCNs, HCNs, and TCNs respectively, and then calculated the proportion of top managers in each category. I asked CEOs to provide the total number of employees, the number of PCNs, HCNs, and TCNs among employees. I then calculated the proportion for each category.

To ensure consistency, I provided definitions for PCNs, HCNs, and TCNs in the questionnaire. PCNs are defined as those who are nationals of the country where the MNE is headquartered. HCNs are defined as those who are nationals of the country where the overseas subsidiary is located, but where the subsidiary is operated by a MNE headquartered in another country. TCNs are defined as those who are nationals of one country, working in a second country, and employed by a MNE headquartered in a third country. I defined top managers as including CEOs and those who were one level below in the managerial hierarchy.

Cultural distance. Each CEO provided the country where the parent firm of the subsidiary was located. I calculated cultural distance between the parent and the host country using Kogut and Singh's (1988) cultural distance index:

$$CD_{jk} = \Sigma\{(D_{ij} - D_{ik})^2 / V_i\}/4$$

Where CD_{jk} is the cultural distance between countries j and k, D_{ij} is the score for subsidiary country j on cultural dimension i, D_{ik} is the score for host country k on cultural dimension i, and V_i is the variance of the index for cultural dimension i. Country scores on the specific dimensions (D_{ij} and D_{ik}) are taken from Hofstede (1980). This formula corrects for the variance of each cultural dimension and averages across the four dimensions.

Each CEO also subjectively evaluated the cultural difference between the U.S. and the parent country on a five-point Likert scale. While these two measures were significantly correlated ($r = .26$, $p < .05$), the magnitude is considered as smaller than medium (Cohen & Cohen, 1983). Due to the concern for the accuracy of single informant's assessment, I used Hofstede's country scores and Kogut and Singh's (1989) index in all subsequent analyses.

5.3 Control Variables

The sampling approach necessitates the control of extraneous variables such as subsidiary dependence on parent firm, the nature of parent firm's human resources, the international strategy of the MNE, MNE top management attitudes, cost differential between the U.S. and the parent country, and parent country culture in uncertainty avoidance and power distance. These variables were identified in the theoretical model as antecedents of staffing modes (see figure 1). Variables such as host country education level, availability of qualified local nationals, host government policy, and host country political risk were controlled by research design (see "Sample and Procedure" section).

International strategy. Porter (1986) and Bartlett and Ghoshal (1987a, 1987b, 1998) suggest three international strategies: Global, multi-domestic, and transnational. Recent research suggests that an MNE's international strategy may affect subsidiary HRM systems/practices (Schuler et al., 1991; Taylor et al., 1996). International strategies affect staffing modes due to their different focuses on local responsiveness, global integration, or both, and different national groups' divergent roles and qualifications in achieving these concerns (Schuler & Jackson, 1987). MNEs pursuing a global strategy strive to integrate and rationalize a series of linked operations across the globe, which may necessitate an expatriate PCN-oriented staffing mode. MNEs pursuing a multi-domestic strategy strive to be locally responsive and meet differentiated local needs. This strategy necessitates an HCN-oriented staffing mode since HCNs are better equipped to meet the strategic need. MNEs following a transnational strategy need to both integrate global operations and respond to local needs, which may require a combination of PCNs and HCNs.

I used Harzing's (2000) measure in this study. Specifically, the respondents evaluated how accurately the following four statements describe the parent firm on a five-point Likert scale: (a) The parent company's strategy is focused on achieving economies of scale by concentrating its important activities at a limited number of locations (economy of scale), (b) the parent company's competitive position is defined in world-wide terms, different national product markets are closely linked and interconnected, and competition takes place on a global basis (global competition), (c) the parent company's competitive strategy is to let each subsidiary compete on a domestic level as national product markets are judged too different to make competition on global

level possible (domestic competition), and (d) the parent company not only recognizes national differences in taste and values, but actually tries to respond to these national differences by consciously adapting products and policies to the local market (national responsiveness) (1 = highly inaccurate, 5 = highly accurate).

I conducted a cluster analysis to classify the sample firms into homogeneous strategic groups. Three clusters emerged in the sample. The Euclidean distances between clusters 1 and 2, clusters 1 and 3, and clusters 2 and 3 are 2.80, 2.91, and 2.57 respectively. Twenty firms in cluster 1 (multi-domestic) scored higher in "domestic competition" and "national responsiveness", and lower in "economy of scale" and "global competition". Thirty-two firms in cluster 3 (global) demonstrated the opposite. Twenty-nine firms in cluster 2 (transnational) scored equally high in the four dimensions. F test statistics indicated that the three groups differed significantly from each other on economy of scale ($F = 9.58$, $p < .001$), global competition ($F = 65.18$, $p < .001$), domestic competition ($F = 79.61$, $p < .001$), and national responsiveness ($F = 7.76$, $p < .001$) (see table 4). Based on the cluster analysis results, I dummy coded the international strategic group membership of each subsidiary firm. While different subsidiaries may have different understandings of parent firm's international strategy, it's what the parent firm applies to a particular subsidiary, and thus what the subsidiary understands as its parent firm's international strategy, that may have direct implication for the staffing in that particular subsidiary.

Top management attitudes. Despite the widely cited effects of top management attitudes on multinational staffing (Perlmutter, 1969), surprisingly no measurement of top management attitudes exists, and no empirical examination has been done. In this study,

I developed a measure of top management attitudes based on the definition by Perlmutter (1969). Specifically, the respondents evaluated how accurately the following three statements describe the parent firm on a five-point Likert scale: (a) The parent firm regards personnel in the parent country as more qualified than those in other countries (parent country superiority), (b) the parent firm acknowledges the cultural differences between the host country and the parent country, and regards host country nationals as more qualified than parent country nationals in serving host country market (host country superiority), and (c) the parent firm does not equate qualification with nationality, and selects the best employees around the globe (no nationality-superiority association) (1 = highly inaccurate, 5 = highly accurate).

I again conducted a cluster analysis to classify the sample subsidiaries. Three clusters emerged, The Euclidean Distances between clusters 1 and 2, clusters1 and 3, and clusters 2 and 3 are 3.15, 2.57, and 2.17 respectively. Twenty-two firms in cluster 1 (ethnocentric) scored high on dimension (a), and low on dimension (b) and (c). Fifteen firms in cluster 2 scored high on (c), but low on (a) and (b). The three groups differed significantly on dimension (a)-parent country superiority ($F = 59.20$, $p < .001$), (b)-host country superiority ($F = 11.10$, $p < .001$), and (c)-no nationality-superiority association ($F = 71.75$, $p < .001$) (see table 5). Based on the results, I label cluster 1 "ethnocentric firm", cluster 2 "geocentric firm", and cluster 3 "polycentric firm". I then dummy coded this variable.

Firm-specific human resources. The nature of MNEs' human resources may affect their approach to subsidiary staffing as well. Tacit or firm-specific knowledge and skills (Barney, 1991; Polanyi, 1966) may only be transferred through expatriation

Cluster Name	Economy of Scale	Global Competition	Domestic Competition	National Responsiveness
Multi-domestic	2.38	1.81	3.43	2.86
Global	3.28	4.16	1.97	3.00
Transnational	3.69	3.86	4.31	3.93
F Statistic	9.579***	65.180***	79.611***	7.756***

Table 4: Cluster Analysis Results for International Strategy. N = 81 in analysis.

* p< .05 ** p < .01 *** p < .001

Cluster Name	Item (a)	Item (b)	Item (c)
Ethnocentric Attitude	4.00	2.23	1.50
Polycentric	1.56	2.44	3.53
Geocentric	3.52	3.34	3.77
F Statistic	59.199***	11.103***	71.753***

Table 5: Cluster Analysis Results for Top Management Attitudes. N = 81 in analysis.

* p< .05 ** p < .01 *** p < .001

(Argote, 1999). Measurement of firm specific human resources has been one of the biggest challenges in strategic HRM. Many studies examine the direct relationship between HRM systems/practices and firm performance without measuring intangible human resources. The resource-based view seems to have been utilized as a convenient but powerful theory for supporting various authors' arguments. For example, Huselid (1995) found that High Performance Work Practices had practically and statistically significant impact on firm performance; however, no measure of employee skills and knowledge was included in the study.

Due to the lack of accepted measurement, this dissertation measured firm-specific resources in an indirect way. I asked CEOs to evaluate how accurately the following two statements describe the parent firm on a five-point Likert scale: (a) Our parent firm has valuable, rare, and hard-to-copy *managerial* resources, and (b) our parent firm has valuable, rare, and hard-to-copy *technical* resources (1 = highly inaccurate, 5 = highly accurate).

Dependence on parent firm. The dependence of a subsidiary on its parent firm may increase parent control over the subsidiary through means such as expatriation (Egelhoff, 1988; Pfeffer & Salancik, 1978). To measure resource dependence, I asked the respondents to indicate, on a five-point scale, the degree of subsidiary dependence on parent firm for managerial and technical resources respectively (1 = very low, 5 = very high).

Cost Differentials. Cost is a significant factor in subsidiary staffing mode choice (Boyacigiller, 1990; Dowling et al., 1999; Gupta & Govindarajan, 1991; Schuler et al., 1993). High costs associated with expatriate PCNs have prompted MNEs to reduce the

use of them (Kobrin, 1988). I obtained cost of living indexes for each country from the U.S. Department of State Indexes of Living Costs Abroad, Quarters Allowances, and Hardship Differentials (2000). The indexes compare the costs in dollars of representative goods and services purchased at foreign locations (usually major foreign cities) and the cost of comparable goods and services in the Washington D.C. area. The limitation of this measurement is that it might not represent well the cost differential between some specific locations in the U.S. and those in the parent country.

Parent country culture. MNEs from high uncertainty avoidance countries may adopt an expatriate PCN-oriented approach to staffing. MNEs from high power distance countries have higher centralization in decision-making (Wong & Birnbaum-More, 1994), and may therefore utilize more PCNs in subsidiaries. Preliminary empirical evidence suggests that Japan, which scores higher in power distance and uncertainty avoidance than the U.S. and most European countries, also employs more PCNs in managerial positions in their foreign subsidiaries (Kopp, 1994; Peterson, Napier, & Shin, 1996; Tung, 1982). I obtained parent country uncertainty avoidance and power distance scores from Hofstede (1980).

Other control variables included industry, entry mode (merger/acquisition, green-field, joint venture, or others), years of operation in the U.S., capital, and number of employees (Youssef, 1975).

5.4 Data Analysis and Results

Table 6 provides zero-order correlations, means, and standard deviations for major variables. Overall, 57% of the subsidiary firms staffed their CEO positions with PCNs. An average subsidiary has 34% PCN top managers in the top management team,

and 14% PCN employees in the workforce. Cultural distance was positively related to the percentage of PCN managers in top management ($\underline{r} = .23$, $\underline{p} < .05$), the percentage of PCN employees in subsidiary workforce ($\underline{r} = .44$, $\underline{p} < .01$), and the likelihood of staffing CEO positions with PCNs ($\underline{r} = .26$, $\underline{p} < .05$). These simple correlations lent support for the agency theory prediction (proposition 2a).

Using the logistic regression method, I can predict the probability of Y, in this case CEO nationality (PCNs versus non-PCNs), occurring given known values of X_i, in this case cultural distance and control variables. The logistic regression model was estimated using the maximum likelihood method:

$$P\,[PCN = 1] = 1/(1 + e^{-Z})$$

$$Z = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \ldots\ldots + \beta_i X_i + \varepsilon_I$$

Where the dependent variable P [PCN = 1] was coded as "1" if the CEO was a PCN, and "0" otherwise. X_1, X_2,....., and Xi were cultural distance and control variables in this study. At the top management team and employee levels of analyses, I conducted multiple regression analyses with the proportion of PCN top managers and employees as dependent variables respectively. Tables 7, 8, and 9 provide the analysis results.

The impact of cultural distance on the utilization of PCNs was positive at the CEO, top management team, and workforce levels, and was statistically significant at the workforce level ($\underline{\beta} = .27$, $\underline{p} < .05$). Thus, the results provided stronger support for agency theory prediction (proposition 2a). Due to the concern for multicollinearity in moderated regression analysis with small sample size, proposition 2c is not tested in study 1. Study 2 will provide a test of proposition 2c.

Variable	Means	S.D.	1	2	3	4	5	6
1. Years in Operation	19.77	11.92	-					
2. Capital	10.59	22.42	-.01	-				
3. Number of Employees	157.29	295.15	-.18	.32*	-			
4. Subsidiary Resource Dependence	5.50	2.07	.07	-.26†	-.15	-		
5. Parent Strategic Resources	6.22	1.92	.16	-.27†	-.08	.40**	-	
6. Cost Differential	47.38	25.93	.07	-.11	-.18	.05	.06	-
7. Power Distance	42.89	16.77	.01	-.02	-.17	.06	-.02	.05
8. Uncertainty Avoidance	61.93	23.43	.03	-.19	-.16	.09	.14	.27*
9. Cultural Distance	1.63	1.13	.05	.10	-.26*	.23*	-.01	.37**
10. Parent Country Education Level	46.02	14.49	.00	.24†	.17	.06	.02	-.39**
11. PCN Employee (%)	.14	.21	.12	.20†	-.27*	.23*	.12	.09
12. PCN Top Managers (%)	.34	.33	.12	.21†	-.15	.35**	.11	.20†
13. CEO Nationality	.57	.50	.22†	.17	-.09	.31*	.16	.22*

Table 6: Means, Standard Deviations, and Zero-Order Correlations among Major Variables (Survey Sample)

Variable	Mean	S.D.	7	8	9	10	11	12	13
7. Power Distance	42.89	16.77	-						
8. Uncertainty Avoidance	61.93	23.43	.49**	-					
9. Cultural Distance	1.63	1.13	.39**	.13	-				
10. Parent Country Education Level	46.02	14.49	-.24*	-.11	-.30**	-			
11. PCN-Employee (%)	.14	.21	.54**	.42**	.44**	-.10	-		
12. PCN-Top Manager (%)	.34	.33	.20†	.30**	.23*	-.04	.66**	-	
13. CEO Nationality	.57	.50	.06	.20†	.26*	-.13	.45**	.62**	-

Table 6 (cont'd): Means, Standard Deviations, and Zero-Order Correlations among Major Variables (Survey Sample)

† $p < .1$ * $p < .05$ ** $p < .01$ (pairwise)

Variables	Model 1	Model 2
Control Variables:		
Years of Operation	.01 (.05)	.01 (.05)
Capital	.08 (.04)†	.09 (.04)†
Subsidiary Resource Dependence	.58 (.27)*	.56 (.27)*
Parent Strategic Human Resources	.35 (.27)	.34 (.27)
International Strategy 1	-.43 (1.06)	-.53 (1.11)
International Strategy 2	.10 (1.47)	-.03 (1.54)
Top Mgt Attitude 1	-.63 (1.43)	-.52 (1.47)
Top Mgt Attitude 2	-.42 (1.03)	-.37 (1.05)
Cost Differential	.01 (.02)	.01 (.02)
Power Distance (Parent)	.04 (.04)	.05 (.04)
Uncertainty Avoidance (Parent)	.01 (.03)	.02 (.03)
Independent Variables:		
Cultural Distance (CD)		.15 (.49)
Model χ^2	17.42	17.51
Hit Ratio	74%	76%
Improvement over Baseline Ratio	23%	25%
Cox & Snell R^2	.34	.34

Table 7: Logistic Regression Results at CEO Level with Dependent Variable CEO Nationality (1=PCN, 0=Non-PCN). Standard errors were in parentheses. N = 81 in analysis. Industry, entry modes, and parent country education level were not presented in the table.

† $p < .1$ * $p < .05$

	Model 1	Model 2
Control Variables:		
Years of Operation	.09 (.00)	.09 (.00)
Capital	.28 (.00)*	.27 (.00)*
Number of Employees	-.05 (.00)	-.05 (.00)
Subsidiary Resource Dependence	.36 (.02)**	.36 (.02)**
Parent Strategic Human Resources	-.02 (.02)	-.06 (.02)
International Strategy 1	.09 (.09)	.09 (.09)
International Strategy 2	.12 (.08)	.12 (.08)
Top Mgt Attitude 1	-.05 (.11)	-.05 (.04)
Top Mgt Attitude 2	-.08 (.08)	-.08 (.08)
Cost Differential	.13 (.00)	.13 (.00)
Power distance	.09 (.00)	.08 (.00)
Uncertainty Avoidance	.23 (.00)†	.24 (.00)†
Independent Variables:		
Cultural Distance (CD)		.01 (.04)
R^2	.31**	.31**
ΔR^2		.00
F for ΔR^2		.00

Table 8: Regression Results at the Top Management Team Level with Dependent Variable Proportion of PCNs. Standard errors were in parentheses. N = 81 in analysis. Industry, entry mode, and parent country education level were not presented in the table.

† $p < .1$ * $p < .05$ ** $p < .01$

	Model 1	Model 2
Control Variables:		
Years of Operation	.07 (.00)	.08 (.00)
Capital	.22 (.00)*	.18 (.00)†
Total Number of Employees	-.17 (.00)†	-.14 (.00)
Subsidiary Resource Dependence	.16 (.01)	.09(.01)
Parent Strategic Human Resources	.08 (.01)	.10 (.01)
International Strategy 1	-.03 (.05)	-.02 (.05)
International Strategy 2	.14 (.05)	.16 (.05)
Top Mgt Attitude 1	.08 (.06)	.09 (.06)
Top Mgt Attitude 2	.06 (.05)	.02 (.04)
Cost Differential	-.02 (.00)	-.10 (.00)
Power Distance (Parent Country)	.39 (.00)**	.28 (.00)*
Uncertainty Avoidance (Parent Country)	.21 (.00)*	.26 (.00)*
Independent Variables:		
Cultural Distance (CD)		.27 (.02)*
R^2	.44***	.48***
ΔR^2		.04
F for ΔR^2		5.30*

Table 9: Regression Results at the Employee Level with Dependent Variable Proportion of PCNs. N = 81 in analysis. Standard errors were in the parentheses. Industry, entry modes, and parent country education levels were not presented in the table.

† p <.1 * p < .05 ** p < .01 *** p < .001

Among others, capital investment in a subsidiary had a positive impact on the utilization of PCNs at both the top management and workforce levels, and the likelihood of staffing the CEO positions with PCNs. Subsidiary dependence on parent firm for managerial and technological resources had a positive impact on the utilization of PCNs at both the CEO and the top management level. The impact of parent country uncertainty avoidance level on the utilization of PCNs was positive at three levels, and was statistically significant at the top management and workforce levels. This lent support for proposition 1a. The effect of parent country power distance level on the utilization of PCNs was positive at three levels, but only significant at the workforce level, lending limited support to proposition 1b.

CHAPTER 6

EMPIRICAL STUDY 2

The survey sample size may have limited the statistical power in data analysis. Furthermore, subsidiaries in study 1 were generally of small and medium size. Finally, due to the concern for multicollinearity in moderated regression analysis with small sample size, proposition 2c was not tested in study 1. It is necessary to complement and strengthen the survey data, and to further test proposition 2c using other data sources. Therefore, I compiled an archival data set from two major sources: Japanese Overseas Investment (Toyokeizai, 2001) and Directory of Corporation Affiliations (LexisNexis Group, 2001).

Japanese Overseas Investment (2001) is an annual data book that covers the overseas activities of more than 18,579 Japanese subsidiaries. I used the latest edition that provides information on overseas subsidiaries for 2000. The 1997 edition of the data book has been used in previous studies, and found to be of high quality (e.g., Delios & Henisz, 2000). For each subsidiary, the data set provides the following basic information: Name of the subsidiary, name of the CEO/President/General Manager, local address, phone number, years of establishment, means of establishment, capital invested in the subsidiary, number of employees, number of expatriate PCNs, sales, industry, name of the parent firm, and parent ownership share. Data retrieved from this data book were used for employee and CEO levels of analysis.

Directory of Corporation Affiliations (LexisNexis Group, 2001) provides information about 3, 517 foreign MNEs (with non-U.S. located headquarters). A total of 60,218 subsidiaries (10,054 in the U.S., and 50,164 in other countries) of the above MNEs are listed in the book. The specific information for each subsidiary include the name of the parent firm, subsidiary name, subsidiary local address, phone number, number of employees, sales, names of subsidiary top executives, and parent ownership share. Data from this book were used for top management team level of analysis. Subsidiaries with top manger names listed tend to be large ones. This sample therefore complemented the sample of small and medium size subsidiaries in study 1.

6.1 Sample and Procedure

To control for other model variables that are hypothesized to affect the utilization of expatriate PCNs (please refer to figure 1), ideally only the subsidiaries of one MNE should be included in analysis. I selected one MNE based on the following four criteria: (a) The MNE has at least 152 (based on early power analysis result) foreign operations (concern for sample size), (b) there should be relatively complete information for each subsidiary on major variables of interest, e.g., number of employees, number of expatriate PCNs, and sales (concern for missing values), (c) lines of businesses of the subsidiaries should be as similar as possible (concern for extraneous variables), and (d) subsidiaries should spread across as many countries as possible (concern for cultural variations).

Based on the above criteria, a large MNE was chosen from Japanese Overseas Investment (2001). There were totally 461 foreign operations, among which 50% were wholly owned subsidiaries (95% or more ownership). The subsidiaries were located in the following 47 countries/regions: Argentina, Australia, Belgium, Brazil, Brunei, Canada, Chile, China, Colombia, Egypt, Ethiopia, France, Germany, Greece, Guatemala, Hungary, India, Indonesia, Iran, Ireland, Italy, Jordan, Korea, Kuwait, Liberia, Malaysia, Mexico, Netherlands, Nigeria, Pakistan, Panama, Peru, Philippines, Poland, Portugal, Russia, Singapore, South Africa, Spain, Sweden, Switzerland, Thailand, British, U.S., Venezuela, Vietnam, and Zambia. The major industry of each subsidiary was dummy coded and served as a control variable in data analysis. This data constituted archival sample 1 used for the CEO and employee levels of analysis.

To obtain data at the top management team level, I researched Japanese MNEs listed in the Directory of Corporate Affiliations (LexisNexis Group, 2001) and Gale Business Resources online. Since it was impossible to obtain a large number of top management teams from a single MNE, I started with all Japanese MNEs. Top managers include CEO/President/general managers and major functional heads. I used the following criteria in selecting top management teams: (a) It has at least 2 top managers, and (b) it has sales, number of employees, and SIC codes for the corresponding subsidiary. To increase the accuracy of the information retrieved, I checked information from three sources about the same item whenever it was possible. In case of discrepancy, I took the average of the two sources that provided similar information. Cases of extreme discrepancy were excluded.

I obtained 400 top management teams with a total of 2,506 top managers. The top management teams were from subsidiaries located in the following 35 countries/regions:

Australia, Austria, Belgium, Brazil, Canada, Denmark, Finland, France, Germany, Hong Kong, Hungary, India, Indonesia, Ireland, Italy, Kuwait, Malaysia, Mexico, Netherlands, New Zealand, Norway, Panama, Philippine, Poland, Portugal, Saudi Arabia, Singapore, South Africa, Spain, Sweden, Switzerland, Taiwan, Thailand, British, and the U.S. The number of executives in top management teams ranged from 2 (because of the sampling criteria) to 16 ($\underline{M} = 6.25$, $\underline{SD} = 3.10$). The summary statistics were similar to those for an archival sample in an earlier study of top management team (Jackson, Brett, Sessa, Cooper, Julin, & Peyronnin, 1991). I filled missing information by referring to the Japanese Overseas Investment (2001) and the Lexis and Nexis online.

6.2 Dependent and Independent Variables

CEO and top manager nationality. Two Japanese nationals (including a Japanese Ph.D. student) and myself independently judged CEO and top manager nationality by name. The two Japanese coders were instructed to put a "J" or check mark after a name if that person was judged to be a Japanese national, and a "N" if not. I then calculated the inter-rater agreement rate. An agreement at the top management team level existed if and only if the coders classified very top manager the same. The two Japanese coders agreed on 386 top management teams, representing a 97% agreement rate. At the level of individual name, agreement rate was 99.4%. The agreement rate between my coding and the Japanese Ph.D. student's coding was 91.3% at the top management team level, and 97% at the individual name level. This indicated the high reliability of the coding. This method is similar to that used by Harzing (2001). The high level of reliability in coding Japanese names is probably due to the unique nature of Japanese names, which makes it relatively easy to differentiate

Japanese names (e.g., Suzuki) from Western (e.g., Smith) and other Asian (e.g., Lee) names.[1] I discussed the disagreements with the Japanese Ph.D. student, and reached final consensus on the disputed names. I then calculated the percentage of Japanese top managers.

The above method might be relatively unreliable in the United States, a country in which names say little about nationality because of significant immigration. This might also be a problem since the largest number of executives (38%) in the sample was from Japanese subsidiaries located in the United States. Therefore, as an independent check, I followed Harzing (2001) to send the names of top managers from 15 randomly selected U.S.-based subsidiaries to their corporate addresses in the United States. Given that the United States is one of the most diverse countries in the world, and thus perhaps poses the biggest challenge in identifying nationality by name, the agreement rate obtained using Japanese subsidiaries in the U.S. is likely to be conservative. I sent a short survey to CEOs of the 15 subsidiaries, requesting them to provide the nationalities of their top managers including CEOs. Six subsidiaries returned completed survey, representing a 40% response rate. Results indicated a 100% agreement rate between the CEOs' coding and the two coders' coding at both the top management team level and individual name level. This further supported the validity of the coding.

Staffing mode. The expatriate PCN-oriented staffing mode was operationalized as the proportion of expatriate PCNs in a subsidiary. At the employee level of analysis, I calculated the percentage of PCNs by dividing the number of Japanese nationals by the total number of

[1] Japan is the only country which consists of its own "civilization" (Huntington, 1996) or "cultural block" (Ronen & Shenkar, 1985). All other countries in the world can be grouped with some other countries to form "civilizations" or "cultural blocks" (Huntington, 1996; Ronen & Shenkar, 1985).

employees. At the top management team level, I calculated the percentage of PCN managers by dividing the number of Japanese top mangers by the total number of top managers.

Cultural distance. I calculated cultural distance using Hofstede's (1980) country scores and Kogut and Singh's Index (1989) (see study 1 methodology part).

I included a wide range of control variables including host country education level, host country living cost, host country political risk, entry mode, parent ownership share, industry, and capital.

Host country education level. I obtained information about host country education level (as a proxy of availability of qualified local nationals) from the Statistic Yearbook (UNESCO) (2000). The data book used the International Standard Classification of Education (ISCED) system that was adopted by the United Nation in November 1997. In this study, I used enrollment ratio at the third level of education - education provided at universities, teachers' colleges, higher professional schools, which requires, as a minimum condition of admission, the successful completion of education at the second level, or evidence of the attainment of equivalent level of knowledge - to indicate host country education level. The enrollment ratio is defined as the total enrollment, regardless of age, divided by the population of the official age group which corresponds to a the third level of education.

Host country living costs. This information was obtained from U.S. Department of State Indexes of Living Costs Abroad, Quarters Allowances, and Hardship Differentials (2000). The indexes compare the costs in dollars of representative goods and services (excluding housing and education) purchased at foreign locations and the cost of comparable goods and services in the Washington D.C. area (see study 1 methodology).

Host country political risk. I obtained political risk rankings of host countries from the Political Risk Yearbook (2000) published by Political Risk Service Group. The book provides 18-month forecast of political risk. In this dissertation, I used the ranking of political turmoil, defined as actions that can result in threats or harm to people or property by political groups or foreign governments, operating within the country or from an external base, to indicate host country political risk.

6.3 Data Analysis and Results

Tables 10 and 11 presented means, standard deviations, and zero-order correlations among major variables in the two archival samples. Sixty-eight percent of the subsidiaries staffed CEO positions with PCNs. An average subsidiary top management team had 38% PCN managers, and 6% of PCN employees. The zero-order correlations indicated that the higher the cultural distance, the larger the proportion of expatriate PCNs in subsidiary top management team and workforce, and the more likely that a subsidiary staffed the CEO position with a PCN.

I tested the competing propositions 2a and 2b using regression analysis. Specifically, I conducted logistic regression at the CEO level and multiple regression analysis at top management team and employee levels. Years of operation (Youssef, 1975), capital, parent ownership share, number of employees, industry, host country education level (a proxy of availability of qualified local nationals), host country living costs, and host country political risk (Boyacigiller, 1990) served as control variables. Parent country power distance and uncertainty avoidance were not included in analyses as the study through design held these variables constant. At the CEO and employee

levels of analyses, there was no need to control for international strategy, headquarter top management attitudes, and MNEs' strategic human resources because the subsidiaries were from the same MNE.

Tables 12, 13, and 14 present the analysis results. Cultural distance was significant and positive in predicting the utilization of PCNs at CEO ($\beta = 1.001$, $p < .01$), top management team ($\beta = .192$, $p < .05$), and employee levels ($\beta = .146$, $p < .05$), lending strong support for the agency theory prediction (proposition 2a). The interaction between cultural distance and years of operation was significant and negative at CEO ($\beta = -.05$, $p < .01$), top management team ($\beta = -.315$, $p < .05$), and employee levels ($\beta = -.122$, $p < .05$), providing strong support for the combined agency and institutional theoretical prediction (proposition 2c). At each level of analysis, cultural distance and its interaction with years of operation explained a significant amount of additional variance in the dependent variable. I checked VIF statistics for cultural distance, years of operation, and the interaction between cultural distance and years of operation. All were below the conventional cutoff value of 10, indicating that no serious multicollinearity problem existed.

Variable	Mean	S.D.	1	2	3	4	5	6	7	8	9	10
1. Years of Operation	12.31	9.09	-									
2. Capital ($ Million)	15.72	48.54	.04	-								
3. Ownership Share	.78	.27	.12*	.04	-							
4. Number of Employees	238.22	488.08	.21**	.28**	-.09	-						
5. Host Country Living Cost	113.82	15.14	-.04	.03	-.07	-.02	-					
6. Host Country Education	36.76	28.88	.07	.14**	.35**	.01	-.20**	-				
7. Host Country Political Risk	2.36	.71	.09†	-.06	-.18**	.08	-.25**	-.33**	-			
8. Cultural Distance	2.94	.83	-.06	-.01	.06	-.02	-.05	-.13*	-.11*	-		
9. PCN-Employee (%)	.06	.15	-.02	.08†	.17**	-.18**	-.02	.22**	-.09	.08†	-	
10. CEO Nationality	.68	.47	.08†	.00	.62**	-.15**	-.06	.16**	-.11*	.17**	.22**	-

Table 10: Means, Standard Deviations, and Zero-Order Correlations among Major Variables (Archival Sample 1)

† $p < .1$. * $p < .05$. ** $p < .01$.

Variable	Mean	S.D.	1	2	3	4	5	6	7	8	9	10
1. Years of Operation	22.16	13.46	-									
2. Capital ($ Million)	72.95	186.75	.22**	-								
3. Number of Employees	1342.7	3695.65	.08	.37**	-							
4. Number of Managers	6.25	3.11	.14*	.13†	.35**	-						
5. Ownership Share (%)	92.94	17.69	.16*	.09	-.08	-.12†	-					
6. Host Country Living Cost	113.97	18.05	-.03	-.15*	-.10	-.09	.07	-				
7. Host Country Education Level	59.91	23.66	.11	.22**	.14*	.07	.27**	-.43**	-			
8. Host Country Political Risk	2.16	.43	-.10	-.12†	-.06	-.07	-.26**	-.01	-.56**	-		
9. Cultural Distance	3.02	1.31	-.09	-.05	-.04	-.13†	.01	.26**	-.23**	-.05	-	
10. PCNs in TMTs (%)	.38	.33	.16*	-.04	-.21**	-.31**	.22**	.23**	-.25**	-.01	.14*	-

Table 11: Means, Standard Deviations, and Zero-Order Correlations among Major Variables (Archival Sample 2)

† $p < .1$. * $p < .05$. ** $p < .01$.

	Model 1	Model 2
Control Variables:		
Years of Operation	.020 (.018)	.159 (.060)**
Capital	.000 (.003)	.000 (.003)
Number of Employees	-.001 (.000)*	-.001 (.000)*
Ownership Share	6.064 (.682)***	6.023 (.689)***
Host Country Living Cost	-.006 (.010)	-.002 (.011)
Host Country Education Level	-.007 (.006)	-.006 (.007)
Host country Political Risk	-.123 (.211)	-.146 (.223)
Independent Variables:		
Cultural Distance (CD)		1.001 (.368)***
CD × Years of Operation		-.050 (.019)**
Model χ^2	177.98***	186.65***
Hit Ratio	82%	83%
Improvement over Baseline Ratio	26%	27%
Cox & Snell R^2	.355	.369

Table 12: Logistic Regression Results at CEO Level with Dependent Variable CEO Nationality (1=Japanese, 0=Non-Japanese). N = 412 in analysis. Standard errors were in parentheses. Dummy variables industry and entry mode were not included in the table.

$^{\dagger}p < .1$ $^{*}p < .05$ $^{**}p < .01$ $^{***}p < .001$.

	Model 1	Model 2
Control Variables:		
Years of Operation	.000 (.001)	.245 (.003)*
Capital	.029 (.000)	.024 (.000)
Number of Managers	-.188 (.005)***	-.185 (.005)***
Ownership Share	.014 (.002)	.027 (.002)
Host Country Living Cost	-.036 (.001)	-.046 (.001)
Host Country Education Level	-.405 (.001)***	-.404 (.001)***
Host Country Political Risk	-.172 (.043)**	-.164 (.043)**
Independent Variables:		
Cultural Distance (CD)		.192 (.021)*
CD × Years of Operation		-.315 (.001)*
R^2	.271***	.283***
ΔR^2		.012
F for ΔR^2		3.094*

Table 13: Regression Results at Top Management Team Level with Dependent Variable Proportion of PCNs. N = 400 in analysis. Standard errors were in parentheses. Dummy variables industry and entry mode are not presented in the table.

† p <.1 * p < .05 ** p < .01 *** p < .001.

Variables	Model 1	Model 2
Control Variables [a]:		
Years of Operation	-.074 (.001)	.038 (.002)
Capital	.079 (.000)†	.078 (.000)†
Number of Employees	-.117 (.000)**	-.122 (.000)**
Ownership Share	-.010 (.029)	-.025 (.029)
Host Country Living Cost	-.069 (.000)	-.063 (.000)
Host Country Education Level	.157 (.000)**	.177 (.000)***
Political Risk of Host country	-.012 (.011)	-.002 (.011)
Independent Variables:		
Cultural Distance (CD)		.146 (.012)*
CD × Experience		-.122 (.001)*
R^2	.168***	.179***
ΔR^2		.011
F for ΔR^2	10.133***	3.015*

Table 14: Regression Results at Employee Level with Dependent Variable Proportion of PCNs. Table contains standardized regression coefficients. N = 401 in analysis. Standard errors were in parentheses. Dummy variable industry and entry mode were not included in the table.

† p <.1 * p < .05 ** p < .01 *** p < .001.

CHAPTER 7

DISCUSSION OF FINDINGS

7.1 Interpretation of Findings

The sample of U.S. subsidiaries of foreign MNEs provided stronger support for the agency theory prediction (proposition 2a) that cultural distance is positively related the expatriate PCN-oriented staffing mode. However, the effect was statistically significant only at the workforce level. The archival sample provided strong support for the agency theory prediction. Furthermore, years of operation negatively moderated the relationship. As years of operation increased, the need for expatriate PCNs in culturally distant subsidiaries decreased. Previous studies, by focusing exclusively on the direct relationship between cultural distance and expatriate staffing (e.g., Boyacigiller, 1990), have failed to uncover this temporal dimension.

The insignificant results at the CEO and top management levels obtained in the survey sample may be due to the low statistic power associated with the small sample size. It may also have occurred as a result of the unique characteristics of the subsidiaries and of the environment in which they were operating. Subsidiaries in the survey sample were owned by MNEs from countries (including developing counties) other than the U.S. These firms operated in the U.S., a country that has highly competitive business institutions and

practices, well-educated and sophisticated customers, and a unique and strong national culture (highest in individualism, and among the lowest in uncertainty avoidance, and power distance) (Hofstede, 1980). While subsidiaries of foreign MNEs operating in the U.S. may have incentive to utilize PCNs to reduce agency costs, they also face strong institutional and competitive pressures to imitate local practices, and have limited bargaining power (note that subsidiaries in the survey sample are of small- or medium size) to fend off the pressure. The two forces may have largely cancelled each other out.

Firms in the archival sample were subsidiaries of a world-renowned Japanese MNE. This firm has consistently made it to the "Global 500" list, and was ranked among the top 10 in 2001. It has superior financial, technological, and managerial resources, and can also draw upon the superior resources at its home country. For this type of firm, protecting parent firm interests at foreign locations through expatriation is of high priority. Previous survey research also suggests that, for MNEs from developed countries such as the U.S., protecting parent firm interests through expatriation is a major reason for using PCNs, ranked above technology and skill transfer (McGoldrick, 1997). These firms are likely to utilize more PCNs in culturally distant locations where agency cost are likely to be high. While these MNEs may face institutional pressures arising from the local environment, the high bargaining power associated with superior resources may enable them to fend off the pressure. Therefore, these MNEs are able to utilize a larger proportion of PCNs in their overseas subsidiaries at the early stage. Overtime, these firms learned how to manage and transact with local nationals in an efficient and effective manner, and may establish trust relationships with local nationals. This resulted in lowered agency costs, and enabled MNEs to utilize more HCNs.

Organizational learning theory provides a complementary explanation. For the subsidiaries of MNEs from highly developed countries, the parent firm constitutes the major sources of technological and managerial knowledge, which, according to the organizational learning theory, necessitates the utilization of PCNs initially. Over time, subsidiary firms learned the knowledge and skills, and trained HCNs through PCNs, and therefore were able to reduce the reliance on PCNs who are often more expensive than HCNs in less developed countries.

7.2 Contributions to the MNE Staffing Research

Few studies have included cultural distance as a contextual determinant of staffing mode with two exceptions (Boyacigiller, 1990; Harzing, 2001). The two existing studies, however, did not take cultural distance as the central construct of interest, provided weak or no theoretical account for the relationship between cultural distance and staffing, and failed to establish the unique effect of cultural distance. Both studies did not control extraneous variables such as MNE top management attitudes, international strategy, subsidiary resource dependence on the parent firm, and power distance etc. Both studies focused on the U.S. or European MNEs, and the staffing of professional employees or managing directors. Neither study included subsidiaries of MNEs from developing counties. Neither did they examine staffing at the top management team level. Top management team staffing is equally, if not more, important for achieving subsidiary control, coordination, and legitimacy. A highly effective subsidiary CEO (regardless of nationality) may be unable to implement certain strategies if this manager is not supported by a cooperative and supportive TMT (with a certain mix of PCNs and HCNs).

Conversely, a relatively mediocre subsidiary CEO may be sustained by a capable TMT (Hambrick, Li, Xin, & Tsui, 2001). As a first step, this study partially fills this gap, by documenting how MNEs staff TMTs in culturally distant subsidiaries. Finally, no previous study examined the moderating role of time in the relationship between cultural distance and staffing.

This two-study, three-level examination of competing explanations represents the most comprehensive test. The results suggest that the impact of cultural distance on staffing mode is more complicated than previous studies have suggested. The utilization of expatriate PCNs is likely to be affected by multiple factors. While agency cost is a major concern, institutional legitimacy in the host environment may need to be considered as well especially at the later stage of subsidiary development. The relationship between cultural distance and the utilization of expatriate PCNs may vary depending on the institutional environment where the subsidiary is operating and the nationality of the parent firm of the subsidiary. The results in this dissertation seemed to suggest that the agency logic works better for subsidiaries of MNEs from developed countries such as Japan. Furthermore, the results suggest that instead of being static, the relationship between cultural distance and staffing of PCNs changes over time.

7.3 Theoretical Contribution

This article contributes to the MNE staffing literature by providing support for recent strategic international HRM models (Schuler et al., 1993; Taylor et al., 1996). Results of this study support the notion that international HRM must be examined in the broader strategic and national cultural context (Schuler, Budhwar, & Florkowski, 2002).

In particular, Taylor and colleagues (1996) suggest that an MNE's strategic international HRM orientation may change over time from an exportive orientation to an adaptive or integrative orientation. This dissertation provides support for the models in the area of expatriate PCN staffing.

This study also has important implications for staffing research on the person-environment fit and person-organization fit (e.g., Chatman, 1989; Schneider, 1987; Schneider et al., 2000). Although these models suggest that the fit between individuals and organizational values and goals is an important factor in selection and retention of personnel, they have largely neglected the national cultural environment. This study suggests that cultural distance, as an environmental variable, affects the characteristics of CEOs, other top mangers, and employees being selected and retained. Therefore, a complete staffing model should include not only job and organizational environment (Heneman et al., 1997) but also national cultural environment (Schneider, 2001). Furthermore, these multiple dimensions of environment may generate conflicting staffing requirements. The need for fit to the host cultural environment may lead to more HCNs in subsidiaries, who increase subsidiary legitimacy but agency costs as well. The need for fit to the parent side of environment may lead to the opposite. In this study, fit to headquarters' values and goals seemed to be more important initially. Finally, this study suggests that the relative importance of different environmental fit may change over time. While fit to the parent organization for the purpose of agency cost reduction and knowledge transfer is more important during early stages of subsidiary formation, fit to the local cultural environment may become more critical over time.

Finally, this study contributes to theory development by applying the metatriangulation method, i.e., applying multiple paradigms to explore their disparity and interplay and, thereby, arrive at an enlarged and enlightened understanding of the phenomena of interest, as well as the paradigms employed (Lewis & Grimes, 1999: 676). Metatriangulation is suitable for exploring complex and multifaceted phenomena, and the complexity inherent in international HRM in general and staffing in particular necessitates such an approach (Lewis & Grimes, 1999; Sundaram & Black, 1992).

Agency theory helps us understand the impact of cultural distance on staffing mode from the control perspective, but neglects the legitimacy and adaptation issues MNEs face in a different institutional environments. Institutional theory focuses on the legitimacy issue in staffing, but downplays the control imperative. The dissertation suggests that staffing mode is likely to be affected by the consideration of both legitimacy and efficiency imperatives. While the agency cost reduction concern is prominent at the early stages of subsidiary operation, the local legitimacy concern becomes more important at the late stages. As years of operation increase, MNEs and their subsidiaries learn how to manage and transact with HCNs and TCNs. Repeated interactions over time facilitate the formation of trust relationships among PCNs, HCNs, and TCNs (Axelrod, 1984). This suggests that in the long-term the employment of HCNs may not present serious agency problem while simultaneously lend subsidiary legitimacy.

7.4 Limitations

This study has several limitations. First, the response rate in study 1 was low, and the sample size was relatively small. Furthermore, subsidiaries in the survey sample

tended to be of small and medium size. They tend to have less financial capabilities as reflected in the relatively small number of capital investment. They may have less human resource capabilities as well. These subsidiaries are likely to have low bargaining power in the U.S. institutional environment. Therefore, the generalizability of the findings in study 1 may be limited.

Second, several measurements in study 1 had less than satisfactory psychometric properties. In study 1, I did not find any impact of firm-specific human resources on the adoption of expatriate PCN-oriented staffing mode. It is not known to what extent the two single items measured firm-specific managerial and technological resources. Previous studies have bypassed the measurement of firm-specific resources. The measurement of firm-specific resources will continue to be a major challenge for researchers in the field of SHRM. The measurements of three types of top management attitudes were also all single-item scales. Again, I did not find any significant effect of top management attitudes on staffing mode. Finally, I used the cost of living index from U.S. Department of State Indexes of Living Costs Abroad, Quarters Allowances, and Hardship Differentials (2000). It only provides cost of living indexes for some major cities. Therefore, the calculated cost differential in some cases did not accurately reflect the actual cost differential between the locale where the subsidiary is operating and the parent country.

Finally, the analyses at the employee level may have restriction of range problem. The average proportion of PCNs was 14% in the survey sample, and 6% in the archival sample. This indicated that the proportion of PCNs at the employee level tended to be low in the sample. If this is the case, restriction of range may have occurred.

Future research should employ even more rigorous research design and measurements. Take study 1 for an example, future studies may want to find a sample of U.S. subsidiaries of foreign MNEs from developed countries, and another sample of U.S. subsidiaries of foreign MNEs from developing countries. By doing so, researchers will be able to test my earlier argument that agency theory is more applicable to MNEs from developed countries, whereas institutional theory is more applicable to MNEs from developing countries. While the sample in study 1 included subsidiaries of MNEs from both developed and developing countries, sub-sample analysis was not possible because of the small sample size. Future study should use better measures of top management attitudes, firm-specific human resources, cost differentials, and international strategy etc.

7.5 Directions for Future Research

There are several interesting questions for future research. The first is related to the idea of inpatriation. Inpatriation is the process of selectively transferring HCNs and/or TCNs into the home/domestic organization of an MNE on a semi-permanent to permanent basis (Harvey et al., 1999a; Harvey et al., 2000). Inpatriates typically undergo intensive socialization training over a long period of time in the home/domestic organization of an MNE, and therefore have higher commitment to the MNE and better understanding of headquarter goals and strategy (Harvey et al., 2000). MNEs can choose to send inpatriates back to the subsidiaries where they originally came from. The advantage is that these individuals have intimate knowledge of the host country, and at the same have commitment to the MNE (Harvey et al., 2000). No research has examined how many expatriate PCNs are in fact originally inpatriates. In the two studies reported

here, I focused only on expatriate PCNs. It would be interesting to investigate whether expatriation of inpatriates is in fact utilized by MNEs to manage the conflicting demands of agency cost reductions and local legitimacy. While the number of inpatriates is still very low, it seems to be increasing, and perhaps will become a significant force in the future.

The second is the potential interaction between cultural distance and capital investment of a subsidiary in affecting staffing mode choice. From the institutional theory perspective, subsidiaries with large capital investment may have higher visibility in the host environment, and therefore are likely to under more close scrutiny and experience higher institutional pressure. From the agency theory perspective, MNEs may have higher need to control the subsidiary through trusted expatiate PCNs because of the importance of the subsidiary. It is interesting to see how these two forces play out in an MNE's choice of staffing mode. I attempted such a test in the two studies reported in this dissertation. However, there was a serious multicollinearity problem between capital and the interaction term (capital × cultural distance), making the assessment of the effect of the interaction term difficult.

The third interesting research question is the potential interaction between an MNE's international strategy and cultural distance in determining staffing mode. For MNEs pursuing a multi-domestic strategy, their overseas subsidiaries are dependent on local environment for major resources such as sales income and marketing knowledge. The dependence on local environment increases the coercive power of the host institutional environment, which in turn leads to lower proportion of expatriate PCNs. This tendency is stronger when cultural distance is higher. On the other hand, MNEs

pursuing a global strategy are less dependent on a particular local environment, and are able to mobilize resources across locations to play one against another (Dowling et al., 1999). Therefore, MNEs pursuing a global strategy may not actually experience high pressure for local isomorphism when cultural distance is high. To summarize, the effect of cultural distance on the utilization of PCNs may vary depending on the international strategy an MNE is pursuing. The small sample size in study 1 made such a test difficult.

Fourth, future work needs to probe into the performance implications of using expatriate PCNs in culturally distant subsidiaries. To the extent that PCNs or HCNs represent managerial resources able to help the subsidiaries generate rents, whether the contingency relationship uncovered in this study would result in different performance levels during early and late phases of subsidiary operations appears to be another promising avenue for future research.

While it is important to investigate the antecedents of staffing mode, it is even more important to examine the effect of staffing composition - the very result of the choice of staffing mode - on subsidiary performance. However, no study has examined the impact of staffing composition in nationality on subsidiary performance. I will tackle this question in the second essay of this dissertation.

MULTINATIONAL STAFFING AND SUBSIDIARY OUTCOMES: ORGANIZATIONAL LEARNING AND SOCIAL IDENTIFICATION PERSPECTIVES

CHAPTER 8

INTRODUCTION

Multinational enterprises (MNEs) can staff their overseas subsidiaries with parent country nationals (PCNs), host country nationals (HCNs), third country nationals (TCNs), or any mix of the three. Multinational staffing composition refers to the distribution of PCNs, HCNs, and TCNs in subsidiaries of MNEs. Staffing composition varies along the dimension of nationality heterogeneity. The most heterogeneous staffing composition has all the national groups with each group taking equal proportion of the workforce or top management, whereas the most homogeneous staffing composition has only one national group. Researchers suggest that the MNE staffing literature has mainly focused on staffing issues related to *expatriate PCNs* (Harvey, Speier, & Novicevic, 2001). A subsidiary faces not only a local environment, but also the parent firm and country (Rosenzweig & Singh, 1991). To cope with the diverse environment, a subsidiary's staffing composition must reflect both its local country and parent organizational environment (Weick, 1979). Indeed, as globalization increases, a multinational team or workforce has become a reality (Adler, 1997; Hambrick, Davidson, Snell, & Snow, 1998). The question is: What impact does a heterogeneous staff have on the behavioral and financial outcomes of subsidiaries of MNEs (Schuler, Budhwar, & Florkowski, in press).

Strategic international human resource management (SIHRM) theorists suggest that MNEs utilize HRM practices to achieve learning, innovation, flexibility, and corporate integration (Evans, 1986; Harvey, Speier, & Novicevic, 1999a; Pucik, 1988; Schuler, Dowling, & Cieri, 1993; Welch & Welch, 1997). Such organizational learning refers to how the firm acquires knowledge or skill. It encompasses both the acquisition of "know-how," i.e., the ability to take some action, and the acquisition of "know-why," i.e., the ability to articulate conceptual understanding of an experience (Kim, 1993). Organizational innovation includes any internally generated and externally adopted device, system, policy, program, process, product, or service perceived as new by a subsidiary (Damanpour, 1991; Zaltman, Duncan, & Holbek, 1973). A company's ability to innovate is rapidly becoming the primary source of competitive success in the global environment (Bartlett & Ghoshal, 1998). Integration of globally dispersed subsidiaries has long been regarded as a central issue for MNEs (Baliga & Jaeger, 1984; Martinez & Jarillo, 1989; Prahalad & Doz, 1987), and can be achieved through the processes of coordination and control (Cray, 1984; Katz & Kahn, 1966).

The staffing of subsidiaries with expatriate PCNs is considered a major mechanism for corporate integration (Baliga & Jaeger, 1984; Harzing, 2001; Martinez & Jarillo, 1989) as well as a conduit for transferring knowledge from parent firms to subsidiaries (Dowling, Welch, & Schuler, 1999; Downes & Thomas, 2000; Franko, 1973). However, research on the role of staffing *composition* in corporate integration and learning is sporadic. Harvey et al. (1999a), in their discussion of inpatriation, suggest that innovation is associated with a heterogeneous workforce in the domestic organizations of a MNE. A recent Conference Board report seems to support the argument: Foreign

citizens comprise 20-25% of the top management in firms that view themselves as most successful or global, compared to a 10% average in other firms (Csoka & Hackett, 1998). Schuler et al. (1993) suggest that a mix of PCNs, HCNs, and TCNs affects the MNEs' ability to achieve learning, innovation, and corporate integration. This research, however, either focuses on the domestic organizations of a MNE or on the MNE as a whole. There is a need to systematically investigate the role of staffing composition in learning, innovation, and integration in subsidiaries of MNEs.

Organizational demography and diversity literature suggest that staffing composition plays a significant role in innovation and integration. Research in this area suggests that heterogeneity increases innovation but decreases integration (Jackson, May, & Whitney, 1995; Milliken & Martins, 1996; O'Reilly, Caldwell, & Barnett, 1989; Pfeffer, 1983; Williams & O'Reilly, 1998). Heterogeneity affects group, work unit, or firm performance through intermediate processes such as creativity and integration (Jackson, 1992; O'Reilly et al., 1989; Smith, Smith, Olian, Sims, O'Bannon, & Scully, 1994). "Surprisingly, however, very little empirical research or systemic conceptual work has directly addressed the important and timely phenomenon of multinational groups" (Hambrick et al., 1998: 181-182). Managing a multinational team or workforce appropriately to simultaneously exploit multicultural synergy and reduce disintegration has been suggested as a major challenge facing subsidiaries of MNEs (Adler, 1997; Bartlett & Ghoshal, 1998). Theoretical work on multinational staffing composition would not only help us better understand the consequences of multinational staffing, but also stimulate and guide future empirical research.

Organizational learning (Cohen & Levinthal, 1990; Crossan, Lane, & White, 1999) and social identification theories (Tajfel, 1978; Tajfel & Turner, 1986; Turner, 1985) provide useful theoretical bases for conceptualizing multinational staffing composition in subsidiaries of MNEs. As described through the lens of organizational learning theory, a subsidiary faces not only a local environment, but also the parent firm and country (Rosenzweig & Singh, 1991). Subsidiaries need resources from and knowledge about both local and parent environments to be effective (Gupta & Govindarajan, 1991; Pfeffer & Salancik, 1978). A subsidiary obtains host country-specific knowledge, e.g., knowledge of local market conditions, customer preferences, and culturally acceptable management practices, to compete in the local environment (Inkpen & Beamish, 1997; Luo & Peng, 1999). A subsidiary often acquires technology and management expertise from the parent firm and country to enhance its strategic competitiveness (Downes & Thomas, 2000; Inkpen & Beamish, 1997). In a truly global MNE, a subsidiary also obtains knowledge generated in units located in third countries (Bartlett & Ghoshal, 1998). A subsidiary with a heterogeneous staffing composition has prior related knowledge pertinent to each segment of its environment, and therefore is able to absorb outside sources of knowledge from its total environment (Cohen & Levinthal, 1990). The diverse sources of knowledge coexisting within a subsidiary lead to greater innovation that is a source of superior performance (Cohen & Levinthal, 1990; Simon, 1985).

Social identification theory paints a different picture. Within a subsidiary, multiple national identities are likely to coexist along with the subsidiary's organizational identity (Adler, 1997). Nationality as an impermeable attribute provides the dominant

focus for individual identification in international firms (Salk & Shenkar, 2001; Tajfel, 1978). A heterogeneous staffing composition provokes nationality-based categorization and identification, which in turn leads to affective and behavioral disintegration within a subsidiary, and therefore lowers subsidiary performance. At the MNE level, a heterogeneous staffing composition, as compared to an expatriate PCN-dominant approach, endangers the integration of subsidiaries into the parent organization as a whole. Kobrin (1988) points out that the reduction of expatriates in American MNEs has made strategic control difficult for these institutions.

Time provides a convergence point for the two competing forces. Over time, a subsidiary learns how to manage a heterogeneous workforce or team. Through continued contacts, individuals of different nationalities develop positive attitudes toward each other (Allport, 1954), leading to fewer conflicts and better cooperation. A subsidiary may gradually develop a hybrid culture, an emergent and simplified set of rules, norms, expectations, and roles that individuals of all nationalities have contributed to, understand, share, and act upon (Earley & Mosakowski, 2000). A hybrid culture reinforces the subsidiary's organizational identity and transcends national group identities within a subsidiary (Kramer & Brewer, 1984). A hybrid culture also accommodates heterogeneity and provides a basis for tapping into the innovative potential associated with a heterogeneous staffing composition (Chen & Eastman, 1997).

Drawing upon both the SIHRM and the organizational demography and diversity literature, the second part of this dissertation aims to develop a process model of the impacts of multinational staffing composition. Grounded in social identification and organizational learning theories, this dissertation theorizes the kinds of negative and

positive outcomes associated with multinational staffing composition, and changes in these outcomes over time. Finally, it features an empirical test of the direct relationship between multinational staffing composition and subsidiary performance.

CHAPTER 9

LITERATURE REVIEW AND MODEL DEVELOPMENT

9.1 MNE Staffing

MNEs can draw from three staffing sources: PCNs, HCNs, and TCNs (Dowling, Welch, & Schuler, 1999). PCNs are those who are nationals of the country where the MNE is headquartered. HCNs are those who are nationals of the country where the subsidiary is located, where that subsidiary is operated by a MNE headquartered in another country. TCNs are those who are nationals of one country, working in a second country, and employed by a MNE headquartered in a third country.

The bulk of the MNE staffing literature has focused on staffing of expatriate PCNs (Harvey et al., 2001). Numerous studies have examined expatriate selection (Mendenhall, Dunbar, & Oddou, 1987; Spreitzer, McCall, & Mahoney, 1997; Tung, 1981, 1998), cross-cultural training and development (Black & Mendenhall, 1990), cross-cultural adjustment, and expatriate failure issues (Black, Mendenhall, & Oddou, 1991; Mendenhall & Oddou, 1985; Tung, 1987). A small body of literature is devoted to staffing with HCNs and TCNs, mostly from the comparative advantage perspective (Dowling et al., 1999). For example, employing PCNs increases subsidiary compliance with parent objectives and policies, but creates expatriate adjustment problems (Kobrin, 1988).

The current approach has largely missed the fact that a mix of staffing sources exists in many subsidiaries and that this mix itself generates compositional effects above and beyond the effect of nationality per se (Pfeffer, 1983). Furthermore, the MNE staffing literature has mainly focused on individual-level issues and outcomes. There is a strong need to link staffing composition with behavioral and financial outcomes at the subsidiary level (Schuler et al., in press).

As an institution nested in a diverse environment (Rosenzweig & Singh, 1991), a subsidiary's staffing composition must reflect the environmental composition (Weick, 1979). Such matching increases a subsidiary's ability to gain resources and support from its total environment (Pfeffer, 1973). Indeed, a multinational workforce has become a reality (Adler, 1997). With regards to upper management, a recent Conference Board report suggests a trend toward increasing the use of non-national directors: Between 1995 and 1998, the percentage of companies with non-national directors increased from 39% to 60% (Alexander & Esser, 1999). Non-nationals comprise 20-25% of the top management in companies that view themselves as the most successful or global, compared to a 10% average in other companies (Csoka & Hackett, 1998). Legitimizing heterogeneity and managing it appropriately have become the keys to success and major challenges facing MNEs (Adler, 1997; Bartlett & Ghoshal, 1998). However, there is a severe paucity of integrated theory and research on multinational staffing composition (Hambrick et al., 1998). We can say little about the dynamics of multinational staffing composition and its implications for subsidiary outcomes. Fortunately, both the SIHRM literature and the organizational demography and diversity literature yield some initial insights into these questions.

9.2 SIHRM

SIHRM theorists have recently proposed learning, innovation, and integration as the objectives for SIHRM policies and practices (Evans, 1986; Pucik, 1988; Schuler et al., 1993; Welch & Welch, 1997). Subsidiaries learn not only from the parent firm, but also from the host environment and even third country sources (Rosenzweig & Singh, 1991). Learning from the host country increases host country-specific knowledge, e.g., knowledge of local market conditions, customer tastes, and cultural values, and therefore enhances subsidiary performance in the host country (Luo & Peng, 1999). Learning from the parent country and firm improves subsidiary technological and managerial capabilities (Inkpen & Beamish, 1997; Kostova, 1999). Indeed, staffing of subsidiaries with expatriate PCNs has traditionally been viewed as a way to transfer knowledge from parent firms to subsidiaries (Downes & Thomas, 2000). In the innovation-driven stage of global competition, subsidiaries increasingly rely on innovative products and services that can simultaneously meet local demands and provide economies of scale to gain superior performance (Bartlett & Ghoshal, 1998). A subsidiary can only sustain such superior performance through repeatedly introducing innovations (Roberts, 1999).

Several authors have implied or pointed out the potential role of staffing in learning and innovation. Pucik (1988) argues that accumulation of invisible assets through learning should be the key principle guiding the international staffing strategy, and that firms need to have people in place in order to learn and transfer knowledge. Schuler et al. (1993) propose that MNEs maintain an appropriate mix and flow of PCN, HCNs, and TCNs in order to balance the needs of autonomy, coordination, and control and thus enhance global competitiveness, flexibility, and learning. Welch and Welch (1997) argue that MNEs should

develop mechanisms that support heterogeneity of perspectives so as to be responsive, flexible, and innovative, and that a group of inculcated expatriate managers may actually be a barrier to these objectives. Harvey and his colleagues (1999a) point out one benefit of inpatriation: Diversity of perspectives in developing policies, strategies, and plans for competing in developing countries. Their work, however, has focused on the domestic organizations of a MNE instead of on overseas subsidiaries.

A MNE "consists of a group of geographically dispersed and goal-disparate organizations that include its headquarters and the different national subsidiaries" (Ghoshal & Bartlett, 1990: 603). The integration of subsidiaries into the parent organization has long been a major challenge facing MNEs (Baliga & Jaeger, 1984; Martinez & Jarillo, 1989). Integration creates inter-unit linkages among subsidiaries and between subsidiaries and headquarters (Schuler et al., 1993). Integration is achieved through the processes of control and coordination (Katz & Kahn, 1978). Control refers to the processes that bring about adherence to parent goals or targets through the exercise of power, authority, or indoctrination of corporate values and norms (Etzioni, 1965; Jaeger, 1983; Ouchi, 1979). Control occurs from the parent's perspective, and is a direct intervention into subsidiary operations. Coordination refers to collaborative actions taken to achieve a unity of effort within a MNE (Lawrence & Lorsch, 1967). Coordination is an act of mutual adjustment, and is not characterized by direct intervention (Cray, 1984).

Staffing of subsidiaries with PCNs represents an exportive international HRM approach (Taylor, Beechler, & Napier, 1996). This practice affects both the identification of subsidiaries with the worldwide organization and the control and coordination of far-flung international operations (Kobrin, 1988; Schuler et al., 1993). While staffing with

expatriate PCNs has been recognized as a formal integration mechanism (Martinez & Jarillo, 1989), one informal aspect, that is, the transfer of corporate culture and values (Jaeger, 1983; Edstrom & Galbraith, 1977; Welch, Fenwick, & Cieri, 1994), has also received a great deal of attention. Ghoshal and Nohria (1993) label this informal aspect "normative integration," or the integration of subsidiaries into the parent organization by socializing managers into a set of shared values, goals, and beliefs that then shape their behaviors and perspectives. Welch and Welch (1997) argue that informal cultural control may create conformity and barriers to change in subsidiaries of MNEs. An implication is that an expatriate PCN-oriented staffing approach may compromise innovation and flexibility.

Summary of the MNE staffing and SIHRM literature. A model of multinational staffing composition should incorporate learning, innovation, and integration as the major objectives of multinational staffing. Research has focused on the integration of subsidiaries into the MNE system, and most of the MNE staffing literature has focused on expatriate PCNs. The compositional effect of staffing on integration is little known, and integration within subsidiaries has received little attention. Particular attention to learning, innovation, and integration at the subsidiary level seems to be necessary.

9.3 Organizational Demography and Diversity

Staffing for group effectiveness is at the center of work group design (Klimoski & Jones, 1995). Work group design models posit group composition as one input variable that affects group processes, which in turn determine group performance (Klimoski & Jones, 1995; Hackman, 1987). The organizational demography and diversity literature

focuses specifically on the impact of group or work unit composition in individual attributes on group or work unit processes and outcomes (Jackson, 1992; Jackson et al., 1995; Pfefer, 1983; Williams & O'Reilly, 1998). These attributes include readily detectable ones such as sex and race as well as underlying ones such as values and knowledge (Jackson et al., 1995; Milliken & Martins, 1996).

The compositional property of groups and work units is important for understanding group processes and outcomes (Pfeffer, 1983). Somewhat similar to the SIHRM research, the organizational demography and diversity literature suggests creativity and integration as the intermediate outcomes of group or work unit composition (Shaw, 1981; Hambirck, 1994; O'Reilly et al., 1989; Jackson et al., 1995). In addition, this literature has a within-unit focus and distinguishes between affective and behavioral aspects of integration. The affective aspect of integration (or cohesion) is typically defined as the degree to which members of a group or work unit are attracted to each other (Shaw, 1981), whereas behavioral integration refers to the degree to which members engage in mutual and collective interaction (Hambrick, 1994). The basic conclusion is that heterogeneous groups or work units tend to be more creative, less integrated, and have higher conflicts and turnover (Bantel & Jackson, 1989; Jackson et al., 1995; Milliken & Martins, 1996; Pelled, Eisenhardt, & Xin, 1999).

The literature also suggests other process variables such as work effort, communication, and cooperation (Klimoski & Jones, 1995; Milliken & Martins, 1996). Communication and cooperation can be broadly included in behavioral integration (Hambrick, 1994). These process variables or intermediate outcomes can be parsimoniously classified into affective (e.g., workforce identification, cohesion, and

emotional conflict), behavioral (e.g., work effort, turnover, and behavioral integration), and cognitive outcomes (e.g., creativity, and range of perspectives) (Jackson et al., 1995).

There is a severe paucity of integrated theory and research on nationality heterogeneity (Hambrick et al., 1998). One possible reason for this deficiency is that very little nationality heterogeneity exists in domestic organizations. While nationality is a readily detectable attribute, it is associated with underlying attributes such as assumptions, values, attitudes, and cognitive schemas. In a study of 800 middle- and upper-level managers from the U.S. and 8 European nations, Laurent (1983) found that mangers' national origins strongly influence their attitudes toward managerial and organizational roles and functions. Case study evidence suggests that nationality acts as the dominant sense-making vehicle and focus for identification in international joint ventures (Salk & Shenkar, 2001). This research points to the potentially powerful impact of nationality heterogeneity.

Two empirical studies may give some hints as to the dynamics of nationality heterogeneity. Bochner and Hesketh (1994), in their study on the multinational workforce in an Australian bank, found that people from countries that differed from Australia in terms of power distance and collectivism (Hofstede, 1980) perceived more discrimination in their workplace and valued cultural diversity more. Watson, Kumar and Michaelsen (1993) found that culturally heterogeneous groups were less effective than homogeneous groups at both group processes and task performance at the beginning of their study, but were equally effective at group processes and more effective in terms of range of perspectives and the ability to generate alternatives by the end of the study. Bochner and Hesketh's (1994) study examined cultural distance, whereas Watson, Kumar and

Michaelsen (1993) examined cultural heterogeneity. Nationality heterogeneity is different from cultural distance, which is an indication of the extent to which two cultures differ from each other. Nationality heterogeneity also differs from cultural heterogeneity. A group can be nationally heterogeneous but culturally similar and vice versa. Nationality as an impermeable attribute can provoke nationality-based categorization even when national groups are culturally similar (Salk & Shenkar, 2001).

Summary. Heterogeneity in demographic variables affects affective, cognitive, and behavioral outcomes, which in turn influence group or work unit effectiveness. Nationality is a salient category in the international setting. Heterogeneity in nationality may activate categorization and identification processes that affect group or work unit functioning and performance.

9.4 Model Development

This dissertation defines multinational staffing composition as the distribution of PCNs, HCNs, and TCNs in subsidiaries of MNEs (Jackson, 1992). Multinational staffing composition varies along the dimension of nationality heterogeneity. Drawing upon the organizational demography and diversity literature, the dissertation proposes affective and behavioral outcomes as the process variables that affect subsidiary performance. Affective process variables include identification, cohesion, emotional conflict, etc. Behavioral process variables include behavioral integration, work effort, and turnover. Cohesion (affective integration) and behavioral integration represent integration at the subsidiary level. Drawing upon the SIHRM literature, the dissertation proposes control and coordination (or strategic integration) as the strategic MNE-level process variables.

Finally, this dissertation proposes cognitive outcomes as subsidiary-level process variables on the basis of both the SIHRM literature and the organizational demography and diversity literature. The key cognitive variables include learning and innovation. The corollary of innovation is organizational flexibility, but to achieve parsimony, flexibility is not considered separately here. Affective, behavioral, and cognitive process variables in turn influence subsidiary financial performance such as sales growth, profitability, labor productivity, return on asset (ROA), and return on equity (ROE). These performance variables have been included in previous research (e.g., Huselid, 1995). Tobin's q is not included as a performance variable here because it applies to publicly traded firms, not subsidiaries, which are private firms in most cases. The model in figure 1 summarizes the above discussion.

Group or workforce heterogeneity has a direct effect on subsidiary performance in addition to its indirect effect via process variables (Smith et al., 1994; Williams & O'Reilly, 1998). An individual's affective reactions to a heterogeneous staffing composition affect his or her behaviors. An individual who is less psychologically linked with a subsidiary is likely to withdraw work efforts and turn over (Milliken & Martins, 1996). Thus, a connection (represented by a dotted line) between affective and behavioral outcomes is justified and the model specifies a direct link between staffing composition and subsidiary performance. The relationships between multinational staffing composition and subsidiary outcomes may change over time (Earley & Mosakowski, 2000; Watson et al., 1993). Thus, the model includes time as a moderator.

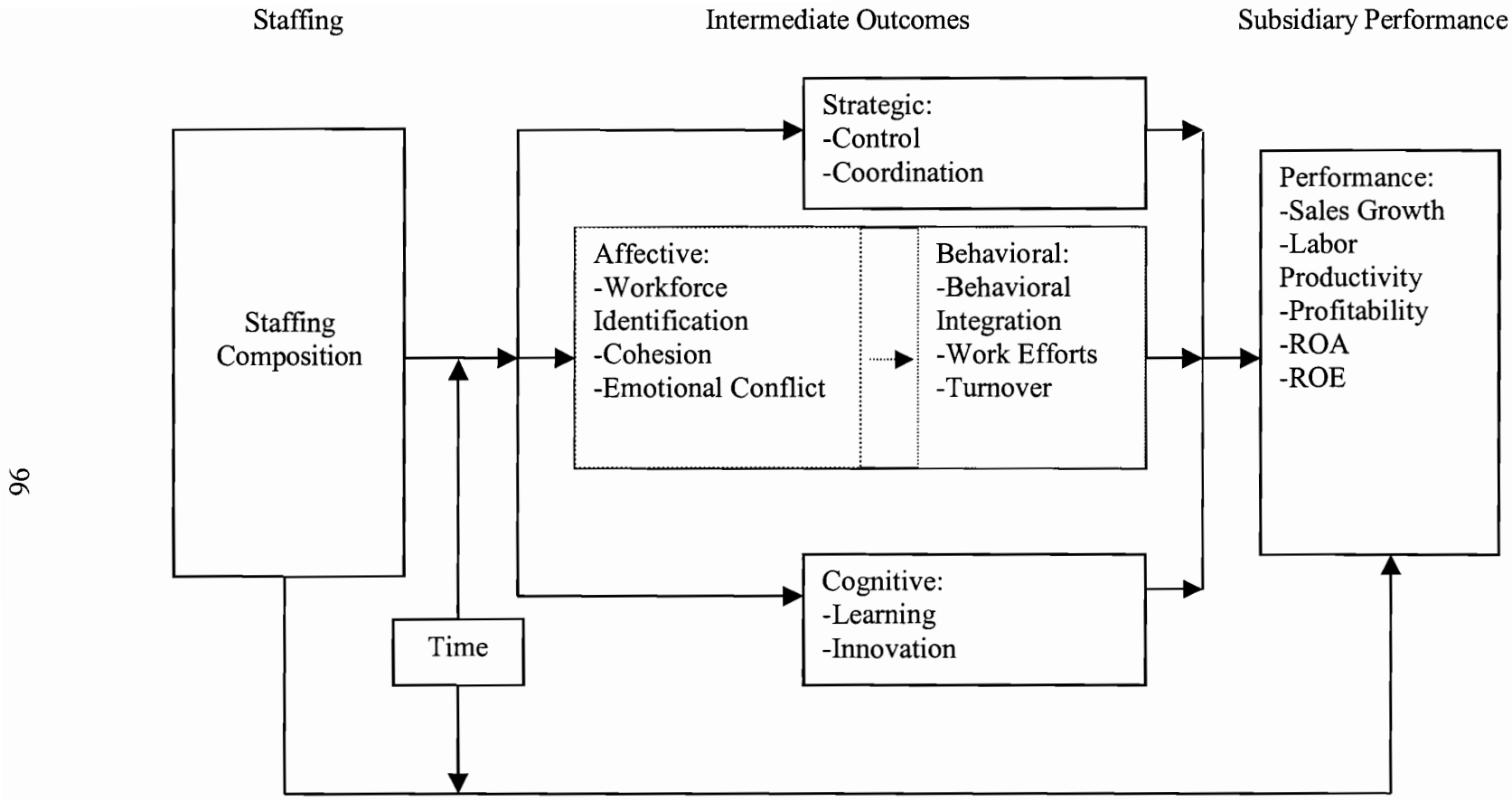

Figure 2: A Dynamic Process Model of the Impacts of Multinational Staffing Composition in Subsidiaries of MNEs

The model in this essay has five features. First, it highlights the need to balance the cognitive outcomes of learning and innovation with the strategic outcome of integration. It also underscores the balance between affective and cognitive outcomes as suggested by the organizational demography and diversity literature. Second, it deviates from the traditional focus on expatriate PCNs by focusing on staffing composition. This approach echoes recent efforts toward a multinational perspective of staffing in MNEs (Harvey et al., 1999). Third, it deviates from the traditional emphasis on individual outcomes by exploring outcomes at the subsidiary level. Fourth, it explores the issue of integration within subsidiaries in addition to the traditional focus on integration of subsidiaries into the parent organization as a whole. Finally, it explicitly incorporates a dynamic dimension in theorization. The next section will present specific propositions embedded in the model. Heterogeneity of nationality occurs at both workforce and top management levels (Adler, 1997; Csoka & Hackett, 1998). Given that organizational learning and social identification work in similar ways at both levels, the following section will not explicitly distinguish between the two.

CHAPTER 10

DEVELOPMENT OF PROPOSITIONS

The propositions presented in this section will be discussed in terms of 1) affective and behavioral outcomes, 2) cognitive outcomes, and 3) strategic outcomes. The section concludes with a summary of the impact of staffing composition on subsidiary financial performance.

10.1 Affective and Behavioral Outcomes

Individuals tend to categorize themselves and others into various social groups. Social categorization enables individuals to order and simplify their social environments, and to locate themselves and others within it (Tajfel, 1978). Social categorization is often based on demographic attributes such as age, sex, race, ethnicity, and nationality (Tajfel, 1982). Although any type of heterogeneity may provoke categorization, some types have a greater tendency to do so than others, depending on the permeability of an attribute. Permeability refers to the extent to which an attribute can be altered, moving an individual from one category to another (Tajfel, 1978). Social categorization produces social identity, "that part of an individual's self-concept which derives from his [or her]

knowledge of his [or her] membership of a social group [or groups] together with the value and the emotional significance attached to the membership" (Tajfel, 1978: 63).

In contrast to a subsidiary's organizational identity, an individual's national identity is impermeable. It is difficult to change one's national identity in the legal sense, and much more difficult to change its underlying qualities such as assumptions and values. In as much as heterogeneity of staffing composition invokes nationality-based social categorization and identification (Tajfel, 1978; Turner et al., 1987), in subsidiaries of MNEs, national identity is likely to be "cognitively prepotent in self perception to act as the immediate influence on perception and behavior" (Turner, Hogg, Oakes, Reichers, & Wetherell, 1987: 54). Indeed, a case study suggests that national social identity is the major sense-making vehicle and the dominant focus for social identification in international joint ventures (Salk & Shenkar, 2001). Identification with subgroups makes the subsidiary's organizational identity less salient and decreases subsidiary identification. Thus,

> Proposition 1a: Subsidiaries with a heterogeneous staffing composition are more likely to have higher nationality-based identification than subsidiaries with a homogeneous staffing composition.
>
> Proposition 1b: Subsidiaries with a heterogeneous staffing composition are more likely to have lower subsidiary-based identification than subsidiaries with a homogeneous staffing composition.

Nationality-based categorization and identification have implications for workforce affect. Individuals in the same category perceive each other as trustworthy, favor in-group members, and discriminate against members of other categories (Tajfel,

1978; Tajfel & Turner, 1986; Turner et al., 1987). This suggests that subsidiaries with a heterogeneous staffing composition may suffer low workforce cohesion and high emotional conflict.

Subsidiary workforce cohesion refers to the degree to which individuals of different nationalities are attracted to each other (Shaw, 1981). The degree of similarity of group members has great impact on cohesion (Shaw, 1981). In a subsidiary with a heterogeneous staffing composition, there is dissimilarity in national groups' assumptions, values, beliefs, norms, and demeanor (Laurent, 1983). Even small, seemingly trivial differences often aggravate stereotypes, causing disdain and isolation and resulting in low cohesion (Hall, 1960).

Emotional conflict is a condition in which individuals have interpersonal clashes characterized by anger, frustration, and other negative feelings (Pelled et al., 1999). Heterogeneity in nationality is likely to increase the prevalence of bias when people relate to each other as members of nationality-based ingroup or outgroup (Jackson et al., 1995). Prejudice against other nationals and favoritism towards one's own nationals lead to emotional conflicts. Interpersonal clashes can also occur as a result of the real incompatibility of assumptions, values, beliefs, norms, or working methods (Cascio & Serapio, 1991).

National groups - groups of individuals who define themselves as having the same nationality - are psychological groups (Turner, 1984). In a psychological group, individuals can identify with each other without necessarily engaging in interpersonal interactions with all or any members of that group. This suggests that low cohesion and high emotional conflict arising from nationality-based categorization can occur

throughout the subsidiary workforce, including among those individuals who seldom interact with each other. Therefore, the lower cohesion and higher emotional conflict associated with nationality-based categorization are likely to be subsidiary-wide.

Proposition 1c: Subsidiaries with a heterogeneous staffing composition are more likely to have lower cohesion and higher emotional conflict than subsidiaries with a homogenous staffing composition.

Subsidiaries with a heterogeneous staffing composition may also have lower workforce behavioral integration. Nationality-based categorization and the resultant in-group favoritism and out-group discrimination is likely to reduce the quantity and quality (i.e., richness, timeliness, accuracy) of information exchange, collaborative behavior, and joint consultation and decision-making, all of which are critical components of behavioral integration (Hambrick, 1994; O'Reilley et al., 1989). Lack of a common knowledge base and language also contributes to lower communication and collaboration. Lower subsidiary identification arising from nationality-based categorization reduces the intensity and persistence of work efforts toward subsidiary goals (van Knippenberg, 2000). Inter-group conflicts along the lines of national group identities increase stress and anxiety (Adler, 1997) and reduce psychological attachment to the subsidiary as a whole, leading to higher turnover. Thus,

Proposition 1d: Subsidiaries with a heterogeneous staffing composition are more likely to have a lower level of behavioral integration, lower work effort, and a higher rate of turnover than subsidiaries with a homogeneous staffing composition.

Contacts among PCNs, HCNs, and TCNs lead to positive attitudes toward each other over time (Allport, 1954). Positive attitudes reduce emotional conflicts and increase cohesion. Repeated interactions facilitate the formation of trust relationships among PCNs, HCNs, and TCNs (Axelrod, 1984), leading to better cooperation among these groups. Research suggests that affective, cognitive, and behavioral biases are strongest initially, but weaken over time as people become familiar with each other (Moreland, 1985). Over time, subsidiaries solve internal conflicts among national groups, establish norms for mutual exchange, and begin to perform tasks. More importantly, an overarching subsidiary organizational identity is likely to evolve over time (Earley & Mosakowski, 2000). This superordinate identity transcends an individual's national group identity and therefore reduces the negative affective and behavioral outcomes associated with nationality-based categorization and identification. Thus,

> Proposition 1e: As time (measured in years of subsidiary operation) increases, the negative affective and behavioral outcomes associated with a heterogeneous staffing composition are likely to decrease.

10.2 Cognitive Outcomes

Learning and innovation are two closely related cognitive outcomes of multinational staffing composition. According to organizational learning theory, outside sources of knowledge are critical components of a firm's innovative capabilities (Cohen & Levinthal, 1990). A firm's absorptive capability, that is, the ability to recognize and evaluate the value of outside knowledge, assimilate it, and apply it to commercial ends, is largely a function of prior related knowledge including basic skills and shared language (Cohen & Levinthal,

1990). An organization learns through its agents who have prior knowledge of the organization's environment (Cohen & Levinthal, 1990). Agents' learning is then integrated and stored in organizational memory (Crossan et al., 1999; Levitt & March, 1988; Walsh & Ungson, 1991).

A subsidiary is exposed to knowledge available from the host, parent, and third country environments (Gupta & Govindarajan, 1991). A subsidiary's communication system should have specialized agents to monitor and transfer information from each segment of its total environment (Cohen & Levinthal, 1990), and a subsidiary with a heterogeneous staffing composition does in fact have national groups acting as such agents. Their relevant prior knowledge enables expert intuition into each segment (Cohen & Levinthal, 1990). As a result, the subsidiary is able to maintain access to diverse sources of knowledge and recognize a greater number of possibilities due to the existence of increased information transmission channels and diverse cognitive structures (Huber, 1991). Thus,

> Proposition 2a: Subsidiaries with a heterogeneous staffing composition are more likely to access and recognize diverse sources of knowledge than those with a homogeneous staffing composition.

Language enables individuals to name and explain what were once simply intuitions (Crossan et al., 1999). Because each national group has the language and the social and cultural expertise associated with its native environment, subsidiaries with a heterogeneous staffing composition are able to gain more reliable and accurate information from their total environment and they are able to interpret this information more quickly. Individuals tend to interpret information selectively based on their

cognitive structures (Fiske & Taylor, 1992). Subsidiaries with a heterogeneous staffing composition generate a wider range of interpretations because the same information is subject to varied interpretations (Huber, 1991). Thus,

Proposition 2b: Subsidiaries with a heterogeneous staffing composition are more likely to perform better with regards to the interpretation of information than those with a homogeneous staffing composition.

A diverse pool of information needs to be integrated at the subsidiary level. Heterogeneity of knowledge and expertise is necessary for integrative learning to occur (Dixon, 1999). Different national groups are recognized as experts in different environmental domains. The recognition of expert roles increases individuals' tendency to seek information from each other and increases the likelihood of information sharing (Stasser, Stewart, & Wittenbaum, 1995). Individuals of different nationalities are exposed to diverse knowledge structures through shared practices on a daily basis. The presence of differences coupled with the absence of pressure to conform increases a subsidiary's "integrative complexity" - the ability to recognize various dimensions and make novel connections among them (Argote, 1999; Gruenfeld & Hollingshead, 1993). Thus,

Proposition 2c: Subsidiaries with a heterogeneous staffing composition are more likely to perform better with regards to integrative learning than those with a homogeneous staffing composition.

Subsidiary learning creates a tension between assimilating new learning and exploiting what has already been learned, a tension that has been labeled as the exploitation-exploration tradeoff by organizational learning theorists (March, 1991). A competency trap occurs when favorable performance with an inferior procedure leads a subsidiary to exploit

it more and consider the use of a superior procedure unrewarding, and as a result the subsidiary firm is trapped in a sub-optimal stable equilibrium (Levitt & March, 1988; March, 1991).

In the dynamic global environment, the long-term success of a subsidiary depends on sustaining a reasonable level of exploration. A heterogeneous staffing composition enables a subsidiary to engage in a broad multi-directional search (for sources of learning and innovation) that results in a rich pool of routines and thus accelerates the change of routines (Levitt & March, 1988). When sources of learning are not used at the subsidiary level, they are still dormant learning options that reside in the subsidiary's workforce. Dormant forms of knowledge challenge the knowledge in use, prevent it from becoming stagnant, and accelerate its transformation. Research suggests that top management heterogeneity enhances the strategic renewal of organizations (Hurst, Rush, & White, 1989).

A heterogeneous staffing composition increases subsidiary innovation by enhancing learning (Stata, 1989). Heterogeneity increases communications with others in the diverse environments of a subsidiary, and such communication leads to greater innovation (Ancona & Caldwell, 1992). The diverse repertoire of knowledge gathered by various national groups enhances a subsidiary's capability for innovation (Cohen & Levinthal, 1990). Diverse knowledge structures coexisting in a subsidiary elicit the kind of learning and problem-solving that yields innovation (Simon, 1985). SIHRM theorists suggest that a hybrid subsidiary HRM system, a HRM system that is a hybrid of parent and local practices, is open to innovations regardless of where they originate (Bird, Taylor, & Beechler, 1998). A heterogeneous staffing composition is perhaps an element

of such a HRM system if it includes representatives of the parent and local environment. The organizational demography and diversity literature suggest that heterogeneity in functional backgrounds, knowledge, and skills increases the range of alternatives generated and the likelihood of creative and innovative solutions (Jackson et al., 1995; Miliken & Martins, 1996). Thus,

> Proposition 2d: Subsidiaries with a heterogeneous staffing composition are likely to outperform subsidiaries with a homogenous staffing composition in learning and innovation.

Continued interactions among individuals of diverse nationalities facilitate the establishment of a shared knowledge base. A shared knowledge base and grounding rules provide a basis for information sharing and facilitate knowledge integration (Cohen & Levinthal, 1990; Simon, 1985). The continuity of interaction on a daily basis is especially necessary when it comes to learning and integrating tacit knowledge, which is deeply rooted in actions and involved in specific contexts (Nonaka, 1994; Polanyi, 1966).

Repeated contacts over time foster positive attitudes towards and increase cooperation with others who differ with regards to nationality (Allport, 1954; Chatman & Flynn, 2001). The continuity of interaction over time enables the establishment of a hybrid subsidiary culture - an emergent and simplified set of rules, norms, expectations, and roles that individuals of all nationalities have contributed to, understand, share, and act upon (Earley & Mosakowski, 2000). Such a culture encourages and respects diverse perspectives (Chen & Eastman, 1997). At the same time, it provides a mutually acceptable basis for interaction within a heterogeneous subsidiary, and therefore permits a productive use of diverse talents and perspectives (Chen & Eastman, 1997; Earley &

Mosakowski, 2000; Harvey et al., 1999b). The formation of a hybrid subsidiary culture reinforces the subsidiary's organizational identity, transcends national group identities, and thus increases cooperation in mutual learning among national groups (Kramer & Brewer, 1984). Thus,

> Proposition 2e: Time (measured in years of subsidiary operation) is likely to moderate the relationship between a heterogeneous staffing composition and subsidiary learning and innovation such that the longer the operation of a subsidiary, the more likely the heterogeneous staffing composition will enhance subsidiary learning and innovation.

10.3 Strategic Outcomes

Organizations integrate subunits through the processes of control and coordination (Katz & Kahn, 1966). A MNE can utilize formal control mechanisms (e.g., rules and regulations), informal control mechanisms (e.g., the instilling of corporate culture), or a combination of the two (Edstrom & Galbraith, 1977; Ouchi, 1980; Welch et al., 1994). MNEs can adopt either personal or impersonal modes of coordination (March & Simon, 1958; Martinez & Jarillo, 1989; Van De Ven, Delbecq, & Koenig, 1976). In the personal mode of coordination, individuals serve as the mechanism for making mutual adjustments through vertical or horizontal communications (Van De Ven et al., 1976). The instilling of corporate values in subsidiaries through the socialization activities of expatriate PCNs also act as a personal mode of coordination (Ghoshal & Nohria, 1993; Jaeger, 1983; Welch & Welch, 1997). Impersonal coordination is achieved through predetermined policies, procedures, and work plans.

The demographical composition of an organization affects the form and nature of the control process (Pfeffer, 1983). A parent firm is likely to exercise formal control over a subsidiary with a heterogeneous staffing composition due to the differences in languages, norms, and values between the subsidiary and the parent. The organizational demography and diversity literature suggest that heterogeneous groups or work units tend to communicate more formally (Milliken & Martins, 1996). Formal control reduces a subsidiary's flexibility in responding to changing environments. In contrast, informal cultural control tends to be exercised over subsidiaries with a homogenous PCN-dominant staffing composition (Edstrom & Galbraith, 1977; Pfeffer, 1983; Welch et al., 1994). Indeed, given expatriate PCNs' "ability to articulate and disseminate the company's value system through embedded individual behaviors, expatriates have been viewed as the sole option for many MNEs" (Harvey et al., 1999: 462). Informal cultural control is regarded as effective because expatriates share language, values, goals, and perspectives with those in the parent firm (Smith et al., 1994). Furthermore, expatriate PCNs share the same national identity as the parent firm, and are more likely to identify with the parent organization and its objectives (Kobrin, 1988). This shared identity, according to social identification theory (Turner, 1985), increases the parent's trust in the subsidiary. The trust relationship makes strict formal control less necessary.

Expatriate PCNs act as liaison persons between a subsidiary and its parent firm (Van De Ven et al., 1976). Shared language, values, and goals increase the effectiveness of personal coordination. Expatriates also transmit corporate values and goals to subsidiaries. The coordination that occurs via expatriates and their socialization activities provides the glue that binds subsidiaries and parents together (Bartlett & Ghoshal, 1998). In the relative

absence of shared cultural values and goals within a heterogeneous subsidiary, impersonal coordination between the subsidiary and its parent firm is more likely to occur. Thus,

Proposition 3a: Subsidiaries with a heterogeneous staffing composition are more likely to experience formal control from parent firms than subsidiaries with a homogeneous expatriate PCN-dominant staffing composition.

Proposition 3b: Subsidiaries with a heterogeneous staffing composition are more likely employ impersonal coordination than subsidiaries with a homogeneous expatriate PCN-dominant staffing composition.

Proposition 3c: Subsidiaries with a heterogeneous staffing composition are more likely to have less effective personal coordination with parent firms than subsidiaries with a homogeneous expatriate PCN-dominant staffing composition.

10.4 Staffing Composition and Subsidiary Financial Performance

An earlier discussion based on social identification theory suggests that a heterogeneous staffing composition eventually leads to lower subsidiary performance by means of its negative effects on the affect and behavioral integration within a subsidiary. Smith et al. (1994) found that lower cohesion leads to lower firm performance as measured in terms of return on investment and one-year growth in sales. A meta-analysis suggests that low cohesion is associated with low performance (Evans & Dion, 1991). Nationality-based categorization and identification direct individual efforts toward factional interests instead of the interest of a subsidiary as a whole (Kramer & Brewer, 1984; van Knippenberg, 2000), translating into lower subsidiary performance. Thus,

Proposition 4a: Staffing composition heterogeneity will be negatively related to subsidiary financial performance.

Seen from the perspective of organizational learning theory, subsidiaries are embedded in a diverse environment that requires a heterogeneous staffing composition in order to facilitate the procurement of resources and support from that environment (Pfeffer, 1973; Weick, 1979). The majority of innovations appear to have their origins at the organization-environment boundary, and a heterogeneous staffing composition allows a communication structure that facilitates the adoption of innovations (Cohen & Levinthal, 1990; Evans, 1986; Zaltman et al., 1973). It is through the conduits of various national groups that a subsidiary accumulates resources from and gains knowledge about its total environment. The diverse sources of knowledge that coexist within a subsidiary lead to internally generated innovations.

Organizational leaning theorists argue that the rate at which organizations learn is the source of sustained competitive advantage (Stata, 1989; Senge, 1993). Learning generated from complex daily interactions among heterogeneous national groups is intangible, socially complex, and difficult for competitors to imitate. These intangible resources lead to superior subsidiary performance (Barney, 1991; Pucik, 1988). To stay ahead of competitors, a subsidiary needs to continuously differentiate itself or reduce costs through innovative products and services (Evans, 1986). Schumpeter (1934) indicates that firms engage in a process of creative destruction or innovation to gain sustainable competitive advantage. The corollary of innovation is organizational flexibility. An innovative subsidiary can better adapt to the changing global environment.

Ample evidence suggests that learning enhances international performance. Prior learning facilitates a subsidiary's future international expansion (Barkema, Shenkar, Vermeulen, & Bell, 1997; Johanson & Vahlne, 1977). The acquisition of host country-specific knowledge, for example, knowledge of local channels of distribution, customer preferences, cultural values, and political environments, is a driving force behind international performance because such knowledge cannot be obtained easily (Barkema & Vermeulen, 1998; Inkpen & Beamish, 1997). Luo and Peng (1999) found that the diversity and intensity of learning in a host country enhances subsidiary performance in that country (Luo & Peng, 1999). A subsidiary reduces its dependence on other firms and improves its competitive position by learning technological and managerial skills from its parent and partner firms (Inkpen & Beamish, 1997; Kostova, 1999). By learning from the parent, the host environment, and third countries, a subsidiary develops a better understanding of how to think globally yet act locally, a capability that is increasingly in demand in the new era of global competition (Bartlett & Ghoshal, 1998; Harvey et al., 1999b).

Empirical evidence suggests that innovation enhances firm performance. Mansfield (1968) reported that innovators in the steel and petroleum industries grew more rapidly than other firms in those industries during the five to ten years after their innovations were implemented. Armour and Teece (1978) found that early adoption of a major administrative innovation (the multi-divisional structure) in petroleum firms increased the rate of ROE. Damanpour and his colleagues (e.g., Damanpour & Evan, 1984) found that a higher rate of adoption of both administrative and technical innovations led to better performance in a sample of public libraries. Soni, Lilien and Wilson (1993) found that innovative firms performed better in terms of sales growth and profitability. Lawless and Anderson (1996)

found that earlier adopters of the new generation of technology in the microcomputer industry commanded a market share in excess of what one would expect given the price of computers. Subramanian and Nilakanta (1996) found that the adoption of technical and administrative innovations was positively related to ROA. The return to a firm from any given innovation may erode over time. Firms that repeatedly introduce innovations, however, can achieve sustained superior profitability (Roberts, 1999). A heterogeneous staffing composition provides an infrastructure that supports continuous learning and innovation. To summarize, organizational learning theory suggests that subsidiaries with a heterogeneous staffing composition are likely to achieve higher performance through better learning and innovation. Thus,

Proposition 4b: Staffing composition heterogeneity will be positively related to subsidiary financial performance.

Time provides a point of convergence for the perspectives of social identification theory and organizational learning theory. Over time, subsidiaries gain knowledge about managing a heterogeneous workforce. Continued contacts among individuals of different nationalities foster positive attitudes towards each other and reduce negative affective and behavioral reactions arising from nationality-based categorization and identification. The formation of a hybrid subsidiary culture over time erodes national group identities and enhances subsidiary identification. A hybrid subsidiary culture accommodates heterogeneous perspectives, provides a basis for interaction among heterogeneous national groups, and therefore facilitates the exploitation of the innovative potential associated with a heterogeneous workforce. Thus,

Proposition 4c: Time (measured in years of subsidiary operation) will moderate the effects of heterogeneous staffing composition on subsidiary financial performance such that the longer the operation, the more likely the subsidiary will benefit from the heterogeneous staffing composition.

CHAPTER 11

DISCUSSION OF THE MODEL

The model presented in this dissertation highlights the need for balancing learning and integration at the subsidiary level. The transformation of HR systems to support subsidiary learning and innovation is a key strategic task facing the HR function in MNEs (Pucik, 1988; Schuler et al., 1993; Welch & Welch, 1997). A heterogeneous staffing composition enhances learning and innovation, and therefore increases subsidiary performance. However, heterogeneous staffing compositions also lead to nationality-based social categorization and identification that work against subsidiary performance. The challenge for international HR practitioners is to exploit the learning and innovative potential of a heterogeneous staffing composition while containing its disintegrative effects. A hybrid subsidiary culture could serve to meet this challenge. Cross-cultural negotiation and conflict resolution skills are also helpful (Ancona & Caldwell, 1992). While socialization of HCNs and TCNs may reduce negative affective and behavioral outcomes, such socialization may also make them think and behave like expatriate PCNs and thus compromise the benefits of variety.

The model presented here also highlights the need for balancing cognitive gains and integration at the MNE level. A heterogeneous staffing composition offers the benefits of learning and innovation. However, a MNE may have to resort to formal control mechanisms to integrate heterogeneous subsidiaries. Formal bureaucratic control constrains the exploitation of a heterogeneous workforce's innovative potential (Damanpour, 1991). Increased bureaucratic control leads to lower subsidiary performance for other reasons as well. First, a subsidiary tends to be less responsive to local conditions and changing competitive environments under strict bureaucratic control. A subsidiary that cannot respond quickly to the changing environment will find that its performance suffers as a result. Second, rules, regulations, and monitoring increase administrative burden and costs. Finally, formal control diverts subsidiary time and energy towards compliance with rules and regulations instead of accomplishing objectives.

This essay aims to provide a general framework for understanding staffing composition. As we progress, a more detailed and complex model is likely to evolve. For example, affective and behavioral reactions may moderate the relationship between staffing composition and cognitive outcomes. Organizational context variables such as provision of cross-cultural training and environmental variables such as cultural differences may also be added as moderators in the model.

In the next several chapters, I present two empirical tests of the direct relationship between multinational staffing composition and subsidiary performance (proposition 4a and 4b), and the moderating role of time in the above relationship (proposition 4c).

CHAPTER 12

EMPIRICAL STUDY 1

12.1 Sample and Procedure

The U.S. subsidiaries of foreign MNEs listed in the Directory of Foreign Firms Operating in the United States (Uniworld, 2000) constituted the population from which the sample was drawn. The directory is specialized in foreign MNEs. It provides address, phone number, major industry, CEO/president name, and parent ownership share for the U.S. subsidiaries of foreign MNEs. The directory contains subsidiaries of MNEs from both developed and developing countries, and therefore represents great variations in MNE nationalities. Compared to an international survey, the current approach reduced cost considerably, and enhanced the ability to control the data collection process. By holding the host country constant, the sampling approach ensured control over extraneous variables pertaining to the host environment that may affect subsidiary performance.

I randomly drew 1,169 firms from the above directory. Among all the states/cities, the city of New York has the largest number of subsidiaries of foreign MNEs. After the "9.11" event, I took out 25 firms in the World Trade Center and 1 Liberty Plaza. This reduced the sample size to 1,144. I followed the standard survey procedure suggested by Dillman (2000). I sent a pre-notice letter to the CEO/president of

each subsidiary on September 25, 2001. In the letter, I explained the purpose of the study and potential benefits for participants, and requested CEOs to fill out the survey. On October 2, 2001, I sent a package, which contains a cover letter, a survey questionnaire, and a return envelope with prepaid postage, to each respondent. In the cover letter, I explained the purpose of the study, potential benefits for participants, and the procedure for filling out the survey. On October 17, 2001, I sent out a thank-you postcard to respondents to express appreciation and to remind those who had not responded yet. On October 24, 2001, I again sent a package containing a replacement survey, a cover letter, and a return envelopment to each respondent. I conducted the last follow-up on December 9, 2001. Personalized correspondence can improve response rate (Dillman, 2000). Therefore, I signed every correspondence to each respondent.

After the initial contact, 56 firms declined to participate. Another 130 surveys (11% of the total sample) were undeliverable. This reduced the effective sample size to 958. Eight-one CEOs returned completed surveys, representing a response rate of 8.5%. The parent firms of the subsidiaries in the final sample came from the following 21 countries/regions: Australia, Austria, Canada, Chile, Denmark, Great Britain, Finland, France, Germany, Hong Kong, Iran, Italy, Japan, Netherlands, Russia, South Korea, Singapore, Spain, Sweden, Switzerland, Turkey, and United Arab Emirates.

Subsidiaries in the final sample tend to be of small and medium size in terms of number of employees ($\underline{M}$ = 157) and capital ($\underline{M}$ = \$10.6M). The final sample was generally representative in terms of industry. For the subsidiaries in the final sample, 51% (compared to 45% in the directory) were in manufacturing, 19% (compared to 26% in the directory) in trade, 14% (compared to 15% in the directory) in finance, insurance,

and real estate, 11% (compared to 8% in the directory) in transportation and public utility, and 5% (compared to 6% in the directory) in service industry. Firms in the final sample were wholly owned subsidiaries (M = 98%). The average length of operation in the U.S. was 19.8 years. The directory does not provide information on subsidiary capital and sales, therefore no comparison was possible in these regards.

12.2 Dependent and Independent Variables

Subsidiary performance. I asked the respondents to provide sales, profit after taxes, assets, and equity in 2000. I then calculated labor productivity as sales over the number of employees, return on assets as profit after taxes over assets, and return on equity as profit after tax over equity. These measurements are consistent with previous work (e.g., Huselid, 1995). As subsidiaries in the sample were private firms, measures of market performance such as Tobin's q were not applicable. I also included a subjective performance measure in the questionnaire. The subjective performance measure assessed CEO's satisfaction with subsidiary sales level, market share, profitability, labor productivity, and customer services. Subjective performance measures are considered as less accurate, and subject to potential common method variance problem. The Pearson correlations between the subjective measure and the objective measures of labor productivity, return on equity, and return on asset were not statistically significant. Therefore, I used only the objective performance measures in subsequent analyses.

Staffing composition. I provided the definitions of PCNs, HCNs, and TCNs in the questionnaire to ensure consistency among respondents. I asked CEOs to provide the total number of subsidiary employees, the number of PCNs, HCNs, and TCNs among the

employees. I then calculated the proportion of PCNs (P_p), HCNs (P_h), and TCNs (P_t). To ensure a consistent understanding, I defined top managers as including CEOs and those who were one level below in the managerial hierarchy. Furthermore, these top mangers must have regular interactions with each other. CEOs provided the number of top managers who are PCNs, HCNs, and TCNs respectively. I then calculated the proportion of top managers in each category.

There are at least two measures for assessing heterogeneity: Teachman's (1980) index and Blau's (1977) index. Both indexes assess heterogeneity with respect to categorical variables, and are widely used in empirical studies (e.g., Ancona & Caldwell, 1992; Harrison, Price, & Bell, 1998; Jackson et al., 1991; Pelled et al., 1999). Teachman's (1980) index is: $-\Sigma P_i (\ln P_i)$, where P_i represents the proportion of individuals in category i. The choice between the two indexes is primarily a matter of taste (Teachman, 1980).

Teachman's index involves the use of natural logarithm of the proportion of individuals falling into each category. The MNE staffing literature suggests that MNEs especially Japanese MNEs utilize a very small number of and in many cases zero TCNs (Tung, 1982; Peng, Lee, & Tan, 2001; Peterson, Napier, & Shin, 1996). The survey data confirmed this conclusion: 49% of the subsidiaries have zero TCNs, and 79% has less than 5%. Since the natural logarithm of zero does not exist, Teachman's (1980) index is not appropriate in this context. I used Blau's (1977) index to measure the heterogeneity of staffing composition. The formula for Blau's (1977) index is: $(1-\Sigma P_i^2)$, where P_i is the proportion of the employees in ith category, and i takes the value of p-PCNs, h-HCNs,

and t-TCNs. I calculated the index for each firm at employee and top management team levels. A higher score on this index indicates a more heterogeneous staffing composition.

12.3 Control Variables

Cultural Distance. Cultural distance between parent and host country has been suggested to affect subsidiary performance (Shenkar, 2001). CEOs provided the country where the parent firm of the subsidiary is located. The cultural distance between the parent country and the host country was calculated using Kogut and Singh's (1988) cultural distance index as detailed in study 1 of essay 1.

Other control variables included subsidiary industry, entry mode (merger/acquisition, green-field, joint venture, and others), capital, and total number of employees. By holding the host country constant, there was no need to control for host country specific factors that may affect subsidiary performance across countries.

12.4 Data Analysis and Results

Table 15 provides zero-order correlations, means, and standard deviations for the major variables. To examine the impact of staffing composition in nationality on subsidiary performance, I conducted hierarchical regression analyses at both top management team and employee level. For each level of analysis, I first entered the control variables - entry mode, industry, years of operation, number of employees, capitalization, and cultural distance - in model 1, and then entered staffing composition and its interaction with years of operation in model 2. Tables 16 and 17 presented the analysis results.

At the employee level of analysis (tables 16), the effect of staffing composition was negative and statistically significant (β = -.74, p < .05) in predicting return on asset. I calculated the practical significance. Result suggested that a one-standard-deviation increase in staffing heterogeneity while holding other variables at their means decreased profit after tax (the numerator of return on asset) an average of $ 260,648 per employee. The impact of staffing composition was in the negative direction in predicting return on equity, but not statistically significant. The interaction between staffing composition and years of operation was positive and statistically significant (β = 1.10, p < .01) in predicting return on asset. The impacts of the interaction were in the positive direction in predicting labor productivity (β = .27, p > .1) and return on equity (β = .21, p > .1), but not statistically significant.

At the top management team level of analysis (table 17), staffing composition was not statistically significant in predicting labor productivity, return on equity, and return on asset. The interaction between staffing composition and years of operation was positive and statistically significant in predicting labor productivity (β = .50, p < .05), but not in predicting return on equity and return on asset. For both levels of analyses, I checked VIF statistics, all of which were below the conventional cut-off value of 10, suggesting that no serious multicollinearity problem existed.

Variable	Means	S.D.	1	2	3	4	5	6	7	8	9
1. Years of Operation	19.77	11.92	-								
2. Capital	10.59	22.42	-.01	-							
3. Number of Employees	157.30	295.15	-.18	.32*	-						
4. Cultural Distance	1.63	1.13	.05	.10	-.26*	-					
5. Employee Composition	.22	.17	.06	.09	-.26*	.47**	-				
6. Top Management Team composition	.26	.24	.11	.20	.15	-.11	.03	-			
7. Labor productivity	.82	1.85	.07	.45**	-.09	.24†	.30*	-.03	-		
8. Return on Equity	.20	.19	-.33*	-.23	-.04	-.17	-.03	.27†	-.16	-	
9. Return on Asset	.11	.19	.35*	-.19	-.08	-.15	-.04	-.10	-.13	.06	-

Table 15: Means, Standard Deviations, and Zero-Order Correlations among Major Variables.

Note. Dummy variables industry and entry modes were not presented in the table.

$^{\dagger}p < .1$. $^{*}p < .05$. $^{**}p < .01$.

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
	(Labor Productivity)		(ROE)		(ROA)	
Control Variables:						
Years of Operation	.04 (.015)	-.12 (.025)	-.25 (.001)*	-.36 (.002)*	.58 (.003)**	.01 (.004)
Number of Employees	-.11 (.001)	-.09 (.001)	-.01 (.000)	-.01 (.000)	.11 (.000)	.16 (.000)
Capital	.41 (.011)***	.39 (.010)***	-.20 (.001)†	-.21 (.001)†	-.19 (.001)	-.35 (.001)*
Cultural Distance	.20 (.168)†	.09 (.176)	-.09 (.014)	-.13 (.015)	.05 (.029)	.07 (.027)
Independent Variables:						
Staffing Composition		.09 (2.144)		-.10 (.187)		-.74 (.429)*
Composition × Years of Operation		.27 (.102)		.21 (.009)		1.10 (.020)**
R^2	.22***	.28***	.13	.14	.36*	.55**
ΔR^2		.06		.01		.19
F for ΔR^2		3.147*		.34		5.87**

Table 16: Regression Analysis Results at Employee Level of Analysis. Standard errors were in parentheses. N = 81. Industry and entry mode were not presented in the table.

$^{\dagger}p < .1$ $^{*}p < .05$ $^{**}p < .01$ $^{***}p < .001$

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
	(Labor Productivity)		(ROE)			(ROA)
Control Variables:						
Years of Operation	.03 (.002)	-.24 (.002)	-.25 (.001)*	-.28 (.002)*	.29 (.001)*	.34 (.002)*
Number of Employees	.04 (.000)	.02 (.000)	-.01 (.000)	-.05 (.000)	.02 (.000)	.03 (.000)
Capital	.32 (.001)**	.27 (.001)*	-.20 (.001)†	-.23 (.001)*	-.19 (.001)†	-.18 (.001)†
Cultural Distance	.04 (.018)	.04 (.017)	-.09 (.014)	-.07 (.014)	-.06 (.015)	-.07 (.015)
Independent Variables:						
Staffing Composition		-.15 (.139)		.23 (.117)		-.04 (.125)
Composition × Years of Operation		.50 (.006)*		-.01 (.005)		-.08 (.006)
R^2	.23†	.30*	.13†	.18*	.13†	.14†
ΔR^2		.07		.05		.01
F for ΔR^2		3.40*		2.29†		.432

Table 17: Regression Analysis Results at Top Management Team Level. Standard errors were in parentheses. N = 81. Industry and entry mode were not presented in the table.

$^{\dagger}p<.1$ $^{*}p<.05$ $^{**}p<.01$ $^{***}p<.001$

CHAPTER 13

EMPIRICAL STUDY 2

The survey study reported earlier may have limited statistical power because of the small sample size. The practical significance analysis has partially solved the problem. While the survey sample was generally representative in terms of industry, subsidiaries in the sample tended to be small and medium size firms. Therefore, it is necessary to check the generalizability of the findings in study 1 using other data sources. To do so, I compiled an archival data set from two major sources: Japanese Overseas Investment (Toyokeizai, 2001) and Directory of Corporation Affiliations (LexisNexis Group, 2001). Please refer to study 2 of essay 1 for a description of the two data books. Subsidiaries with top manager names listed in public sources tend to be large firms. This complements the sample of small and medium size subsidiaries in study 1. The sample and coding procedure are the same as those in essay 1 study 2. For the convenience of readers, I briefly restate them here.

13.1 Sample

I selected one large MNE from Japanese Overseas Investment (2001) based on the following three criteria: (a) The MNE has at least 152 (based on power analysis results in essay 1) foreign subsidiaries (concern for sample size), (b) there should be relatively

complete information for each subsidiary on major variables of interest such as number of employees, number of expatriate PCNs, and sales (concern for missing values), and (c) lines of businesses of the subsidiaries should be as similar as possible (concern for extraneous variables). The MNE had a total of 461 foreign operations, among which 50% were wholly owned subsidiaries (95% or more ownership). Industry was dummy coded and served as a control variable in data analysis. This archival sample was used for employee level of analysis.

To obtain data at the top management team level, I researched Japanese MNEs listed in the Directory of Corporate Affiliations (2001) and Gale Business Resources online. I started with all Japanese MNEs. I used the following criteria in including a top management team: (a) It has at least 2 top managers, and (b) it has sales, number of employees, and SIC codes for the corresponding subsidiary firm. A search resulted in 400 top management teams with a total of 2,506 top managers. The number of executives in top management teams ranged from 2 (because of the sampling criteria) to 16 ($\underline{M} = 6.25$, $\underline{SD} = 3.10$). These summary statistics were similar to those for an archival sample in a study of top management team (Jackson et al., 1991) published in Journal of Applied Psychology. I filled out missing information by referring to the Japanese Overseas Investment (2001) and the LexisNexis online.

13.2 Coding Procedure

The Japanese Overseas Investment (2001) provided the number of expatriate PCNs. As a result, there was no need to code nationality at the employee level of analysis. Two Japanese nationals (including a Japanese Ph.D. student) and myself independently judged

CEO and top manager nationality by name. I then calculated the inter-rater agreement rate. An agreement at the top management team level existed if and only if the coders classified very top manager the same. The two Japanese coders agreed on 386 top management teams, representing a 97% agreement rate. At the level of individual name, the two Japanese coders agreed on 2491 names, representing a 99.4% agreement rate. The agreement rate between my coding and the Japanese Ph.D. student's coding was 91.3% at the top management team level, and 97% at the individual name level. This indicated the high reliability of the coding. I then discussed the disagreements with the Japanese Ph.D. student, and reached final consensus on the disputed names.

As a final check, I sent the names of 15 top management teams to their respective companies on January 18, 2002. Due to the concern about the difficulty in international mailing, I contacted only subsidiaries in the U.S. Six subsidiaries responded, representing a 40% response rate. Results indicated a 100% agreement rate between the CEOs' coding and the two Japanese coders' coding at both the top management team level and individual name level. This further supported the validity of the coding.

13.3 Dependent and Independent Variables

Staffing composition. At the employee level, I calculated the percentage of PCNs by dividing the number of Japanese expatriates by the total number of employees. I did the same at the top management team level. I calculated heterogeneity of staffing composition using Blau's (1977) index, as explained in study 1.

Labor productivity. Subsidiary performance information is often aggregated at the MNE level in public data sources. At the subsidiary level, I was able to obtain information

on sales and number of employees. Consistent with previous SHRM research (e.g., Huselid, 1995), I calculated labor productivity as sales over number of employees. It was not possible to obtain other performance information in archival databases because these subsidiaries were private firms and few databases provided detailed information at the subsidiary level.

13.4 Control Variables

Subsidiaries in the archival samples were located in different countries. To control for country specific factors that affect subsidiary performance, I included variables pertaining to host countries such as host country education level and political risk. Other control variables include cultural distance, industry, entry mode, parent ownership share, capital, and total number of employees.

Cultural distance. I calculated cultural distance using Hofstede's (1980) country scores and Kogut and Singh's (1989) Index. Please refer to the survey methodology in study 1 of essay 1.

Host country education level. I obtained information about host country education level from the Statistic Yearbook (UNESCO) (1999). In this study, I used enrollment ratio at the third level of education to indicate host country the education level. The enrollment ratio is defined as the total enrollment, regardless of age, divided by the population of the official age group which corresponds to a the third level of education. See study 2 of essay 1 for details.

Host country political risk. Political risk has been included in previous MNE staffing studies (e.g., Boyacigiller, 1990). I obtained the political risk rankings of the host countries from the Political Risk Yearbook (2000) published by Political Risk Service Group. In this

study, I used the ranking of political turmoil, defined as actions that can result in threats or harm to people or property by political groups or foreign governments, operating within the country or from an external base, to indicate host country political risk.

13.5 Data Analysis and Results

Tables 18 and 19 presented means, standard deviations, and zero-order correlations among major variables. Table 20 presents the hierarchical regression analyses results. At the employee level of analysis, staffing composition and the interaction term explained 2% additional variance (F change = 2.51, $p < .05$) in labor productivity. Proposition 4a predicts that staffing composition heterogeneity is negatively related to subsidiary financial performance. The regression coefficient for staffing composition was negative and statistically significant ($\beta = -.20$, $p < .05$), lending support to proposition 4a. A one-standard-deviation increase in staffing composition decreased sales an average of $21,970 per employee while holding all other variables at their means. Proposition 4c predicts that years of subsidiary operation will moderate the effects of heterogeneous staffing composition on subsidiary financial performance such that the longer the operation, the more likely that the subsidiary will benefit from the heterogeneous staffing composition. Indeed, the interaction term was positive and statistically significant ($\beta = .22$, $p < .05$), lending support to proposition 4c.

At the top management team level of analysis, staffing composition and its interaction with years of operation explained 2% additional variance in labor productivity (F change = 2.97, $p < .05$). The regression coefficient for staffing composition was negative and statistically significant ($\beta = -.24$, $p < .05$), lending support to proposition 4a.

The interaction between staffing composition and years of operation was positive and statistically significant ($\beta = .26$, $p < .05$), lending support to proposition 4c. A one-standard-deviation increase in staffing composition decreased sales an average of $47,665 per employee while holding all other variables at their means.

Variable	Means	S.D.	1	2	3	4	5	6	7	8	9
1. Years of Operation	12.29	9.08	-								
2. Capital (Million $)	15.67	48.47	.13*	-							
3. Number of Employees	237.42	487.44	.21**	.36**	-						
4. Ownership Share (%)	.78	.27	.08†	.02	-.07	-					
5. Host Country Education Level	36.69	28.85	.13*	.16**	.04	.35**	-				
6. Host Country Political Risk	2.36	.71	.10*	-.07	.10*	-.21**	-.34**	-			
7. Cultural Distance	2.94	.83	-.02	-.05	-.05	.12*	-.11*	-.12*	-		
8. Staffing Composition	.07	.11	-.08†	.02	-.22**	.21**	.22**	-.11*	.10*	-	
9. Labor Productivity	1.82	8.88	.04	.01	-.07	.12*	.22**	-.08†	.00	-.12*	-

Table 18: Means, Standard Deviations, and Zero-Order Correlations among Major Variables (Archival Sample 1 for Employee Level of Analysis)

*$p < .05$ **$p < .01$

Variable	Mean	S.D.	1	2	3	4	5	6	7	8	9
1. Years of Operation	22.16	12.24	-								
2. Capital ($ Million)	72.95	145.74	.16**	-							
3. Number of Employees	1342.7	3090.34	.06	.30***	-						
4. Ownership Share (%)	93.00	14.63	.04	.09*	-.06†	-					
5. Host Country Education Level	59.91	23.66	.11*	.17***	.10*	.21***	-				
6. Host Country Political Risk	2.16	.43	-.03	-.09*	-.03	-.21***	-.55***	-			
7. Cultural Distance	3.02	1.31	-.02	-.06	-.02	.01	-.23***	-.06	-		
8. Staffing Composition	.26	.20	.01	.09*	.01	.01	.01	-.03	.04	-	
9. Labor Productivity	.63	.23	.06	-.04	-.07†	.07†	.08†	-.01	.07†	-.05	-

Table 19: Means, Standard Deviations, and Zero-Order Correlations among Major Variables (Archival Sample 2 for Top Management Team Level of Analysis)

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

	Model 1	Model 2	Model 3	Model 4
	(Employee Level)		(Top Management Team Level)	
Control Variables:				
Years of Operation	.01 (.06)	-.07 (.07)	.04 (.02)	-.10 (.04)
Capital	-.01 (.01)	-.04 (.01)	-.01 (.00)	-.01 (.00)
Number of Employees	-.04 (.00)	-.03 (.00)	-.04 (.00)	-.04 (.00)
Ownership Share	-.02 (2.18)	-.01 (2.17)	.01 (.03)	.01 (.03)
Host Country Political Risk	.01 (.76)	.02 (.76)	-.04 (.79)	-.04 (.79)
Host Country Education Level	.19 (.02)**	.20 (.02)**	.11 (.02)†	.12 (.02)†
Cultural Distance	.01 (.62)	.02 (.62)	.03 (.22)	.03 (.22)
Independent Variables:				
Staffing Composition		-.20 (7.63)*		-.24 (2.68)*
Composition × Years of Operation		.22 (.22)*		.26 (.11)*
Adjusted R^2	.10***	.12***	.07*	.09*
ΔR^2		.02		.02
F for ΔR^2	3.43***	2.51*	1.81*	2.97*

Table 20: Hierarchical Regression Analysis Results for Labor Productivity. Table contains standardized regression coefficients. Standard errors were in parentheses. Dummy variables industry and entry modes were not presented in the table. N = 296 at employee level. N = 400 at top management team level.

$^{\dagger}p < .1$ $^{*}p < .05$ $^{**}p < .01$ $^{***}p < .001$.

CHAPTER 14

DISCUSSION

The survey results indicated that heterogeneity of staffing composition at the employee level had a negative impact on subsidiary return on asset. The interaction between staffing composition at the employee level and years of operation had a positive impact on subsidiary return on asset. The interaction between staffing composition at the top management level and years of operation had a positive impact on subsidiary labor productivity. The archival study results indicated that at both employee and top management levels heterogeneity of staffing composition had a negative effect on subsidiary labor productivity. The interaction between staffing composition and years of operation had a positive impact on subsidiary labor productivity at both levels of analyses. Overall, the combined results provided better support for the social identification theoretical prediction, which states that heterogeneity of staffing composition is negatively related to subsidiary performance (proposition 4a), than for the organizational learning theoretical prediction (proposition 4b). Proposition 4c, which states that the longer the operation, the more likely that a heterogeneous staffing composition benefited subsidiary performance, received reasonable support especially in study two with archival data.

The stronger support for the negative effect of staffing composition in study two than in study one may be due to two reasons. First of all, study two had a bigger sample size than study one, and therefore had a higher statistical power. Second, study two had a sample of Japanese MNEs. As a committee member suggested, Japanese culture is characterized by high uncertainty avoidance and low flexibility. As a result, Japanese MNEs may be less capable of managing a heterogeneous workforce and top management. Stated in another way, Japanese MNEs are less likely to tap into the benefits associated with a heterogeneous workforce and top management team.

14.1 Contributions to Group Diversity Research

This dissertation makes several important contributions, as detailed below. While multinational teams have become a reality in MNEs, it has been neglected in research on group diversity. No empirical study has examined workforce or top management team heterogeneity in nationality and its impact on firm performance. One possible reason is that very little nationality heterogeneity exists in domestic organizations. Considering the rapid globalization, this study is timely, and filled an important gap in the literature.

This study also points to some important distinctions among nationality heterogeneity, cultural heterogeneity, and cultural distance. Bochner and Hesketh (1994) found that people from countries that were different from Australia on power distance and collectivism (Hofstede, 1980) perceived more discrimination in the workplace. In a laboratory study, Watson, Kumar and Michaelsen (1993) found that culturally heterogeneous groups were less effectively initially in both task and process performance, but performed better in range of perspectives and alternatives generated at the end of the

study. Bochner and Hesketh's (1994) study examined cultural distance, whereas Watson et al.'s (1993) study examined cultural heterogeneity. Nationality heterogeneity is different from cultural distance, which measures the extent to which two cultures differ from each other. Nationality heterogeneity also differs from cultural heterogeneity. A group can be nationally heterogeneous but culturally homogeneous, and vice versa. Both studies have been mislabeled as studies of nationality heterogeneity in a previous review article (Milliken & Martins, 1996). According to social identification theory, a nationally heterogeneous but culturally similar team can also experience disintegration because of nationality-based categorization and identification. Ideally, researchers should control cultural distance and cultural heterogeneity in examining the effects of nationality heterogeneity. The two studies in this paper controlled for cultural distance.

14.2 Contributions to the MNE Staffing Research

This study has implications for the MNC staffing literature. The MNC staffing literature has long been focused on staffing of expatriate PCNs and the impacts at expatriate individual level. The current study indicated that the distributional property of subsidiary workforce and top management team impacts performance outcomes at the subsidiary level.

While a heterogeneous staffing composition may potentially increase firm performance through better learning and creativity, it may also lead to nationality-base social identification that works against subsidiary performance. The current study provided better support for the social identification effect. The result suggests that international HR practitioners should strive to reduce the negative effect of nationality heterogeneity in subsidiaries of MNEs. Fortunately, as a subsidiary operates longer in a host country, the

negative effect of heterogeneity tends to decrease. Researchers also suggest other ways such as establishing a hybrid culture to reduce the negative effect of nationality heterogeneity (Earley & Mosakowski, 2000). A hybrid culture could be a powerful tool for exploiting the benefits while neutralizing the liabilities of a heterogeneous staffing composition. A hybrid culture can endure a certain level of employee turnover, and thus has enduring effects. Training and developing in cross-cultural negotiation and conflict resolution skills also helps (Ancona & Caldwell, 1992). While ocialization of HCNs and TCNs may reduce disintegrative effects associated with a heterogeneous staffing composition, it may also make every subsidiary employee thinks and behaves like expatriate PCNs, and therefore compromise the benefits of variety.

14.3 Limitations and Future Research Directions

This study has several limitations. First, I sampled top management teams that may differ on many dimensions, but focused on one - nationality. Heterogeneity in other dimensions such as age, sex, and tenure may also affect the dependent variable. Given that nationality is the dominant foci for identification in international firms, the focus on nationality is justified. Second, the archival data did not have information on TCNs. Information on TCNs is very difficult to get. Previous study suggests that the number of TCNs is typically very small, and even smaller in Japanese MNEs (Tung, 1982; Peterson et al., 1996). Study 1 further confirmed this conclusion. Therefore, the approach in study 2 should not have affected the result much. Third, the response rate in study 1 may pose a threat to the generalizability of the findings in study 1. The generally consistent findings in two vastly different samples, however, suggest that the results are at least moderately robust.

The focus of the current study is on the direct relationship between staffing composition and subsidiary performance. Future study should examine the black box through which heterogeneity of staffing composition affects subsidiary performance. The process variables in the black box may include learning, innovation, cohesion, conflict, and behavioral integration etc. Exploration of the black box will give us a more conclusive test of the competing social identification and organizational learning theories. Future research should use three complementary methods to examine the black box, as detailed below.

Before researchers conduct large-scale survey studies, several in-depth case studies may be necessary to pin down the most critical process variables. A longitudinal design is necessary for testing the temporal dimension of the model and for ruling out the reverse causality problem. A longitudinal study that involves a large number of subsidiaries would prove difficult unless a full sponsorship is available through a MNE partnership. A more realistic approach is to follow up several subsidiaries over a long period of time. These subsidiaries ideally should come from one MNE, and have similar enough operations (but vary in terms of staffing composition). Due to the resource constraint and lack of access to MNEs, I was unable to do such in-depth case studies. In this approach, researchers can measure staffing composition and outcomes at different points of time, and track changes in staffing composition and outcomes, which enable researchers to establish causality and test the moderating effect of time. With the permission of subsidiaries, researchers will also be able to actually observe the dynamics of multinational groups (i.e., identification, communication, cooperation, emotional conflict, and turnover). Researchers should replicate the same process in other small samples of subsidiaries so as to increase the generalizability of findings.

The in-depth case study results can then be utilized to refine the process model for a large-scale empirical test. Ideally, researchers should use subsidiaries of one large MNE to test the model. Some Global 500 firms would have enough number of operations for conducting such a test. For example, Mitsubishi Corporation, a major Japanese trading firm, has about 230 wholly owned subsidiaries. To control for extraneous variables, cultural distance between the host and the parent country, and host country specific factors (e.g., host country political risk, and host country education level etc.) should be included as control variables in data analysis. Even subsidiaries of the same MNC may not be similar enough. Therefore, any such empirical study must also control for subsidiary-specific factors other than staffing composition.

The real challenge in the survey research is access to data especially objective performance data, which are likely confidential and thus difficult to obtain. Researchers need good partnership with one large MNE so as to access performance information. This dissertation study indicates that labor productivity is relatively easier to obtain. Even public data sources such as Directory of Corporate Affiliations and Japanese Overseas Investment provide subsidiary sales and number of employees, through which researchers can calculate labor productivity. Reverse causality is a potential problem in the cross-sectional survey approach. Therefore, future research should adopt a longitudinal survey design that measures staffing composition and performance at different points of time. This will enable us to detect the causal relationship between staffing composition and subsidiary performance.

There are measurement issues to be solved in future research as well. For example, no measure of organizational learning is currently available. It is crucial but difficult to

develop such a measure. I tried to develop one and used it in study 1. However, due to the poor psychometric property of the scale, I eventually dropped it in data analysis. Measurement of workforce identification is difficult as well. Researchers need to measure individual level identification, and then aggregate them at the workforce level.

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