

WHO'S IN CHARGE?

AN EMPIRICAL STUDY OF EXECUTIVE STAFFING PRACTICES IN FOREIGN SUBSIDIARIES

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Who's in Charge?

An Empirical Study of Executive Staffing Practices in Foreign Subsidiaries

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Abstract

This study investigates executive staffing practices in foreign subsidiaries of multinational corporations. Grounded in a literature review of the reasons for employing either parent country nationals or host country nationals in top management positions in foreign subsidiaries, a number of factors influencing the choice between these alternatives are identified. Using a combination of an archival and mail survey research method, the influence of each of these factors is empirically tested with a sample of nearly 3000 observations.

Introduction

In the international HRM literature, the discussion of staffing policies takes a prominent place. The most important element in an international context is usually the executive nationality policy in foreign subsidiaries. Do companies have a policy to employ mainly Parent Country Nationals (PCNs) or Host Country Nationals (HCNs) as top managers in their subsidiaries and which circumstances would invoke a preference for one policy over another? Unfortunately, although many publications focus on the advantages and disadvantages of employing PCNs as opposed to HCNs and some give an overview of the factors that might influence executive staffing policies¹ there are surprisingly few studies that examine actual MNC staffing *practices*. If they give any empirical evidence about executive staffing practices, all of the aforementioned publications refer to Tung (1981, 1982, 1987).

Although Tung's study was a primer in the field, it is now more than 15 years old. Recently, Kopp (1994) compared international human resource policies in Japanese, European, and American multinationals. One of the issues studied was the nationality of top managers in overseas operations. Kopp's results in this area, however, were limited to one table summarizing the percentage of HCNs and PCNs in overseas operations of MNCs headquartered in three different regions (Japan, US, Europe). Although Tung's study included some information on the reasons for sending out expatriates to foreign subsidiaries, neither Kopp's nor Tung's study systematically related

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reasons for expatriation to actual staffing practices. Boyacigiller (1990) provided an empirical analysis of factors influencing executive staffing practices. Her study, however, was based on a single American MNC, thus her results may not be universally applicable. In addition, although the study was published in 1990, data were actually gathered in 1983 so that the results are somewhat dated.²

A large-scale, international study that systematically investigates a number of factors that might influence executive staffing practices in foreign subsidiaries seems long overdue. As indicated above, previous studies were mostly conceptual. If they did contain any empirical work, it was based on a relatively small sample and/or investigated a very limited number of home and host countries. In addition, few authors offered a theoretical framework for their investigation. Unfortunately, large-scale international studies almost inevitably involve mail surveys which are plagued by low response rates (Harzing, 1997). This article, therefore, provides a large-scale international study of MNC executive staffing practices in foreign subsidiaries that is mainly based on secondary data, gathered via desk research. Firmly grounded in a literature review of the reasons for employing either PCNs or HCNs in top management positions in subsidiaries, a number of factors influencing the choice between these alternatives is identified. After a description of the study's methodology, research questions are tested using both an innovative archival method and a smaller sample of data gathered by an international mail survey.

Theoretical Framework

At first sight, the study by Edström & Galbraith (1977) is the only one that theoretically explains why international transfer of managers occurs. They found three general company motives for making this type of transfer. The first was to *fill positions*, which mainly concerns the transfer of technical knowledge to developing countries, where qualified local nationals are not available. The second major motive is *management development*. The transfer gives the manager international experience and develops him/her for future important tasks in subsidiaries abroad or with the parent company. This kind of transfer would be carried out even if qualified host-country nationals were available. For the third reason for international transfers, the final goal is not individual development but *organization development*, transfers that are used to change or maintain the structure and decision processes of the organization and as a coordination and control strategy. This strategy consists of two elements: socialization of both expatriate and local managers into the corporate culture and the creation of a verbal information network that provides links between subsidiaries and headquarters.

The classification of Edström & Galbraith is well accepted in the literature on international transfers. Virtually every publication that deals with this topic refers to Edström & Galbraith's now classic 1977 Administrative Science Quarterly article. Borg perfectly describes this unanimous support in his dissertation: "The study of Edström & Galbraith (1977), which is very

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often quoted in both articles and textbooks, seems to be the only one which theoretically explains why international transfers of managers occur” (Borg, 1988:41). A further investigation, however, revealed a substantial number of German studies, both conceptual and empirical, on this topic. The fact that they appeared in the German language only seems to have blocked their way to the Anglo-Saxon research community. A summary of these studies and a comparison of their classifications to the one by Edström and Galbraith can be found in Table 1. There is considerable consensus on the principal functions of international transfers, well represented by the classification of Edström & Galbraith. In many of the German studies, though, the focus is more on a direct type of expatriate control than on the informal type of control or coordination that Edström & Galbraith distinguish. However, the ultimate goal is similar in both occasions: making sure that the various organizational units strive towards common organizational goals.

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Insert Table 1 about here

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One of the most important reasons to choose HCNs for top management positions in subsidiaries is their knowledge of the local market, business practices and cultural preferences (Banai, 1992; Kobrin, 1988; Tung, 1982). Even if they have an international outlook, it will be very difficult and time-consuming for PCNs to become as intimately aware of local circumstances as HCNs are. Another very pragmatic reason to prefer HCNs is

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the fact that it is very expensive to send PCNs on an international assignment (Banai, 1992; Kobrin, 1988; Root, 1986). In addition to compensation for removal and relocation costs, expatriates expect financial allowances for (international) education for their children, club memberships, return trips, loss of spousal income, "hardship", maintenance of property in their home country, etc. Finally, PCNs often have difficulty in adapting to local circumstances, causing them to "fail" on their international assignments (see e.g. Banai 1992; Kobrin, 1988). This might result in disturbed local business relationships or a premature return of the expatriate to the home country, although this is by no means as likely as is often claimed (Harzing, 1995). Especially if local circumstances are very different from the home country, HCNs might be the preferred option.

Having reviewed the most important reasons for choosing either HCNs or PCNs, these reasons will now be linked with factors that are hypothesized to influence executive staffing practices (see Table 2 for a summary). The choice of factors was motivated by a combination of earlier (conceptual) studies and logical reasoning of factors that could be related to the three basic reasons for choosing either PCNs or HCNs. It was also limited, however, to factors that could be reliably measured. The first reason for sending out PCNs was *position filling*. Specific functions that have been subsumed under this reason are transfer of technical or managerial knowledge, lack of qualified local personnel and the training of local nationals. First, these

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functions are likely to be more important when the level of education in the host country is low (Boyacigiller, 1990; Scullion, 1991). Further, MNCs with a research intensive product are more likely to feel the need to transfer at least some of this knowledge to their subsidiaries and to train local managers (Hamill, 1989; Ronen, 1986). Position filling is also likely to be more important for recently established subsidiaries because MNCs will not have an intimate knowledge of the local labor market or might have difficulty in attracting high-caliber locals. When subsidiaries become more established, local recruitment may be easier and some transfer of knowledge and training of local managers will already have been effectuated (Boyacigiller, 1990; Franko, 1973; Hamill, 1989). The parent company's lack of knowledge of the local labor market and a lack of recruitment potential will also be major reasons for greenfield establishments to attract PCNs for top management positions. In acquired subsidiaries, there will often be an established local managerial cadre so that transfer for position filling will usually not be necessary.

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Insert Table 2 about here

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Management development was the second major reason for sending out expatriates. Since the most important objective of transfers in this respect is to develop an international mindset among (future) top managers, this reason for international transfers is likely to be more important in highly internationalized MNCs. These MNCs are more apt to realize the importance of creating global

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awareness than are their less internationalized counterparts and will for this reason send out more managers. In addition, larger MNCs are more likely to have a formal management development program in operation that involves the transfer of managers around the world. For their smaller counterparts, transfer for management development will be likely to take place at an ad hoc basis if at all.

The third reason for transferring PCNs to foreign subsidiaries, *organizational development*, will be discussed in two parts: one, the actual control and coordination function and two, transfer for the creation/improvement of communication channels. The control function will be likely to be more important for companies that come from a national culture that scores high on uncertainty avoidance³ (Hofstede, 1980, 1991). In these cultures, there is a strong preference for being “in control”. There is suspicion towards foreigners as managers and a view that initiative of subordinates should be kept under control. Managers should be experts in their fields and should generally be selected based on seniority (Hofstede, 1980,1991). These characteristics would usually point to a trusted PCN as the preferred alternative for senior positions in subsidiaries. Direct control of subsidiary operations will also be more important if the level of cultural distance between home and host country is high. In this case, HQ managers might not trust the information they receive from local managers. In addition, HQ managers might fear that local managers are less committed to the company. A high level of political risk in the host country is also likely to make direct control through expatriates more

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important because the risks of loss of income or assets might be substantial. In addition, several subsidiary characteristics might induce a higher importance of transfer for control or coordination reasons. When a subsidiary is very important to headquarters, keeping its operations under control will be felt to be more necessary (see also Boyacigiller, 1990). Large, majority-owned subsidiaries that report directly to headquarters are more important to headquarters than are small, minority-owned subsidiaries that are much “lower” in the corporate reporting hierarchy. Finally, direct control will be more important when a subsidiary is recently established and when a subsidiary is under-performing, and direct headquarters intervention is necessary.⁴

Transfer of PCNs in order to create or improve information flow between headquarters and the subsidiary in question is likely to be more important if the level of cultural distance between headquarters and subsidiary is high. Communication between people from different cultural backgrounds can be very difficult (even if they speak the same language) and the opportunity for misunderstandings is usually high (Boyacigiller, 1990). Therefore, headquarters managers are likely to prefer to have at least some home country managers in important positions to facilitate the information flow. This is even more important in host countries with a high level of political risk, since speed and clarity of communication are vital in crucial circumstances (Boyacigiller, 1990). Further, transfer for communication reasons is likely to be more important for recently established subsidiaries, since the communication network with headquarters has to be build up from scratch.

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The necessary *familiarity with the local market and business* leads to a higher emphasis on local managers for some functions than for others. Because of the direct interaction with local employees and the necessary intimate knowledge of local laws, rules, and practices, the function of personnel manager in a foreign subsidiary is expected to have the highest percentage of local managers. This function will be closely followed by the marketing function, which also requires a substantial knowledge of local tastes and preferences. Of the various functional disciplines, the finance function is expected to have the lowest percentage of local managers, since this function is less tailored to local circumstances and will elicit a higher level of headquarters control. Some evidence for this relationship can be found in a related research area: centralization of decision-making within MNCs. Many studies found that decisions in the field of marketing, HRM, industrial relations, production, R&D, and finance are centralized to different degrees. Decisions in the first three fields are usually more decentralized than are decisions in the latter three fields (Van den Bulcke, 1984). If decisions in a certain area are more decentralized, a higher percentage of local managers can be expected.

The second reason for preferring HCNs in top management positions was a very pragmatic one: they are *less expensive* to employ than are PCNs. This reason will be more important when the cost of living in the host country is higher than in the home country. In this case, an expatriate will expect to get more additional compensation to maintain his/her previous lifestyle. Local

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managers would probably have adjusted better to the high cost of living and would not require additional compensation.

A final reason to employ HCNs in top level management positions is to *avoid adjustment problems* that PCNs might have. The higher the cultural distance between home and host country, the larger the adjustment problems. Hence *more* HCNs would be expected in culturally distant countries.

All factors on the right-hand-side of Table 2 will influence executive staffing practices and can be interpreted as specific research questions to be tested in the empirical part of this paper. Figure 1 summarizes these questions, except for the one concerning PCNs in different functions, in a more explicit form.⁵

Industry can be seen as a proxy for two important firm-level variables that might have an impact on staffing practices: Research & Development (R&D) intensity and corporate strategy. R&D intensity could be measured at firm level in the small-scale mail survey sample, but this was not possible for corporate strategy. In this respect industry might offer an approximation of differences in corporate strategies specifically in terms of global efficiency and local responsiveness (Bartlett & Ghoshal, 1989). Companies following a multidomestic strategy are likely to be found in industries where local responsiveness to the customer is more important than is global efficiency, while the reverse is true for companies following a global strategy. Industry has therefore also been included as an independent variable in Figure 1.

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Insert Figure 1 about here

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Methodology

Research Method and Sample

It would be very difficult to gather a substantial amount of information on executive staffing practices by means of either interviews or surveys.

Interviews are unlikely to give information for more than a few companies and international mail surveys are plagued by very low response rates. An archival method was therefore used and most of the data were gathered from secondary sources (e.g. the Directory of Corporate Affiliations and annual reports). Complete data were gathered for 2689 instances, that is, the choice for either a PCN or a HCN in a specific subsidiary. These 2689 instances represent more than 200 MNCs from 11 different home countries. Subsidiaries are located in 48 different countries and operate in 23 different industries. For a more detailed description of the archival sample see Table 3.

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Insert Table 3 about here

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For variables that were not available from secondary sources, a second sample of data gathered in a smaller-scale mail survey was used. This was conducted as part of the author's earlier study on control mechanisms in

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MNCs. Complete data were gathered for 239 subsidiaries that represented 104 different MNCs, headquartered in Japan, the United States, and seven European countries. These subsidiaries were located in 22 different countries and operated in eight different industries. For a more detailed description of the mail survey sample see Table 4.

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Insert Table 4 about here

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Since the way in which the dependent variable, the choice for either a PCN or a HCN at top management levels in foreign subsidiaries, was measured is rather unconventional, it will be discussed as part of the research method. All studies on staffing policies or practices in MNC subsidiaries focus on top level managers. At lower levels in the organization, most employees will be host country nationals. This study will be limited to the managing director or general manager, although some information is available for marketing, financial and personnel managers as well.⁶ To determine whether the manager was a PCN or a HCN (or a third country national (TCN)), the name of the managing director, personnel manager, marketing manager, or finance manager as included in the Directory of Corporate Affiliations was considered. The research method for this study thus consisted of inferring the nationality of the manager's from his/her name, usually both first and last names were available, and subsequently classifying the manager as PCN, HCN, or TCN. Coding was

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done independently by three different coders⁷, and any unresolved differences (less than 1% of the cases) were excluded from the sample.

At first sight this research method might seem fraught with difficulties. However, an independent check of nationality in the smaller-scale mail survey showed that only 3% of the cases were classified incorrectly. In the mail survey, the responding managing directors were asked to state their nationality (PCN, HCN, or TCN), so that their answer could be compared to the result of the “name guessing”. All misclassifications involved PCNs or HCNs that turned out to be TCNs, so in none of the cases was a HCN mistaken for a PCN or visa-versa (Harzing, 1999).

The research method may be problematic in the United States (US), however, a country in which immigration has been underway for decades and in which names say little about nationality. US MNCs and US subsidiaries were, therefore, not included in the archival sample. Large-scale immigration in other countries occurred centuries ago (for example the Vikings) and names will be likely to have indigenized since then. Although at present many European countries have a large influx of immigrants, it is unlikely that many of them will have risen to the position of managing director of a MNC subsidiary.

The choice was usually as simple as: Is Carlos Gonzales de Castejon Spanish or Swedish, is Mikko Tanhuanpää Finnish or German or is Diarmuid O'Colmain Irish or French? Of course some combinations of headquarters and subsidiary countries proved to be more difficult. What about the differences

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among Swedish/Finnish/Danish/Norwegian names and among German/Austrian/Swiss names? For these groups, totaling some 50 cases, assistance was sought from local academics with a language background and/or extensive international experience. They were able to classify more than 70% of the names without having *any* doubts. The remaining 30% of these cases remained unclassified. Even more difficult was the combination of a British headquarters with subsidiaries in Canada, Australia, and New Zealand, however, the sample included only five Canadian subsidiaries of a British headquarters, of which two were excluded because of missing data on one or more of the independent variables. The remaining three managing directors had French names and were, therefore, concluded to be Canadian. Subsidiaries in Australia and New Zealand with a British headquarters (about 15 in total) were not classified.

The two previous major studies on MNC staffing practices asked HQ-managers to either indicate whether a particular region was “primarily staffed” by certain types of employees (Tung) or to indicate the overall percentage of PCN, HCN, and TCN managers (Kopp). A specific problem with the first approach is that the answer is unlikely to be accurate. The data show that most companies use PCNs as well as HCNs in many regions, so though easier for the respondent, this type of question loses many - possibly important - details. In addition, not all companies are likely to have detailed data on the nationality of managers of their subsidiaries readily available. More importantly, however, even if they have, respondents are unlikely to bother to consult them,

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especially if nationality policies are only one of the many issues included in the questionnaire, as was the case in both Tung's and Kopp's studies. Therefore, instead of describing the actual situation the respondent might be responding with any of the following: his most recent experience, a particularly striking experience, a socially desirable answer, or stated company policy, while the reality gradually emerged to be different. (Negandhi and Welge's 1984 study showed large differences between stated policy and actual practice). Of course, the same problem applies for all mail questionnaires, since the researcher has no opportunity to verify or explore answers. Although the overall validity of Tung's and Kopp's studies is not in question, in the case of staffing practices the research method practiced in this article provides data that are at least as accurate as questionnaire data. It verifies what actually happens in subsidiaries, measuring emergent rather than espoused strategy.

Measures and Statistical Methods

The independent variables for the large scale archival sample were all measured using secondary data. The level of *uncertainty avoidance* was measured by Hofstede's (1980) Uncertainty Avoidance Index score for each country. The higher this score, the higher the level of uncertainty avoidance. Kogut and Singh's (1988) composite index, which summarizes the difference between two countries on each of Hofstede's dimensions, was used to measure the overall *cultural distance* between home and host country. *Size of the company* was measured by the level of total sales. Data for this variable were gathered from the Directory of Corporate Affiliations. Political risk indicators provided by

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Political Risk Services (1996) were used to measure the level of *political risk* for all of the host countries included in the sample. Since higher indicators reflected a lower political risk in a country, the variable was transformed so that a higher indicator reflected a higher political risk. The *level of education* in the host country was measured as the number of students (education at third level) per 100 inhabitants. Data for this variable were gathered from UNESCO's statistical yearbook (UNESCO, 1997). *Cost of living* data were gathered from the yearly comparison of costs of living in 56 cities as published by the Union Bank of Switzerland (Kalt, Gutmann & Groff, 1997). Although the cost of living in major cities might not be representative for the country as a whole, it forms a good basis for international comparison, especially since many expatriates will live in these centers of economic activity. Cost of living for home and host country was compared. A dummy variable was created that took the value of one if the cost of living in the host country was higher than in the home country and took the value of zero otherwise. A dummy variable of ownership was created that took the value of one if the subsidiary was *majority-owned or wholly-owned* by the parent and zero if this was not the case. Data on the percentage of ownership were taken from the Directory of Corporate Affiliations. This source was also used for the reporting distance of the subsidiary to headquarters. This variable took the values of one, two or three, the higher the number the greater the reporting distance from headquarters. Hence value one meant that the subsidiary reported directly to

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headquarters, while value two and three meant a subsidiary reported through one or two intermediate levels respectively.

The independent variables for the smaller-scale mail survey sample were measured using a combination of primary and secondary data. The level of *R&D intensity* was measured by dividing a company's R&D expenses by its total level of sales. The level of *foreign sales* was measured by dividing the MNCs foreign sales by its total level of sales. Data for both variables were gathered from annual reports. The *entry mode* (greenfield or acquisition) was measured by asking respondents whether the company had been acquired at any point in its existence and the variable took the value one if the subsidiary had been acquired and zero if it was a greenfield. *Subsidiary size* was measured by asking respondents for the number of employees, and *subsidiary age* was measured by asking for the year of foundation and subtracting this from the year in which the survey was conducted. Since it was expected that many respondents might be hesitant to supply exact performance data (Roth, Schweiger & Morrison, 1991), respondents were asked to evaluate a *subsidiary's profitability* in relation to other subsidiaries in the group.⁸ Subsidiary performance was measured using a five point Likert scale that asked respondents how their subsidiary's profitability compared to other subsidiaries (far below, below, about the same, above, far above).

To explore the influence of the variables described above on the likelihood of a PCN as managing director, a binomial logistic regression analysis was conducted. Logistic regression is similar to linear regression but is

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suited to models where the dependent variable is dichotomous. The dependent variable staffing policy is captured by a dummy variable that takes the value of one if the managing director is a PCN and zero if the managing director is a HCN. The probability of a PCN as managing director is explained by the independent variables described above. As for linear regression, the regression coefficients estimate the impact of the independent variable on the probability that the managing director is a PCN. A positive sign for the coefficient means that a variable increases the probability of a PCN. A negative sign indicates the reverse.

The models were estimated with SPSS 7.51 using the maximum-likelihood method. The null hypothesis that none of the independent variables has a significant impact can be tested with the model χ^2 . When the model χ^2 is significant, this null hypothesis can be rejected. A test whether specific independent variables have a significant impact can be based on the Wald statistic. Significance levels of separate independent variables based on the Wald statistic are indicated in the models in Table 5. The partial correlation of each predictor variable (its relative impact) with the dependent variable is indicated by R. R can range in value from -1 to +1. A positive value indicates that as the independent variable increases in value, so does the likelihood of a PCN as managing director. If R is negative, the opposite is true.

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Insert Table 5 about here

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Results

Descriptive Data

Of the 2689 managing directors included in the archival sample, 40.8% were parent country nationals. Table 3 shows the percentage of PCNs for MNCs originating from different countries and the percentage of PCNs in various subsidiary country clusters and industries. With regard to home countries, subsidiaries of Japanese MNCs are much more likely to have a PCN as managing director than are subsidiaries of European MNCs. The exact percentage of PCNs in subsidiaries of European MNCs does differ considerably across the various countries, however, from a low of 18.2% for Denmark to a high of 48.1% for Italy. At subsidiary level, the highest percentage of PCNs can be found in Latin America, Africa, and the Far and Middle East, while expatriate presence is much lower in Canada and Western Europe and is particularly low in Scandinavia. In general, MNCs operating in the financial sector and the automobile industry show the highest percentage of PCNs as managing directors. A low expatriate presence is found in some service industries and in “multidomestic” industries such as food.

Table 4 describing the mail survey sample shows a similar overall result with 37.7% PCNs. The country and industry patterns are broadly similar to Table 3, although individual countries/industries might have a percentage of PCNs that differs from the archival sample. Given the small size of most of the individual country/industry samples this is to be expected.

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The results above describe the percentage of PCNs in the managing director functions only. Although much less information was available for the other functions, the level of expatriate presence was generally found to be lower in these functions. Only 17.2% of the subsidiary finance directors (N=358) were PCNs, while this was the case for 10.1% of the marketing directors (N=218). The lowest percentage of PCNs, however, was found in the personnel director's function (2.2%, N=92). In general, MNCs tended to have more PCNs for the managing director function than for any of the other functions.

Logistic Regression Results

The descriptive results above confirmed the expectation with regard to the PCNs in different functional areas. In this section, the other research questions that are summarized in Figure 1 will be investigated by means of logistic regression. Table 5 shows these regression results. Model 1 presents the results for the large-scale archival sample, while model 2 presents the results of the smaller-scale mail survey sample that provided information on six independent variables that were not available for the large-scale archival sample. Both models have a high explanatory power, with a high and highly significant χ^2 . Another way to assess the performance of the maximum likelihood models is to measure the percentage of correct observations and compare it to the classification rate that would be obtained by chance (the baseline rate, which is equal to $a^2 + (1-a)^2$, where a is the proportion of PCNs in the sample). As Table 5 shows, the models predict the likelihood of a PCN

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as managing director better than a random model would, with classification improvements of 46.3% and 49.9%. These improvements lie well above the minimum improvement of 25% as suggested by Hair, Anderson, Tatham & Black (1995). In both models the specificity (its capacity to correctly predict HCNs) is very good (84.45% to 86.58%), while sensitivity (its capacity to correctly predict PCNs) is good (61.87% to 67.78%). Pseudo R-square measures confirm that both models have a good explanatory power.

As model 1 shows, the results for all of the independent variables included in the large-scale archival sample are in the expected direction and all coefficients are (highly) significant. As predicted, the likelihood of a PCN as managing director for subsidiaries is higher in MNCs that are headquartered in a country with a high level of uncertainty avoidance, in large MNCs, and in a situation where there is a high level of cultural distance between home and host country. At the host country level, the level of political risk and the level of education are, as expected, positively and negatively related to the likelihood of a PCN as managing director. A HCN is more likely if the cost of living in the host country is higher than in the home country. Finally, majority-owned subsidiaries are more likely to have a PCN as managing director, and the larger the reporting distance from headquarters the lower the chance of a PCN as managing director.

With regard to industry only the industries with a significantly higher or lower level of PCNs as managing director were included in the model. A high percentage of PCNs as managing director is found in the financial services,

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printing & publishing, telecommunications equipment, and paper industry, while a low percentage of expatriates is found in the advertising and business & management services, the computers & office equipment, the electronic & electric equipment, and the food industry.

The correlation matrix of the independent variables showed some degree of multicollinearity. In particular, the level of political risk in the host country was significantly correlated with the level of education in the host country (-.360), and with the cost of living differential (-.243) and the cultural distance (-.186) between headquarters and subsidiary. Further the level of education in the host country was significantly correlated with the level of cultural distance between headquarters and subsidiary (-.248). Two additional models that excluded the level of political risk and the level of education respectively were therefore estimated. This did not change the signs or significance of the other variables.

In model 2 all variables that are significant have the expected influence on the choice between PCN and HCN. Three of the variables that were included in both the archival and the mail-survey sample (level of uncertainty avoidance in home country, size of the company, and host country educational level) are significant in both samples, while another three variables (cultural distance, political risk in host country, and cost of living differential) are insignificant in the mail survey sample. Of the six variables that were available in the mail-survey sample only, R&D intensity and internationalization are insignificant. All subsidiary characteristics were significant at the 0.05 level or

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better. As predicted, a PCN as a managing director is more likely in greenfields than in acquisitions, in larger subsidiaries, in younger subsidiaries, and in under-performing subsidiaries. The result with regard to industry confirm the results in the archival sample with a higher percentage of expatriates as a managing director in the telecommunications equipment and paper industry and a lower percentage in the computers & office equipment and the electronic & electric equipment industry.

Again some degree of multicollinearity was present between the level of political risk in the host country and the level of education in the host country (-.416), and the cost of living differential (-.340) and the cultural distance (-.205) between headquarters and subsidiary, but a model excluding political risk did not result in changes to the signs or significance of other variables. Further, exclusion of the level of foreign sales, which was significantly correlated with the level of UAI in the home country (-.369), the size of the company (-.239) and R&D intensity (.252) did not show an impact on the signs or significance of other variables nor did the exclusion of the size of headquarters, which was significantly correlated with the level of UAI in the home country (-.218), R&D intensity (-.158), foreign sales (-.239) and the size of the subsidiary (.228).

Since Japanese MNCs are known to differ considerably from European MNCs on a number of characteristics apart from staffing practices, some of the effects might simply be a "Japan" effect. A dummy variable, indicating whether headquarters was in Europe or in Japan, was therefore included in the

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analysis. Even when this variable was included, however, all variables kept their expected sign, although some became slightly less significant. Except for cost of living ($p=.1569$, one-tailed) and size of the company ($p=.075$, one-tailed), all variables were significant. Moreover, except for subsidiary education at 0.029 and reporting level at 0.0042 all variables were still significant at a 0.001 level or better.

Discussion and Conclusion

With regard to home country, the descriptive results for Japan with 76.5% PCNs confirm both Tung's and Kopp's studies in which the percentage of home country senior managers in Japanese subsidiaries was 70% and 74% respectively. In Tung's study, around 57% of the senior managers in subsidiaries of European MNCs were parent country nationals; in Kopp's study this was 48%; in this study it is only 31%. This difference may be partly due to differences in sample composition (e.g. Tung's sample contained more non-Western subsidiaries) and research method (e.g. Tung asked respondents whether a particular region was "primarily staffed" by certain types of employees). It can also be concluded, however, that while Japanese MNCs continue to rely strongly on expatriates, European MNCs have localized their subsidiary management in the past two decades. In contradiction to this, Mayrhofer & Brewster (1996) argue that European multinationals still organize their staffing policies along ethnocentric lines and put forward a spirited analysis of why they are right to do so. However, the empirical evidence the

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authors cite to support their claim for ethnocentric staffing policies is very scattered and rather contentious.⁹ The results show very clearly that there are large differences between MNCs headquartered in different European countries. In previous studies, these differences were not recognized as all European MNCs were considered as one single group.

At subsidiary level, the results generally confirm Tung's (Kopp did not differentiate her findings according to subsidiary country) findings in that the highest percentage of PCNs can be found in Latin America, Africa, and the Far and Middle East, while expatriate presence is much lower in Canada and Western Europe. Tung's study did not include a separate category for Scandinavian subsidiaries and had only two (European) companies operating in Eastern Europe so that a comparison in these categories is not possible.

Neither Tung's nor Kopp's study differentiated her findings according to industry, so that this study is the first to give information on expatriate presence in different industries. Some of the industry effects are easily explained. The control aspect will lead companies to employ a large percentage of PCNs in financial services, while the importance of knowledge of the local market will lead companies to employ a large percentage of HCNs in advertising, business & management services, and the food industry. The results for the other industries are less straightforward and would merit further investigation in a more controlled sample.

As expected the percentage of PCNs in more locally-oriented functions such as personnel and marketing was lower than for the finance function,

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although the highest percentage of PCNs was found for the managing director function. For both German and Italian MNCs, however, the percentage of PCNs for the financial director function comes close to the percentage of PCNs for the managing director function. Even more interesting, British MNCs are the only ones in which the financial director in subsidiaries is more likely to be a PCN than is the managing director. This conforms perfectly to the well-known emphasis of British companies on financial results (Lane, 1995; Prowse, 1994). These results confirm the expectation that employing HCNs because of their knowledge of the local market and business practices, will be more important for functional areas where this local knowledge is particularly relevant. In general, the personnel function is the most localized function in MNCs, since it has to comply with local employment laws and regulations and has to adapt its practices to the different cultural background of employees. The marketing function is also locally oriented, although some MNCs are aiming at a more globalized approach. Of the three functions, the finance function would clearly be the one where intimate knowledge and feel for local circumstances is least important. In addition, many MNCs will feel the control function of expatriation is as important for the finance function as it is for the managing director function.

Except for R&D intensity and internationalization, all factors that were hypothesized to impact on the choice between HCN and PCN were statistically significant in the expected direction, often at high levels of significance. Since this study's hypotheses were firmly grounded in the reasons

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to choose for either PCNs or HCNs as identified in previous International HRM literature, its results give considerable support for the validity of these reasons. However, for one variable, cultural distance, the proposed direction of the relationship was ambiguous. A higher cultural distance could lead to more PCNs for control and communication reasons and more HCNs for reasons of local knowledge and PCN adjustment problems. This study shows that the first reason seems to be more important for companies: a larger cultural distance leads to a higher felt need for control and communication and hence more PCNs. To investigate whether the effect of cultural distance might be different in different circumstances, analyses were performed at the level of individual industries and headquarters countries. Although the strength of the relationship differed, it was significantly positive for every industry. Concerning headquarters country, most countries showed a strong and positive relationship. For Finland, France, and Italy, however, the relationship was very weak and non-significant, which might be the result of two equally strong opposite effects. A more strictly controlled design will probably be necessary to further explore the role of cultural distance in executive staffing practices. In the smaller-scale mail survey sample, cultural distance, the level of political risk, and the cost of living differential were no longer significant, which might be caused by the fact that variability for these variables in the small sample was smaller than in the larger, archival sample. The latter sample in particular included a larger number of non-Western companies.

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This study shows that a differentiated approach to subsidiary management, as advocated by many scholars in the field of international management (Bartlett & Ghoshal, 1989; Ghoshal & Nohria, 1993; Martinez & Jarillo, 1991), is important for staffing practices as well. Less than 10% of the companies in this study had a uniform staffing policy (only HCNs or only PCNs). These companies were mostly Japanese MNCs in the financial sector, a category that on average had a very high percentage of PCNs as managing directors. Other companies differentiated their approach according to host country and subsidiary characteristics.

This study identified several key variables that influenced the choice for either a PCN or a HCN as a managing director for foreign subsidiaries. This study was not able to relate these particular choices to performance, and cannot therefore offer any firm conclusions concerning their effectiveness. In spite of this, newly internationalizing companies that would like to learn from their more experienced colleagues concerning subsidiary staffing policies might find the results of this study helpful. The results from this study can easily be linked with some recent attempts to model IHRM. Schuler, Dowling, and DeCieri's (1993) model links various exogenous and endogenous factors to SIHRM issues, functions and policies/practices. Since staffing is one of the SIRHM policies/practices and many of the independent variables of this study resemble their exogenous and endogenous factors, the model in this article can be seen as a further specification of their general model. Two other recent models (Rosenzweig and Nohria, 1994 and Taylor, Beechler, and Napier, 1996)

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mainly focus on the similarity between the subsidiary HRM practices and headquarters HRM practices. Nearly all of the independent variables included in these models can also be found in Figure 1. This is not surprising since the factors that will lead decision-makers to choose for a HCN as managing director will also favor an adaptation of overall HRM practices to local circumstances since both imply an emphasis on local responsiveness/embeddedness. Rosenzweig and Nohria's (1994) study provides a strong evidence for this link, since in their study the presence of expatriates is negatively related to the extent of which subsidiary HRM practices resemble local practices.

This study has several limitations. First, the research method used in this article provides a valid alternative to interviews and questionnaires, US companies had to be excluded from the sample to limit the chance of misclassifications. The results may therefore not be generalizable to US MNCs. In addition, the fact that some independent variables were available only in the smaller-scale mail survey sample reduces the ability to draw any firm conclusions based on these variables. Finally, this study was cross-sectional while some of the variables would clearly benefit from a longitudinal analysis, e.g. are expatriates replaced by local managers if a subsidiary becomes more established and profitable or if the level of education and political stability in a country increases.

However, this study did provide the first large-scale, international study that systematically investigated a large number of factors that might influence

executive staffing practices in foreign subsidiaries. Future studies might attempt to explore a more limited number of these factors in further detail using more strictly controlled samples. Once researchers succeed in describing accurately which factors do affect staffing decisions, they can start to investigate whether certain choices are associated with a higher effectiveness, thus providing companies with a prescriptive model for executive staffing practices.

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Figure 1: Research questions on the influence of various factors on executive staffing practices

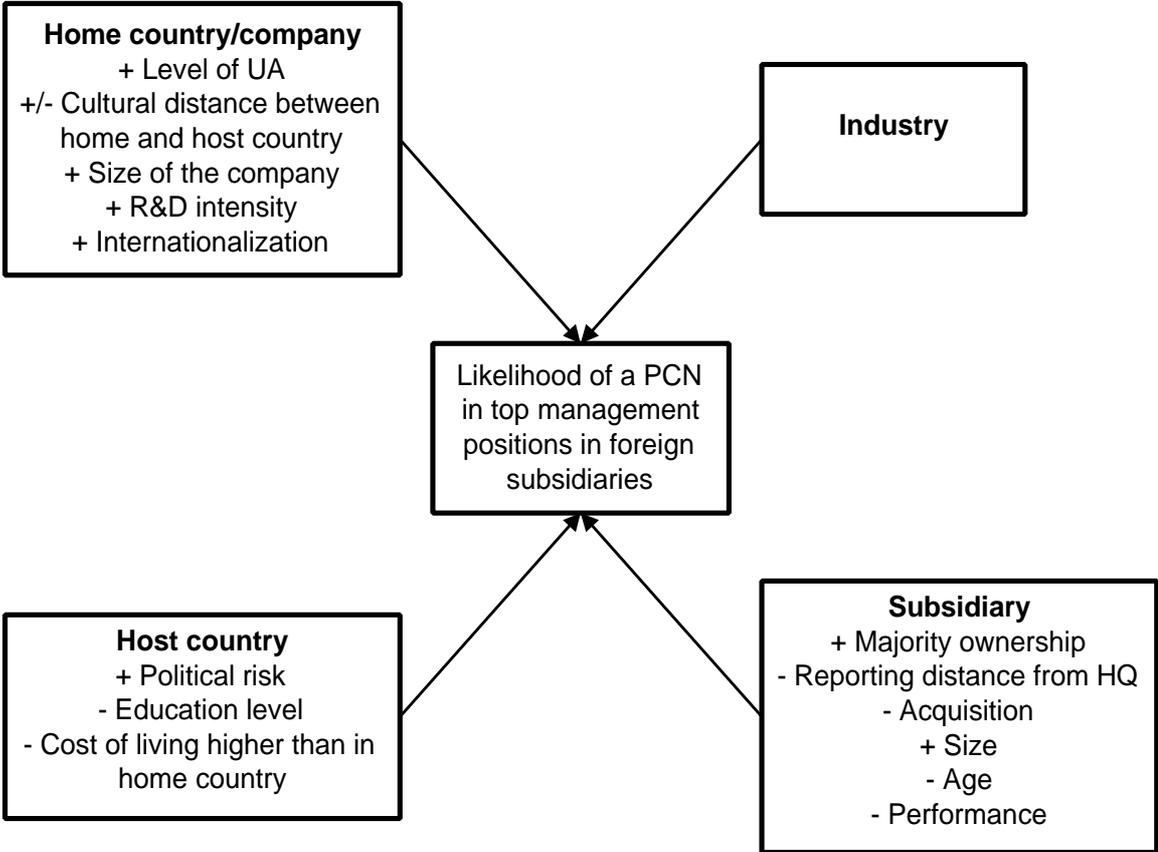


Table 1: Organisational functions of international transfers according to various authors

Edström & Galbraith (1977)	Position Filling	Management Development	Organisation Development
Pausenberger & Noelle (1977) <i>[our translation]</i>	To ensure transfer of know-how; To compensate for a lack of local managers; Training & development of local managers.	To develop the expatriate's management capabilities; To develop managers' global awareness.	To ensure homogeneous practices in the company; To ensure a common reporting system in the company, Presence of different viewpoints in decision-making bodies.
Welge (1980 <i>[our translation]</i>)	Position filling; Transfer of know-how.	International experience; Use management potential.	Coordination; Change management.
Kenter (1985) <i>[our translation]</i>	Lack of qualified local managers available; Transfer of Know-how-Transfer; Training of local managers.	Development of parent country nationals.	Control and coordination; Increase loyalty and trustworthiness of expatriates.
Kumar & Steinmann (1986) <i>[our translation]</i>	Transfer of Know-how; The necessity to train German managers.	Headquarters want Japanese managers to gain international experience.	To ensure coordination with headquarters corporate policies and philosophies; To facilitate communication; Desired loyalty with headquarters goals.
Roessel (1988) <i>[our translation]</i>	Transfer of Management know-how; Lack of qualified local personnel	Managerial development of expatriates and local managers.	Coordination, control and steering; Reciprocal information flows; Internationalisation of the company as a whole.
Groenewald & Sapozhnikov (1990) <i>[our translation]</i>	Transfer of technological, administrative or sales know-how; Lack of qualified local personnel.	Management Development; Better career opportunities for employees.	Steering and coordination.
Kumar & Karlhaus (1992) <i>[our translation]</i>	Transfer of know-how; Limited availability of local managers; The necessity to train foreign managers.	Headquarters want German managers to gain international experience.	To ensure coordination and communication with headquarters; Desired loyalty with headquarters goals.
Macharzina (1992) <i>[our translation]</i>	Filling vacant positions.	Management development	Coordination.
Wolf (1994) <i>[our translation]</i>	Filling vacant positions.	Personal or managerial development.	Coordination.

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Table 2: The importance of various reasons for employing either PCNs or HCNs as top managers in foreign subsidiaries in different circumstances

Reasons for employing PCNs:	More relevant/important when:
Transfer of technical or managerial knowledge, training of subsidiary managers, lack of qualified local personnel [Position filling]	<ul style="list-style-type: none"> • Level of education in host country is low • MNCs R&D intensity is high • Subsidiary is young • Subsidiary is greenfield establishment
Gain international experience, Develop global awareness [Management development]	<ul style="list-style-type: none"> • MNC is more internationalized • MNC is large
Control and coordination of subsidiary operations [Organizational Development]	<ul style="list-style-type: none"> • Uncertainty avoidance in home country is high • Level of cultural distance between home country and host country is high • Level of political risk in host country is high • Subsidiary is large • Subsidiary is majority-owned • Subsidiary is higher in corporate reporting chain • Subsidiary is young • Subsidiary is under-performing
Improvement of communication channels between HQ and subsidiary (Organisational Development)	<ul style="list-style-type: none"> • Level of cultural distance between home country and host country is high • Level of political risk in host country is high • Subsidiary is young
Reasons for employing HCNs:	<ul style="list-style-type: none"> • More relevant important when:
Familiarity with local market and business practices	<ul style="list-style-type: none"> • Local knowledge is important for the manager's specific function
High cost of expatriates	<ul style="list-style-type: none"> • Cost of living in host country is higher than in home country
Adjustment problems for expatriate managers	<ul style="list-style-type: none"> • Level of cultural distance between home country and host country is high

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Table 3: Sample size and percentage of PCN subsidiary managing directors in different HQ countries, subsidiary country clusters and industries (archival sample)

Country of origin of headquarters	N	% of PCNs	Industry	n	% of PCNs
Denmark	88	18.2%	Business & management services	71	12.7%
UK	381	23.1%	Rubber & miscellaneous plastics	30	20.0%
Norway	49	24.5%	Stone, glass & clay products	72	23.6%
Switzerland	207	25.6%	Pharmaceutical	156	25.0%
France	247	30.0%	Food & related products	132	25.8%
Finland	200	30.0%	Advertising agencies	109	26.6%
Netherlands	196	32.7%	Electronic & electric equipment	160	30.6%
Sweden	389	34.2%	Industrial equipment	282	32.6%
Germany	279	40.9%	Instruments	70	32.9%
Italy	52	48.1%	Paper	101	33.7%
Japan	601	76.5%	Computers & office machines	128	34.4%
			Industrial Chemicals	175	37.7%
Total	2689	40.8%	Engineering services	41	39.0%
Subsidiary country cluster¹⁰		% of PCNs	Insurance carriers & agents	139	39.6%
Scandinavia	164	14.6%	Household appliances	84	40.5%
Western Europe	1351	33.3%	Metal products	83	42.2%
Eastern Europe	81	39.5%	Printing & publishing	80	45.0%
Canada	94	41.5%	Oil & Gas	25	48.0%
Australia/New Zealand	135	41.5%	Non depository financial institutions	46	52.2%
Latin America	254	50.8%	Telecommunications equipment	62	53.2%
Africa	53	58.5%	Motor vehicles and parts	82	62.2%
Far East	515	60.2%	Banks & banking services	481	76.1%
Middle East	42	66.7%	Security & commodity brokers	80	84.8%
			Total	2689	40.8%
Total	2689	40.8%			

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Table 4: Sample size and percentage of PCN subsidiary managing directors in different HQ countries, subsidiary country clusters and industries (small-scale mail survey sample)

Country of origin of headquarters	N	% of PCNs	Industry	N	% of PCNs
France	22	18.2%	Food & related products	29	17.2%
US	44	20.5%	Electronic & electric equipment	33	33.3%
UK	21	23.8%	Pharmaceutical	40	42.5%
Sweden	34	29.4%	Paper	23	39.1%
Finland	19	42.1%	Computers & office machines	23	30.4%
Switzerland	26	46.2%	Industrial Chemicals	47	36.2%
Netherlands	14	50.0%	Oil & Gas	18	44.4%
Germany	27	59.3%	Motor vehicles and parts	26	57.7%
Japan	32	62.5%			
Total	239	37.7%	Total	239	37.7%

Subsidiary country cluster	N	% of PCNs
Scandinavia	41	12.2%
Western Europe	128	28.9%
US	18	50.0%
Latin America	28	64.3%
Far East	24	87.5%
Total	239	37.7%

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Table 5: Logistic regression results

Variable	Model 1: Coefficient (S.E)	Archival sample Significance/ R-value	Model 2: Coefficient (S.E)	Mail-survey sample Significance/ R-value
Intercept	-5.2158 (.4964)	.0000***	-.3033 (1.8584)	.8704
Home country/company characteristics				
Level of UA in home-country culture	.0305 (.0024)	.0000*** .2099	.0475 (.0115)	.0000*** .2189
Cultural distance between home and host country	1.1071 (.1016)	.0000*** .1786	.3194 (.3268)	.3283 .0000
Size of the company	.0056 (.0025)	.0251* .0287	.0262 (.0099)	.0078** .1265
Level of R&D intensity	-----	-----	.0386 (7.4144)	.9958 .0000
Level of foreign sales	-----	-----	.0092 (.0086)	.2805 .0000
Host country characteristics				
Level of political stability in host country	.0140 (.0075)	.0626 † .0200	-.0124 (.0335)	.7110 .0000
Level of education in host country	-.1100 (.0456)	.0158* -.0323	-.7038 (.2432)	.0037** -.1419
Cost of living in host country higher than in home country	-.3945 (.1265)	.0018** -.0459	.1152 (.4168)	.7831 .0000
Subsidiary characteristics				
Majority-owned subsidiary	.7671 (.2434)	.0016** .0466	-----	-----
Reporting relationship (distance from HQ)	-.3399 (.0919)	.0002*** -.0565	-----	-----
Entry mode is acquisition	-----	-----	-.8965 (.3975)	.0241* -.0987
Subsidiary size	-----	-----	.0003 (.0001)	.0123* .1162
Subsidiary age	-----	-----	-.0201 (.0076)	.0085** -.1248
Subsidiary performance	-----	-----	-.5840 (.1707)	.0006*** -.1751
Industry¹				
Banks & banking services	1.2290 (.1346)	.0000*** .1490	-----	-----
Advertising agencies	-1.5005 (.2586)	.0000*** -.0930	-----	-----
Security & commodity brokers	1.3575 (.3148)	.0000*** .0673	-----	-----
Printing & publishing	1.1213 (.2710)	.0000*** .0643	-----	-----
Computers & office equipment	-.9059 (.2191)	.0000*** -.0642	-2.0630 (.6554)	.0016** -.1580
Electronic & electric equipment	-.5519 (.1994)	.0056** -.0393	-1.2692 (.5543)	.0220* -.1013
Telecommunications equipment	.7390 (.3182)	.0202* .0304	2.1253 (1.0521)	.0434* .0811
Paper	.5125 (.2325)	.0275* .0279	1.3755 (.6379)	.0311* .0915
Food and related products	-.4615 (.2241)	.0380* -.0251	-----	-----
Business & management services	-.7273 (.3899)	.0621 † -.0201	-----	-----
Model statistics				
Model χ^2	882.661	.0000***	94.725	.0000***
N	2689		239	
% correct	74.93%		79.50%	
Base line rate	51.23%		53.04%	
Improvement	46.26%		49.9%	
Specificity	84.45%		86.58%	
Sensitivity	61.87%		67.78%	
Cox & Snell R ²	.280		.327	
Nagelkerke R ²	.280		.446	

*** p < 0.001, ** p < 0.01, * p < 0.05, † p < 0.1, all two-tailed

¹ To reduce complexity, only industries with a significantly higher or lower number of PCNs as managing director were included in the model.

¹ (see e.g. Banai, 1992; Borg & Harzing, 1995; Briscoe, 1995; Dowling & Schuler, 1990; Edström & Galbraith, 1977; Fatehi, 1996; Hamill, 1989; Hendry, 1994; Hodgetts & Luthans, 1994; Mead, 1994; Negandhi, 1987; Phatak, 1989; Root, 1986; Tung, 1981, 1982, 1987).

² A handful of other studies has empirically investigated the choice between expatriate and local managers (Franko, 1973; Youssef, 1973; Zeira & Harari, 1977; Hamill, 1989; Scullion, 1991). Unfortunately, these studies focus on limited samples (e.g. two subsidiaries of one American MNC), provide very fragmented empirical information and do not usually discuss factors influencing staffing practices in any detail. Franko's study did investigate a larger sample of companies, but discussed only one factor – the stage of internationalisation – as an explanation of staffing practices and was conducted more than 25 years ago.

³ Although one could question the use of such a global descriptor at company level, previous studies (e.g. Barkema & Vermeulen, 1997; Erramilli, 1996; Kogut & Singh, 1988; Shane 1993 & 1994) have shown that national cultural variables measured as the countries' scores on Hofstede's dimensions have a considerable explanatory power for decisions taken at company level. Although Hofstede's work has elicited some criticism, it is largely accepted as a helpful, though crude way to quantify cultural differences (see Harzing & Hofstede (1996) for a discussion of the various critiques and the extensive use of Hofstede's dimensions in other studies; see Sondergaard (1994) for a summary of reviews, replications and citations)

⁴ In this case it might be very difficult to assess the causal relationship: are under-performing subsidiaries attracting PCNs or do these subsidiaries perform under par because they are headed by a PCN? In addition, it might be difficult to measure this relationship in a cross-sectional analysis, since it would assume that PCNs would leave as soon as the subsidiary becomes profitable again. However, although this relationship would benefit from a longitudinal analysis, in a cross-sectional analysis a minor negative effect would still be expected.

⁵ A comparable model derived from the literature was provided by Hamill (1989). He did not, however, provide any empirical tests for the proposed relationships and many home country/company and host country variables were not included in this model and nor was industry.

⁶ In the smaller-scale mail survey sample, however, the nationality of the managing director was significantly related to the number of PCNs among top-5 managers in the subsidiary. In subsidiaries with a PCN as managing director, the average number of PCNs among top 5 managers was 2.54, while for subsidiaries with a HCN as managing director it was 0.51. This difference is significant at the $p = 0.000$ level, t -value -15.921 . Therefore the presence of a PCN as managing director can be regarded as a proxy for the presence of PCNs among top managers in general.

⁷ The three coders consisted of two MA-students and the author of the manuscript. Between them they speak 8 different languages and have lived in five different countries. Furthermore, all three coders studied International Management, a study with linguistic elements, have extensive experience in interacting with foreign students and share a keen interest in languages.

⁸ The reason for comparing profitability with other subsidiaries rather than with other firms in the same industry is related to the purpose of the study for which the data in the small-scale mail survey were originally collected. However, this way of measurement might be very suitable for the staffing decision as well, reasoning that headquarters would be distributing a limited resource (expatriate managers) between their subsidiaries, based on their relative performance.

⁹ Mayrhofer & Brewster cite two studies (Ondrack, 1985 and Derr & Oddou., 1993) that indicate that expatriation is still an important phenomenon. This statement, however, does not unambiguously show that a majority or even a major part of management positions in subsidiaries of European MNCs is taken by PCNs. The fact that all major European airlines use PCNs in top management positions in their sales branches and the fact that financial directors in Philips subsidiaries are nearly always PCNs, might very well be an industry or company specific anomaly. The last two cited references also provide rather contentious support. The fact that one particular large European company has only one nationality represented at the Board level (Bournois & Chauchat, 1990) hardly proves that European MNCs generally have ethnocentric staffing policies where their subsidiaries are concerned. Finally, Mayrhofer & Brewster report that Banai (1992) is convinced that "many MNCs, whether American, European or Japanese, still assign a large number of PCNs to key managerial positions in their subsidiaries and affiliates" (1992:451). Apart from the fact that assigning a large number of PCNs can still mean that the majority of subsidiary managers are local nationals, the publications that Banai cites (Tung, 1981, 1982 and Root, 1986) are rather outdated and even do not unambiguously support the statement. Tung shows that in American MNCs a substantial majority of senior management in subsidiaries is of local origin, while the same is true for Western subsidiaries of European MNCs. Root does not even offer figures about the extent of localisation of management, he only cites a 1978 Forbes publication which indicated that there were 100,000 American managers in subsidiaries of American MNCs. This of course hardly gives a clue about ethnocentricity in Europe if the figures about non-American managers are not available.