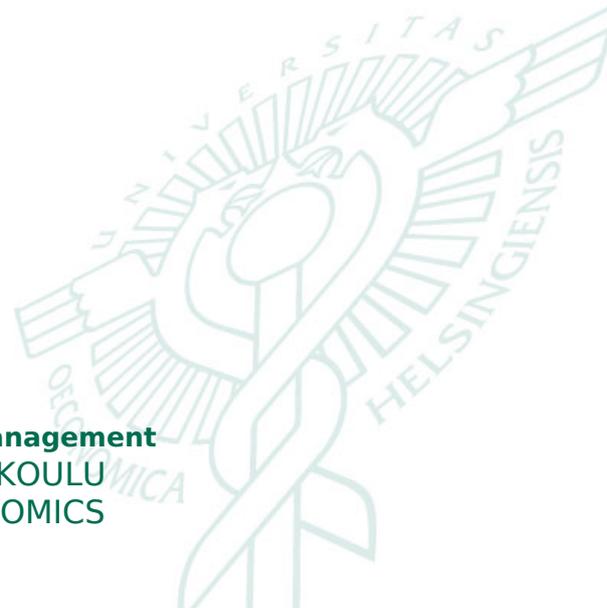


The Choice Between Host Country Nationals and Expatriates to Manage a Foreign Subsidiary of Multinational Corporation.

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Zhuoying Long
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Department of Marketing and Management
HELSINGIN KAUPPAKORKEAKOULU
HELSINKI SCHOOL OF ECONOMICS



The Choice Between Host Country Nationals and Expatriates to Manage a Foreign Subsidiary of Multinational Corporation.
Cases: Kone Corporation, Canon Inc. and Nordic Cjf Oy.

Objective of the study

The aim of this thesis is to examine how multinational corporations choose a suitable manager to control a foreign subsidiary. The focus of this thesis is on the opinions of the multinational corporations instead of the measurements of the performance of the managers. We will investigate the choice between a host country national manager and an expatriate manager in the foreign subsidiaries of multinational corporations. This topic was chosen because expatriate and host country national managers have rarely been compared in previous researches.

Methodology and Theoretical Framework

The data for the qualitative multiple-case study was collected through personal and phone interviews. The subjects of the interview were a marketing manager from Canon Inc and Area HR Director from KONE Corporation and the CEO and assistant manager for Nordic Cjf Oy. The theoretical framework was mainly based on Perlmutter's staffing policies (1969) and Volkmar's theory (2003) as well as derived from the empirical results.

Findings and Conclusions

The results of this thesis revealed that the case companies were irrelevant between the choices of manager based on the nationality. The multinational corporations are more concerned in the individual competences of the managers. The suitability of the manager to the subsidiary role and market situation is more important.

Key words

Expatriate manager, host country national manager, headquarters –subsidiary relationship, IHRM staffing policy, multinational corporation, control, cultural distance.

Monikansallisen yrityksen ulkomaalaisen tytäryhtiön johtajan valinta paikallisen ja ekspatriaatin väliltä.

Case: Kone Corporation, Canon Inc. ja Nordic Cjf Oy.

Tutkimuksen tavoitteet

Tämän tutkimuksen tavoitteena on selvittää kuinka monikansalliset yritykset valitsevat sopivan johtajan ulkomailla sijaitsevaan tytäryhtiöönsä. Tutkielma keskittyy kansainvälisen yrityksen näkökulmaan sen sijaan että mittaisi eri johtajien suoritusta. Johtajan valinta paikallisen ja ekspatriaatin väliltä ulkomaalaisen tytäryhtiön johtoon on tutkimuksen kohteena. Tämä aihe valittiin koska ekspatriaateja ja paikallisia johtajina on harvemmin vertailtu keskenään aiemmissa tutkimuksissa.

Tutkimusmenetelmät ja teoreettinen viitekehys

Aineisto tähän laadulliseen tutkimukseen kerättiin henkilökohtaisella haastattelulla ja puhelinhaastattelulla. Haastateltavina olivat markkinointipäällikkö Canon Inc. -yhtiöstä ja Area HR director KONE-yhtiöstä sekä CEO ja assistant manager Nordic Cjf Oy-yhtiöstä. Teoreettinen viitekehys perustuu pääasiallisesti Perlmutterin henkilöstöhallinnan malliin (1969) ja Volkmarin teoriaan (2003) sekä aiempien empiiristen tutkimusten tuloksiin.

Tutkimuksen tulokset ja johtopäätökset

Gradun tulokset ehdottavat, että johtajan kansallisuudella ei ole merkitystä ulkomaisen tytäryhtiön johtajan valinnan kannalta. Monikansalliset yritykset valitsevat johtajansa heidän yksilöllisten ominaisuuksiensa perusteella. Johtajan valinnassa on tärkeämpää kyseisen johtajan soveltuvuus tiettyyn rooliin tytäryhtiöissä sekä markkinatilanteeseen.

Avainsanat

Expatriaattijohtaja, paikallinen johtaja, pääkonttori –tytäryhtiö suhde, kansainvälinen henkilöstöhallinto, monikansallinen yhtiö, kontrolli, kulttuurallinen etäisyys.

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1. INTRODUCTION

This thesis discusses the topic of control in the foreign subsidiaries of multinational corporations (MNCs). We aim to find answers to why companies prefer to choose either the host country national manager or the expatriate manager. This thesis begins with the introduction to the subject and the introduction part is divided into seven subchapters. The first one of these subchapters explains the background to the subject of control in the foreign subsidiaries of multinational corporations and the importance of the management choice. The second and third subchapters introduce the research problems and objectives of this thesis. The fourth subchapter describes the case companies and the fifth chapter discusses the limitations of this thesis. The sixth chapter defines some of the key terms. The last chapter will give a review of the structure in this thesis as well as a summary of the contents of each chapter.

1.1 Motivation and Background

This thesis focuses on the topic of control in the foreign subsidiaries of multinational corporations. This topic of control has recently received plenty of attention among the academics, mainly because of the increase in the number of the foreign subsidiaries. Because these foreign subsidiaries are located outside the home country of the multinational corporation, the control of such subsidiaries provides unique challenges compared to managing the subsidiaries located inside the corporation's home country. Multiple factors contribute to these unique challenges of control in a foreign subsidiary. For example, one of these factors that should be taken into account when choosing a manager is the differences in the cultures of the subsidiary and the parent corporation.

The choice of manager can be seen as a fundamental part of control in the foreign subsidiaries (Black & Gregersen 1999, 52–57). The manager acts as the representative of

the values of the multinational corporation and takes responsibility for making sure that the subsidiary is run in accordance with the values and the strategy of the multinational corporation. The reason that inspired this research was mainly to understand what the company values and how it utilizes the advantages of the host country and parent country managers. Volkmar (2003) has suggested a model that helps with the decision between host country national and expatriate manager. Inspired by Volkmar's suggestion that these two kinds of managers have their different strengths that suit certain subsidiary situations better, this thesis was undertaken to examine in depth the reasons behind the choice of subsidiary manager.

1.2 Research Objectives and Questions of the Thesis

The research objective of this thesis is to examine the reasons why and how the companies choose their managers for their foreign subsidiaries. This thesis attempts to look at the competencies of the managers as well as factors on company level that have an effect on the choice of manager. As an example of these factors, we give the subsidiary size. The comparison of the host country national and the expatriate manager will be in the focus of this thesis.

This thesis begins with the examination of the reasons that the multinational corporations have for the employment of either the host country national manager or parent country national manager. We will look carefully at the staffing choices in the international human resource management and studies on subsidiary control to help resolve this question. Then, we aim to take a look at what qualities in a manager make them more suitable to certain subsidiaries. We look at the international human resource management practices to get the basic idea what is behind the choice of manager. Then we proceed to a review of relevant empirical studies that help to give an idea about the factors that affect the requirements from the manager. The empirical part, which consists of case

study, aims to analyze why and how the subsidiary managers are chosen in multinational corporations. This thesis draws conclusion from the results of the study and it also compares these results with the previous studies and theories.

The research question that emerges is the following:

- How multinational corporations choose between a host country national manager and an expatriate manager to control the foreign subsidiary?

1.3 Case Companies

The cases companies in this thesis are KONE Corporation, Canon Inc. and Nordic Cjf Oy. KONE Corporation is a Finnish multinational that was founded in 1910. The headquarters are situated in Helsinki, Finland. KONE is a manufacturer of elevators and escalators and it also provides maintenance and modernization services. In 2008, KONE had annual net sales of 4.6 billion euro and approximately 34,800 employees. KONE provides its services in around 50 countries. The subsidiaries of KONE Corporation consist mainly of sales functions and operations as well as services. The values of its corporate culture are delighting the customer, energy for renewal, passion for performance and winning together.

Canon Inc. is a Japanese multinational that was founded in 1937. Its headquarters are in Tokyo, Japan. Canon Inc is a manufacture of business machines, cameras and optical products. In 2008, Canon Inc had annual net sales of 30.6 billion euro and approximately 25,400 employees. Canon Inc has subsidiaries located in every continent. Canon Inc. lists its core values as learning & teaching, continuous improvement, openness & trust, facing reality, participation then commitment and pride in achievement.

Nordic Cjf Oy is a Chinese fourth-party logistics company that was founded in 1994. Its headquarters are located in Beijing, China. Nordic Cjf Oy focuses on international trade and online business information service and consulting services. The company has approximately 3 million euro annual sales. It is a medium-sized company, which has subsidiaries in Northern Europe. Nordic Cjf Oy has a simple core value to provide all the help for its clients.

1.4 Limitations of the Thesis

In the international environment where the multinational corporations operate, there are multiple linkages between all the factors that affect the choice of manager and shape the affairs of the multinational and its subsidiaries (Andersson et al 2001). This should be kept in mind whenever such a complex phenomena is examined. The main limitation of this thesis is that it leaves a lot of the interrelations between the factors that affect the choice of manager unexamined. The focus is on the factors independently, instead of the interplay between them.

This thesis does not examine the actual performance of the manager to determine what kind of manager is more suitable to certain position. Instead, this thesis approaches this topic from the perspective of the multinational corporations and aims to examine what the multinationals want from the subsidiary manager. The assumptions that the multinational corporations make and the actual performance of the managers are not always consistent with each other. For example, multinational corporations generally prefer to employ more expatriate managers to those subsidiaries that are more culturally distant from the headquarters. Colakoglu & Caligiuri (2008), on the other hand, have raised doubt by showing that higher expatriate ratio seems to relate to lower subsidiary performance when the cultural distance is very high. We, therefore, keep this limitation in mind and only stay focused at the outlook of the multinational corporation.

The discussion about the training of the management will also be outside the scope of this thesis. However, the element of training is in central roles for managers. For example, the cultural training has been shown to increase the likelihood that the expatriate manager will be more likely to be successful in the subsidiary (Storey 2007, 357-59). The training provided to the national manager is also important. The national managers need knowledge about the company values and culture. Volkmar (2003) has argued that the costs of these two types of training are equal, which means that the training costs make no difference in the choice of manager. In practice, this is not so straightforward. This thesis, however, mainly focuses on the spontaneous competences of these two types of manager.

1.5 Definitions

Multinational Corporation is defined as a group of different organizations that are geographically dispersed in different locations (Volkmar 2003). The corporation consists of the headquarters and subsidiaries. A foreign subsidiary is defined as any operational unit that is controlled by the multinational corporation and situated outside its home country borders (ibid). Control in this thesis is defined as the processes that corporations use to ensure that it achieves its goals (Luo & Yan 2000, 89-90).

Host country national manager refers to the native citizen of a specific foreign subsidiary (Volkmar 2003). The expatriate manager in this thesis is defined more narrowly than usually in the literature. The expatriate manager, in this thesis, only refers to the parent country national. In other contexts, the expatriate manager can also refer to a citizen from a third country nation (ibid).

Subsidiary-Headquarters relationship is used to describe the connection that prevails between the two. According to Barsoux & Schneider (2002, 253-54), Perlmutter has classified these relationships into different categories. The categories that are relevant in this thesis are the ethnocentric and polycentric relationship. The ethnocentric relationship refers to the situation where the headquarters strictly control the subsidiaries and prefer to employ expatriate managers for the foreign subsidiaries. In the polycentric relationship, on the other hand, the headquarters assign more power to the locals in the foreign subsidiary.

1.6 Structure of the Thesis

The next chapter of this thesis discusses the theories and models that are common in the field of IHRM as well as the findings of the empirical studies. The chapter begins by taking a brief look at the comparative benefits of each of the manager. Then we discuss two theories of control of the foreign subsidiaries. Later on, some of the factors on the company-level, which influence the choice of manager, will be overviewed in the light of previous empirical researches. The controversies and claims in the earlier studies will be examined and possible explanations will be provided to explain these differences in the results. This leads to the development of framework in chapter three.

Chapter four will explain the method and data collection in this thesis. In the empirical part, we analyze the findings of the three cases. The previous studies and theories are used to discuss the themes that emerged from the interviews. Chapter seven concludes the thesis and summarizes the results of the literature review as well as the findings of the empirical part. The last chapter suggests possible future study areas and discusses the implications and usefulness of the results to the multinational corporations.

2. REVIEW OF LITERATURE

This chapter focuses on the theoretical background and empirical findings of the previous researches in order to help form a framework to the subject. This chapter takes a look at the international human resource management practices that help the multinational corporations with the decision about the subsidiary manager. This chapter looks into Volkmar's theory (2003) about the choice of host country national manager as opposed to expatriate manager to lead change in the foreign subsidiaries. Several factors that commonly affect the choice of manager are given their own subchapter in this thesis in order to discuss them in detail in the light of previous empirical findings. The empirical part of this thesis will refer back to this part in the discussion of the findings of the case study.

2.1 Controls in the Foreign Subsidiaries of Multinational Corporations

Multinational corporations face multiple different economic, social, political and cultural environments when they control and manage their subsidiaries located outside their home country (Bartlett 1990). To control a foreign subsidiary, therefore, requires recognizing the own unique challenges in the subsidiaries (Gomez & Sanchez 2005, 1847-61). The complexity makes the topic of control of foreign subsidiaries a field that is worth deeper study (Gupta & Govindarajan 1991, 768-92). It also means that there are multiple new perspectives and topics in this field that have not been studied yet.

One of the most important decisions that the multinational corporations make is the choice of manager in the company's foreign subsidiary. The choice of manager is critical to the success of the foreign subsidiary (Black & Gregersen 1999) and the core of this thesis. The tasks of subsidiary managers include the execution of the orders of the headquarters as well as maintenance of the relationship between the headquarters and the

subsidiary (Birkinshaw et al. 1998, 221-41). There is both the pressure for internal consistency within the organization and pressures for adaptation to the local environment and the managers are constantly trying to balance these needs (Thomas 2002, 204-205). The manager, therefore, needs both: the knowledge of the national culture of the subsidiary and familiarity with the corporate culture. The manager also needs to be technically qualified and internationally experienced. However, these skills are needed in varying extents depending on the subsidiaries and wishes of the multinational corporations. The Figure 1 lists these managerial skills that are needed in varying degrees (ibid).

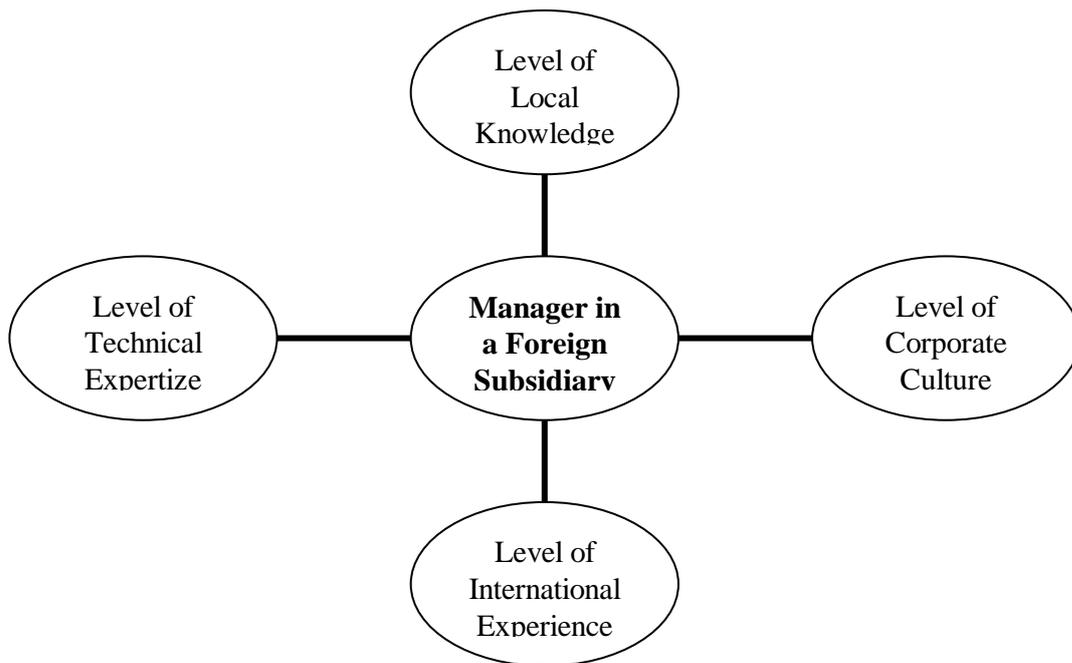


Figure 1. The varying degrees of different knowledge and skills that are central to the subsidiary manager (modified from Thomas 2002).

The topic of control in the multinational corporations is popularly featured in the current literature. From the beginning of the 1980's, there has been academic interest in the multinational corporations (Bartlett 1990). The early literature and research in the area was mainly focused on the reasons and benefits of having a subsidiary abroad. As the benefits have become clearer, the focus has turned towards how to effectively manage such a subsidiary located in a foreign country (ibid). A great deal of attention has been given to the role of language and physical distance in the control of foreign subsidiary. However, these are not the only challenges of the effective control in a foreign subsidiary. The importance of the manager has long been recognized. The proper choice of manager may have a long-term positive economic impact on the organization, which makes it a decision well worth the time and money spend on the process (Schaffer & Rhee 2005). Figure 2 helps visualize how the focus of this thesis relates back to the previous researches.

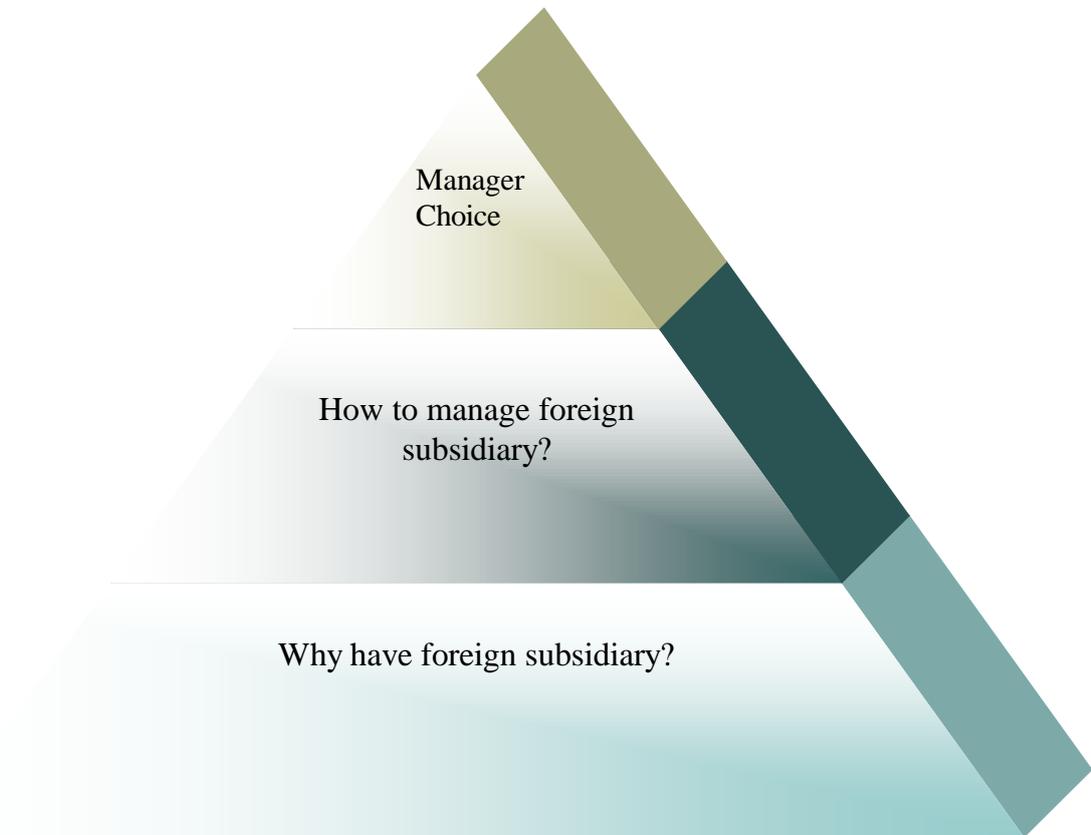


Figure 2. The placement of this study in the previous research areas (modified from Volkmar 2003).

2.2 Background

The multinational corporations can choose to employ a host country national manager or an expatriate manager. The expatriate managers have received more attention in the business literature. The reasons for the failure of expatriate missions as well as the actual usefulness of expatriates are frequently in the core of the discussion. Recently Harzing (2001) has responded to these claims that expatriate managers do not contribute to the control of the subsidiaries. The results of her study show that the level of expatriate

presence does increase the control of the foreign subsidiaries. However, the reliability of her results was later questioned. Yongsun & Junghoon (2004) were able to show that only those expatriates with sufficient cultural knowledge about the host country will contribute positively to the control of the foreign subsidiaries. Their research finding implies that the differences in the cultures of the subsidiary and headquarters affect the success of the subsidiary manager to a great extent.

The failure rates of the expatriate managers have uncovered another interesting aspect. The expatriate failure rates vary according to the origin of the multinational corporations as well as according to the location of the subsidiaries. For example, the corporations from the United States have the highest expatriate failure rates Harzing (1995). On the other hand, according to Storey (2007, 357-59) the failure rates of the expatriate managers are higher in those subsidiaries that are located in the developing countries. The differences in the failure rates of different countries are yet another clue which suggests that culture is important in the choice of successful manager.

However, the actual failure rate is not the main concern for the multinational corporations. The multinational corporations have been shown to be concerned with the possible underperformance of their expatriate manager (Storey 2007, 360-61.). The performance of an expatriate manager is harder to measure than the failure rates, which in part explain why there is less research about this topic. The multinational corporations must consider if they would be better off with the national manager than the expatriate manager, especially when the knowledge of the subsidiary culture seems to be the determining factor in the success of the manager.

According to Schaffer & Rhee (2005), there is a lack of research and literature that allow comparisons between the benefits of the host country national manager and those of the expatriate manager. The research has usually focused on the benefits of each of the

manager separately and therefore this comparative element should be studied further. Schaffer & Rhee point out that most of the previous studies so far have only listed the benefits of selecting one type of manager over another without deeper guidelines for the selection itself. Also, there seems not to be much written about which one of these managers suits certain subsidiary environment better. Paik & Vance (2005) point out that especially the role of host country national managers should be studied further.

2.3 Host Country National Manager

The choice of host country national to manage the subsidiary of a multinational corporation is called the polycentric staffing policy (Storey 2007, 357-70). The model of polycentric staffing was developed by Perlmutter in 1969 (Scullion & Collings 2006, 159-78). Perlmutter's model (1969) helps to identify the different staffing policies that the multinational companies can choose from when they approach the manager decision. His model, however, is a descriptive one and does not give much guidance for the multinationals about which one of these approaches is more suitable to their particular requirements.

Scullion & Collings (2006, 159-78) suggest that the advantages that the host country national managers possess is a result of the knowledge of the local business scene. This could make the host country national manager an attractive choice when there is little knowledge about the subsidiary country. National managers generally have deeper knowledge on how to operate in the subsidiary as well as already established local connections. There will also be no problems with the local language or with the adjustment to the subsidiary when a host country national manager is chosen to lead the subsidiary (ibid).

There are also other benefits of the host country national managers that the Perlmutter's staffing policy identifies. One of these benefits is the possibility that the morale of the local staff increases when a host country national is chosen as a manager. According to Vaghefi et al. (1991, 156-57), this increased local staff morale is a result from their perceived better opportunities to get promoted to higher positions in the company.

Occasionally, the choice of host country national managers can be independent from the desires of the multinational. For example, the immigration laws in many countries require the employment of local nationals. Overall, the choice of host country national manager will allow the multinationals to keep lower profile in the subsidiary. Also from the financial point of view, the costs of host country nationals are generally less as noted by Schniederjans (1998, 40-42). All these factors make the employment of host country nationals as managers an attractive choice for the multinational corporations.

This polycentric staffing policy also has its setbacks. Some of the challenges that result from the employment of host country national managers are concerned with the subsidiary-headquarters relationship. Schniederjans (1998, 40-42) argues that the multinational corporations might worry about possible conflicting national loyalties that might be present. He argued that the multinationals do not want the subsidiary to be too independent because it is important for the corporations to maintain strong linkages and constant communications with their subsidiaries. The multinational corporations need to be sure that they are able to control their subsidiaries and the corporation might fear that the host country national manager would not be able to maintain the required communications with the headquarters (ibid, 40-42). Vaghefi et al. (1991, 156-57) suggest that the multinational corporations might also question the ability of the host country national managers to carry out the orders of the headquarters. This might be due to language problems or difficulties in understanding the corporate culture in the multinational company (ibid).

There are also certain reasons that might make it impossible for the multinational corporations to consider a host country manager to the position. An example would be the lack in the necessary skills needed to run a foreign subsidiary. Storey (2007, 357-59) cites the research finding of Dowling & Welch (1988) and explains that occasionally host country national managers might not be technically qualified and they usually lack international experience. The selection processes of host country national managers might also be trickier than that of the parent country nationals, especially if the multinational corporation does not have any established system that would help them choose their foreign employers (Steers & Nardon 2006, 283-84). All these factors might make the multinational corporations choose the parent country nationals due to convenience.

The benefits and challenges of the host country national managers that have discussed are summarized in Figure 3. These assumptions of the figure are based on the polycentric staffing policy.

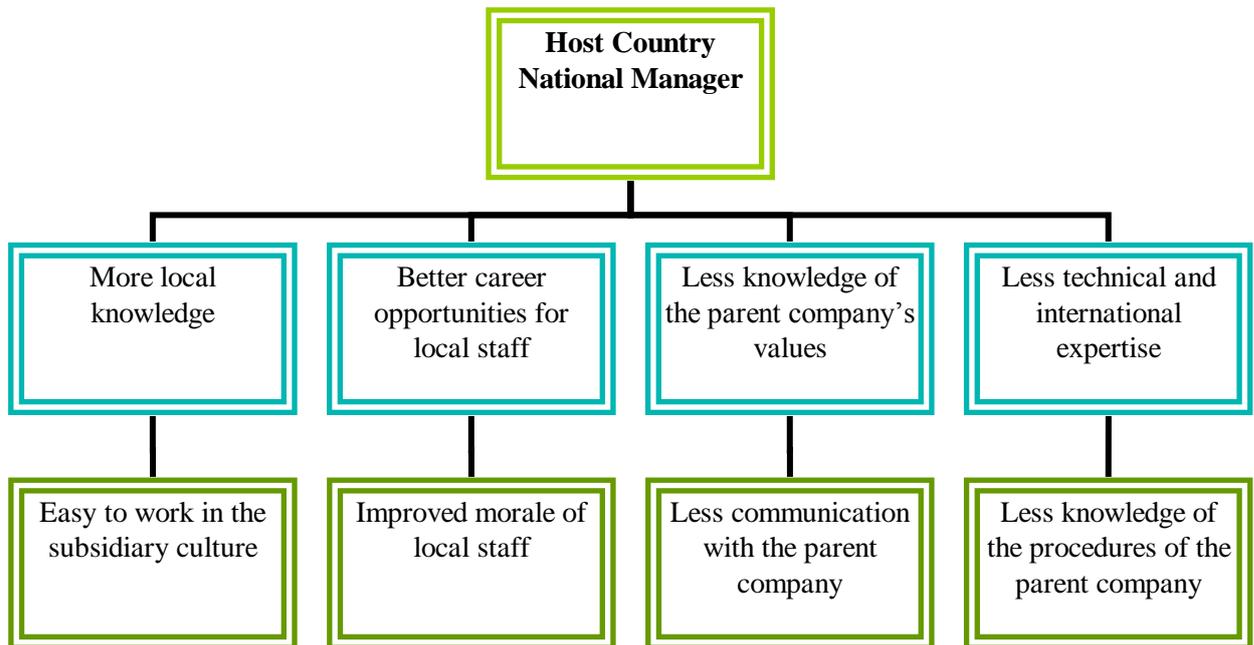


Figure 3. The benefits and challenges of the HCN manager (modified from Perlmutter 1969)

2.4 Expatriate Manager

The multinational corporations can also choose to employ the expatriate manager to be in charge of the foreign subsidiary. This choice is called the ethnocentric staffing policy in the Perlmutter's model (Vaghefi et al. 1991, 156-57). Usually the ethnocentric staffing policy is common in those multinational corporations that are in their early stages of internationalization. When the multinational corporation lacks the previous experience of operating in the international environment, they generally seem to prefer to send an expatriate manager (ibid). One explanation to this is that the multinational corporations in their early stages of internalization do not have any established links and methods to choose the host country national managers (Steers & Nardon 2006, 283-84).

There has also been discussion about the loyalty of the expatriate managers. It has been argued that the multinational corporations might perceive the expatriate manager as more trustworthy and loyal towards the parent company than the host country national manager. According to Schniederjans (1998, 37-40), the expatriate managers are generally perceived as more willing to share production secrets and to provide classified information with the headquarters than the host country national managers. This is a strong claim that we will discuss in detail in the later part of the literature review.

The expatriate managers are generally better equipped to communicate with the headquarters, which is very important competence. The expatriate managers do not have any language problems or cultural hindrances that would make the communication with the headquarters more difficult. The expatriate managers also have better knowledge of the values and operations in the parent country (Warner 2004, 617-34). Their familiarity with the corporate culture makes the expatriate manager might make them more capable to execute the orders that come from the headquarters as Edström & Galbraith (1977) have suggested. Steers & Nardon (2006, 280-85) argue that the use of expatriate managers supports the more centralized decision making of the headquarters. This means that in the more centralized multinational corporations, there is a more hierarchical power structure. In these centralized corporations, the decision power is stricter and in the hands of less people (O'Connell & Argyris 1997, 38-39). Therefore, the use of expatriate managers might be associated with the stronger need of multinationals to control their subsidiaries.

Occasionally, the expatriate managers are used for reasons that are less dependent on the multinational corporations. Sometimes, the expatriate nationals as managers might simply be the result of the lack of technically qualified host country national candidates (Schaffer & Rhee 2005). According to Chapman et al. (2007, 775-76), occasionally the foreign customers might also have their own expectations that the top managers of the subsidiary should be parent country nationals. All these factors are independent from the

preferences of the multinational corporations themselves and can still affect the choice of manager.

There are also certain disadvantages that the multinational corporations will face when they choose the expatriate manager. Storey (2007, 357-59) lists the most common disadvantages of expatriate managers as the problems with the expatriate adaptation to the new host country and the perceived low morale of local staff due to the limited promotion opportunities. The Figure 4 provides a summary of the benefits and challenges of the expatriate managers that are commonly identified in the international human resource management literature.

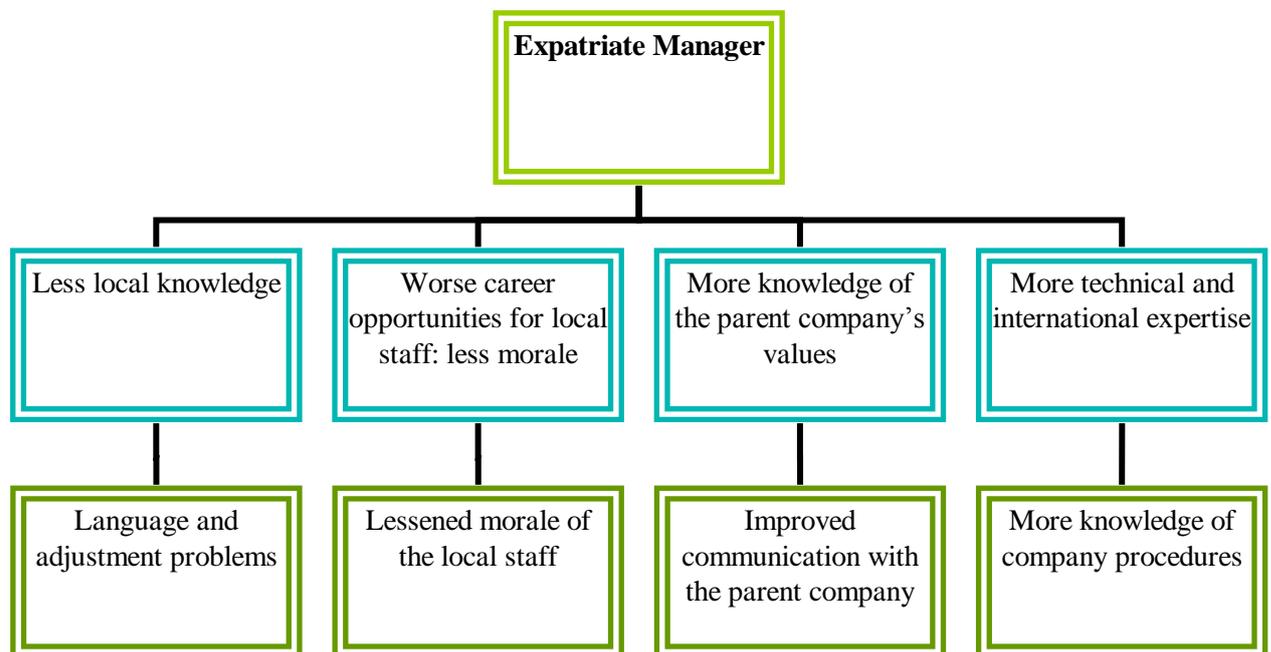


Figure 4. The benefits and challenges of the Expatriate manager (modified from Perlmutter 1969).

2.5 Alternative Managers and Training

Even though this thesis has only discussed the choice between the host country national manager and the expatriate manager, there are other possible alternatives for the manager of the foreign subsidiary. Storey (2007, 357-59) notes that there is also a choice of a third-country national manager or a so-called global manager. The benefits of these approaches include the decrease in the cultural identity and the politics associated with it (ibid.). However, Storey explains that currently the amount of third-country and the global managers in foreign subsidiaries is not as high as those of the host country national managers and expatriates. In this thesis, we have left these managers outside the scope. These managers, however, are important to a truly global multinational corporation.

The topic of management training remains important in the field of global human resource management. However, in this thesis the aspect of training is excluded. We are more concerned with the selection of the manager that is initially the more suitable choice than the training process of the manager. However, training closely relates to the subject of how to effectively control a subsidiary. According to Peterson (2002) training is, in fact, the most commonly cited factor that determines the success of the expatriate manager in the foreign subsidiaries.

2.6 Volkmar's Model

The model that inspired the topic of this thesis was developed by Volkmar (2003). His management model combines the theory of leadership of organizational change with the previous theory of control. In this subchapter, we will go true the basic idea behind his model.

The assumptions that Volkmar's model (2003) makes include that control mechanisms must consider both the strategy formulation and the strategy implementation. Another basic assumption in his model is that the out-socialization costs of the expatriate manager and in-socialization costs of the national manager are equivalent (ibid). By the socialization costs, Volkmar (2003) means the adjustment to the organizational and host country culture. However, this assumption has not been verified through studies (ibid). For example, providing the necessary technical training to the host country national is clearly more expensive than cultural training provided to the expatriate manager. With this possible limitation in mind, we will proceed to examine the theory that Volkmar (2003) has presented.

Volkmar (2003) begins his model with the definition of the types of organizational changes that are required from the subsidiary of the multinational corporations. The Table 2 represents a brief summary of the type of change required in case of four different subsidiary scenarios based on the need for integration and to the cultural asymmetries of the headquarters and the subsidiary.

	Need for Integration low	Need for Integration high
Cultural Asymmetry low	incremental change	transformational change
Cultural Asymmetry high	incremental change	incremental change

Table 1. The effect of the cultural asymmetry and the need for integration into the type of change required in the subsidiary (Volkmar 2003).

Table 2 shows the types of changes that need to take place in the subsidiaries with varying levels of cultural asymmetry and need for integration. The cultural asymmetry is

defined as the extent to which the countries of the parent company and the subsidiary are perceived to differ from one another. The need for integration refers to the extent that the parent company wants to unite the procedures in the subsidiary to match those of the parent company. In each of these scenarios, the form of change in the subsidiary are important in deciding the type of manager better suited to the position.

The changes required by the headquarters can be either incremental or transformational. Incremental change in the subsidiary is much milder and slower form of change than the transformational change. The incremental change is sufficient in most cases, because the company does not have to go through a major change whenever the subsidiary national culture is similar to the parent company's culture. Incremental change may also be sufficient in those cases when there is no great need to integrate the subsidiary to the parent company (ibid).

Transformational change means that an almost complete change in the subsidiary is necessary from the point of view of the multinationals. One might think that the expatriate manager would be more suitable to manage transformational change, because of his/her deeper knowledge of the parent company's values and practices. Volkmar (2003), however, suggests that this is the case only if the perceived legitimacy of the parent organization is high. The perceived legitimacy is important in the management of change because the local staff would not have much drive to follow a foreign leader in the cases of low legitimacy (ibid).

In the cases of perceived low legitimacy, the organizational changes seem better managed by the host country national. This is because the need to be aware of the values of the parent corporation is not particularly high but the knowledge of local implementation is of high importance. The remaining case of incremental change and high parental legitimacy can be managed equally effectively by either manager. The Table

3 lists the type of manager that Volkmar’s model (2003) suggests as more able to manage the type of change that is required from the foreign subsidiary.

	Perceived Legitimacy High	Perceived Legitimacy Low
Incremental Change	Either manager	Host country national manager
Transformational Change	Expatriate manager	Host country national manager

Table 2. The type of manager recommended for each type of change in relation to the perceived legitimacy of the parent company (Volkmar 2003).

Volkmar’s theory (2003) has many important ideas. Volkmar stresses the fact that he did not empirically test his model. However, this does not distract from the value of his model. One important aspect in his theory is that it puts forward the idea that the expatriate manager might not necessarily be a superior choice over the host country national manager. Another importance of this model is the combination of the theory of leadership with the theories of control. The key point in his model is that it argues that the host country national managers are not inferior choice of subsidiary manager compared with the expatriate managers (ibid).

2.7 Effect of the External Factors that Affect the Choice of Manager

We have already scratched the surface concerned with the factors that have an effect on the choice of subsidiary manager. In the following subchapters we will examine these factors in further detail from the perspective of previous empirical results. In this thesis, we have divided these factors into external factors that are independent of the managers and quality factors that relate to the characteristics of the managers. The quality factors are explained in the next section 2.8.

The external factors that affect the choice of manager describe those aspects that do not depend on the managers. These factors include, for example, the national cultures in both the subsidiary and in the headquarters as well as the physical distance between them. Subsidiary performance, ownership, size and other similar factors will also be discussed in this section.

2.7.1 Effect of the Cultural Difference

One of the most obvious of the variables that has an impact on the choice of manager is the culture. The importance of cultural differences becomes clear through the results of the empirical studies. For example, Yongsun & Junghoon (2004) investigated a sample of Japanese multinationals and asked the management to what extent they perceived to be able to control their subsidiary. Their results showed that only those expatriates with cultural knowledge of the host country environment contribute to the control ability of the multinational corporations.

Yongsun & Junghoon (2004) found that those expatriates who lacked cultural knowledge actually hindered the control aspect of the multinationals in the subsidiary. This finding is quite alarming and should convince the companies of the importance of either choosing a host country national manager or to provide cultural training to the expatriate managers. In this respect, the multinational corporations greatly benefit from the cultural competence of the manager. Paik & Sohn (2004) also studied Japanese multinationals with their subsidiaries located in the United States and Asia. Their results matched with the ones of Yongsun & Junghoon (2004) and showed that the knowledge of culture is important.

Since the knowledge of the culture clearly plays such an important part in the success of the manager in the subsidiary, it could be assumed that it is easier to manage those subsidiaries that have similar values that the expatriate manager is accustomed to. Selmer's mail survey (2007) that gathered data from the American expatriates in Canadian and German subsidiaries investigated the adjustment of the expatriate managers to similar and different subsidiary cultures. The results of the study were surprising, because they showed no difference in the expatriate adjustment to culturally similar or different countries. This result, however, should not be taken to imply that the cultural differences are not significant. We have enough data that supports the claim that knowledge of subsidiary culture is crucial to the manager. However, these results imply that the determining factor of expatriate success depends on their personal ability to adapt to the different environment (ibid). The expatriate managers' personal ability to adapt does not depend on the culture. There are many more controversies among the researches about the effect of high cultural differences.

The results of the empirical studies that have examined the effect of high cultural distance on the choice of manager contradict with each other. Some researches argue that multinationals increase their use of expatriates as the cultural distance between the headquarters and subsidiary increases. This would follow from the need of the multinational corporations to exercise tighter control on those subsidiaries that are harder to control. Harzing (2001), for example, found that in culturally different countries, there appears to be more expatriate control but less formalization and output control. On the other hand, there are empirical studies that find the higher cultural distance to be associated with the more independent subsidiaries. Those subsidiaries might be needed to employ the host country nationals that have the connections in the local business scene that are valuable for the multinational corporations.

Some researchers seek to explain these contradicting opinions on high cultural differences with the suggestion that the cultural distance might have greater impact on the subsidiary control for the newer subsidiaries than to the older ones (Wilkinson et al 2008). The common methods to study the use of expatriates and host country managers has been to examine, if the names of the managers in the foreign subsidiaries are either local or from the parent country. Gong (2003) used this method when he investigated multinationals with subsidiaries located in Japan. He also found that cultural distance increased the use of expatriate managers.

Another finding that Gong (2003) made was that the need for expatriate managers decreased in relation with the age of the subsidiary operations. The explanation that he proposed was that the foreign subsidiaries increase the use of host country nationals as the trust between the headquarters and subsidiary grows with the experience. Bebenroth et al. (2008) used similar research design and found a contradicting result that occurred in the Japanese subsidiaries. According to their results, the age of the subsidiary seemed to have no effect on the amount of expatriate managers in the foreign subsidiaries. To conclude, in the lights of previous results, the age of the subsidiary alone does not seem to be sufficient alone to explain why the expatriate managers are commonly used in culturally distant countries.

It should be noted that even if the research seems to suggest that there is more expatriate control in the culturally more distant countries, this does not prove that expatriate managers are better suited to manage culturally different countries. It, however, proposes that if the cultural difference is high between the national cultures of the parent organization and subsidiary, the headquarters seem to have higher need to exert more control over the subsidiary as discussed by Björkman (2007).

An important empirical finding has been made when the relationship between the use of expatriates and high cultural distance was tested. In a recent study, Colakoglu & Caligiuri (2008) examined the effect of cultural distance of multinational corporations with subsidiaries in the United States. The findings of the study questioned the methods that the headquarters have used in their choice of manager. Colakoglu & Caligiuri (2008) showed that the higher expatriate ratio was related to lower subsidiary performance especially when the cultural distance was higher. In the light of these results, the multinationals might want to reconsider their commonly held preference for expatriate managers in those subsidiaries that are culturally different from the headquarters.

2.7.2 Effect of Uncertainty Avoidance

According to London (1995, 282-83), Hofstede's classical model of national culture dimensions has been frequently featured in the empirical researches that study the effect of cultural differences. Hofstede's model identifies four different dimensions that can be used to define the cultures in different countries. Newman & Nollen (1996), for example, used Hofstede's model in their empirical study to give support the notion that when the management is in line with the cultural dimensions, the financial performance increases (ibid) . Kessapidou & Varsakelis (2002) also found similar results when they investigated multinational corporations that had subsidiaries in Greece. The understanding of these cultural dimensions can also provide answers to questions such as why certain multinational corporations prefer to use more expatriates than other multinationals. We will take a look at two of these cultural dimensions that Hofstede has listed. These will be the uncertainty avoidance and power distance in the multinationals and we examine their effect on the choice of manager.

Gong (2002) investigated the effect that the uncertainty avoidance in the national cultures of the multinational corporations has on the choice of manager. His results

seemed to suggest that there the use of expatriates in the foreign subsidiaries increases in those multinational corporations that represent the high power distant cultures. Harzing & Ruysseveldt (2005) have also looked at how Hofstede's cultural dimension model can explain the choice that multinational corporations make about which manager to choose to as the head of the foreign subsidiary. Their results were similar to those found by Gong (2002). Harzing & Ruysseveldt (2005) explained the preference of uncertainty avoidant multinationals towards the use of expatriate managers by their preference for stricter forms of subsidiary control. They suggest that the multinational corporations with uncertainty avoidant cultures prefer to exercise more control over the subsidiaries in order to avoid ambiguity and doubt. Since the expatriate managers are commonly seen to offer more control, the multinationals with high uncertainty avoidance seem to prefer to use expatriate managers as their form of subsidiary control (ibid).

Other studies have also investigated this assumption and there has been support as well as contradicting findings. Bebenroth et al. (2008) were able to find support to this claim. However, they also compared their results with the ones of Thompson and Keating (2004) who got their data from Ireland and their results were contradicting. Overall, the studies seem to suggest that there is an increase in the use of expatriates in the multinationals that avoid uncertainty. The Figure 5 illustrates the effect that the uncertainty avoidant national culture in the parent company has on the choice of subsidiary manager.

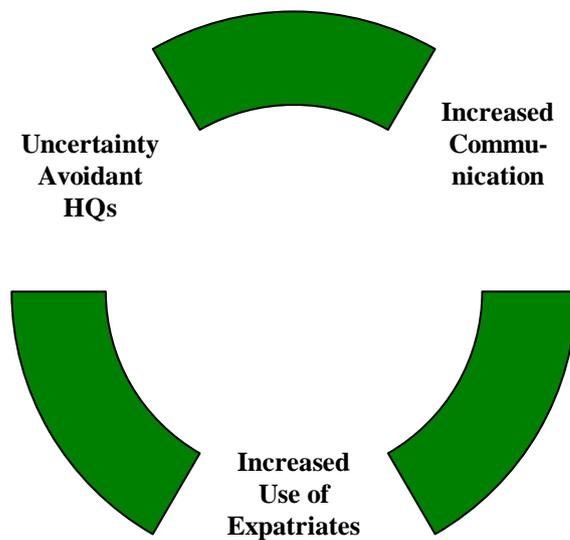


Figure 5. Illustration about the effect of uncertainty avoidant national culture in the headquarters on the choice of manager (modified from Gong 2002, Thompson & Keating 2004, Harzing & Ruysseveldt 2005 and Bebenroth et al. 2008)

2.7.3 Effect of Power Distance

Gong (2002) also made an assumption about the effect of power distance of the multinational corporation on its choice of manager. He predicted that those multinational corporations, in which there are high power distances, would be more likely to use expatriate managers over host country national managers to control their foreign subsidiaries. Gong's (2002) studies in the United States subsidiaries only mildly supported this assumption.

The support for Gong's assumption (2002) comes from the later empirical studies. Harzing & Ruysseveldt (2005) found that those multinational corporations, in which

there was a high power distant culture, were also more likely to use expatriate managers in their foreign subsidiaries. They concluded that Hofstede's model can be used to explain this by the superior feeling and mistrust that the managers in headquarters of high power distance countries feel over their subsidiaries (ibid). Ando et al. (2008) later verified that centralization is, in fact, associated with the increased use of expatriate managers in multinationals. Therefore, we can conclude that most of the empirical studies argue that the multinational corporations from a high power distant country would prefer the centralized method of control.

The results from the other empirical studies have been contradicting. Bebenroth et al. (2008) mention that Thompson and Keating's (2004) study offered no support to Gong's assumption (2002). Bebenroth et al. (2008) and Brock et al. (2008), on the other hand, did provide support for the correctness of the assumption that high power distance in the multinational corporations increases the use of expatriate control. The empirical findings overall demonstrate that the difference in the power distance of multinational corporations has some effect on the choice of subsidiary manager. Figure 6 illustrates the effect that the high power distant culture in the multinational corporation has on the choice of subsidiary manager.

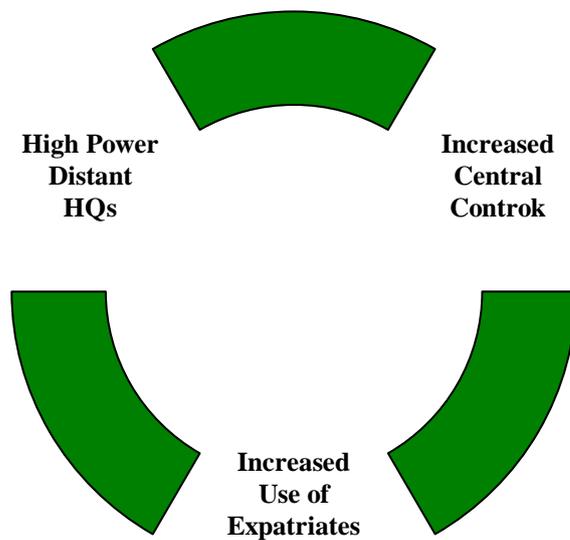


Figure 6. Illustration about the effect of the high power distant national culture in the headquarters on the choice of manager (modified from Gong 2002, Thompson & Keating 2004, Harzing & Ruysseveldt 2005, Ando, Rhee & Park 2008, Bebenroth et al. 2008 and Brock et al. 2008).

2.7.4 Effect of Subsidiary Underperformance, Size and Ownership

The subsidiary size, financial performance and the ownership structure also affect the degree of the use of expatriate and host country national manager control in the foreign subsidiaries (Chapman et al. 2007, 775-80). The subsidiary underperformance, subsidiary size and ownership are factors that relate to each other. All of these three factors make the multinational corporation more concerned about the financial performance and profitability of the subsidiaries. In order to avoid loss of income, the multinationals respond with stricter forms of subsidiary control. Subsidiary size and high ownership ratio make the subsidiary more valuable to the multinationals since they are more central

to the company's value. The expatriate control is, therefore, predicted to be higher in those foreign subsidiaries that are viewed more important to the multinationals (ibid, 775-77).

According to Edström & Galbraith (1977), the subsidiaries that are not performing according to the expectations of the multinationals require stricter form of control from the headquarters. The multinational corporation does not want to lose income and, therefore, exercises tighter control of the foreign subsidiaries whenever there is fear of losing income. When the foreign subsidiary lacks behind in the performance sector, the multinational corporations feel increased pressure to tighten their control and to more closely supervise the underperforming subsidiaries (ibid). Multiple studies offer support to this assumption about the tighter subsidiary control (Edström & Galbraith 1977, Belderbos & Heijltjes 2005 and Bebenroth et al. 2008).

The effect of the subsidiary size on the choice of subsidiary manager has been empirically tested. Since there is more money invested in those subsidiaries that are bigger and highly-owned, these subsidiaries also require stricter control as with the case of underperforming subsidiary. Edström & Galbraith (1977) point out that the control of subsidiary operations becomes more important to the multinationals in the more sizable subsidiaries. Bebenroth et al. (2008) have investigated this assumption with their study of Japanese subsidiaries. Bebenroth et al., (2008) mainly wanted to question the previous results of Thompson & Keating (2004) that did not support Edström & Galbraith (1977).

Bebenroth et al. (2008), on the other hand, received findings that were consistent with the claims put forward by Edström & Galbraith (1977). They found that the subsidiaries that were bigger in size were more likely to use expatriates as the subsidiary managers. Belderbos & Heijltjes (2005) have also found that the need for increased interchange of information between the headquarters and the subsidiary also increased the use of

expatriates. Belderbos & Heijltjes (2005) explained this result with the suggestion that the subsidiaries are more valuable to the multinational corporations when they actively provide information to the headquarters.

According to Belderbos & Heijltjes (2005), the multinational corporations appear more willing to invest to the control of those subsidiaries that are deemed as important.

Overall, it appears that the subsidiary size and higher ownership ratio increase the use of expatriate managers. Figure 7 shows summarizes valuable and unprofitable subsidiaries affect the choice of manager.

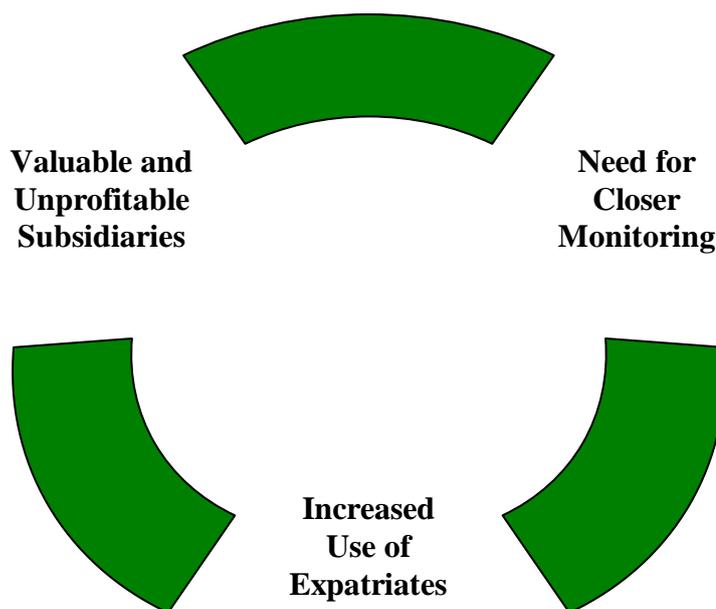


Figure 7. Illustration about the effects of valuable and unprofitable subsidiaries on the choice of manager (modified from Edström & Galbraith 1977, Thompson & Keating 2004, Belderbos & Heijltjes 2005, Bebenroth et al. 2008).

2.7.5 Effect of Physical Distance

The physical distance of the subsidiary from the headquarters is also important. It is suggested that in those subsidiaries that are located further, there is an increased use of expatriate control because physically distant subsidiaries need stricter forms of control. However, it is also possible that in some cases the physical distance can also increase the autonomy of the subsidiary as the cost of communications between the headquarters and subsidiary increase. In the subsidiaries that are only concerned with the local markets, the host country managers are more common since the subsidiary is more independent from the headquarters and needs to respond quickly to the local market (Björkman 2007). The effect of the physical distance, therefore, remains open to further investigation.

2.7.6 Effect Subsidiary Language and Other External Factors

There are numerous factors that are important in the choice of the subsidiary manager. We have covered the factors that are related to the culture as well as the factors that make the subsidiaries more valuable to the multinational corporations. There are other factors that also influence the type of control that the multinational corporations exert on their subsidiaries. The effect of the language is well-studied and the results seem to indicate that multinational corporations strive to control those subsidiaries more where there is no common language. Björkman & Piekkari (2009) provide an explanation to this. They argue that the multinational corporations want to increase control in those subsidiaries which lack the language competency in order to avoid misunderstandings. Other factors that affect the choice of manager include religion, the industry of the corporation and the role of the subsidiary as well as the local laws and politics. These factors have not been studied to such an extent as the effect of language, which means that they could be the focus of the future research.

2.8 Effect of the Qualities of the Managers on the Choice of Manager

In the previous sections, the factors of the subsidiaries and the headquarters on the choice of manager were discussed. In the following sections, we will take a closer look at the qualities of the expatriate and host country national managers themselves. We will outline the multinational corporations' view on the benefits of expatriate managers versus those of the host country national managers. The issue of trust seems to be central in the choice of manager.

2.8.1 MNC's View on Expatriates

There are many empirical studies that focus on the benefits of expatriate managers from the point of view of the multinational corporations. Most of the studies that investigate the reasons that the multinationals choose to employ expatriate managers are based on interviews and offer similar results. However, it is important to review the findings of each of these researches to understand how these reasons have changed through time.

Edström & Galbraith (1977) were the first to identify three reasons for the use of expatriates in the foreign subsidiaries. The most frequently mentioned reason for the use of expatriate manager was the lack of qualified host country nationals. Scullion and Collings (2006, 159-78) suggest other reasons as well. These include the developmental aspect that it provides for the managers as well as the increased knowledge transfer between the headquarters and the subsidiary. Torbjörn (1982) also investigated the reasons for the expatriate employment five years later and found similar results. His sample, however, interviewed the expatriates that were Swedish. His results suggested that multinational corporations prefer to use expatriate managers whenever the stricter control is needed in the foreign subsidiaries. According to Peterson (2002), Torbjörn's study (1982) shows that expatriates are trained to make sure that the operations get carried out as planned.

Shay & Back (2004) and Delios & Björkman (2000) also reported similar results. Their results give support to the claim that expatriate managers are useful when the purpose of the multinationals is to align the subsidiary operations to match those of the headquarters. In these cases of subsidiary integration to the parent company, the expatriate managers are viewed to have the upper hand because of their familiarity with the company's values. Rosenzweig & Singh (1991) studied this topic as well and conclude that these pressures for the subsidiary integration are also associated with the increased need for stricter control in the subsidiary. This implies that subsidiary integration is more important to those subsidiaries that prefer to use expatriate managers.

There more recent studies that have investigated the reasons for the use of expatriate managers provide similar results than those of the earlier ones. However, in the last few decades, there has been a shift in the importance of these reasons. Sparrow et al. (2004) found that the choice of manager to the foreign subsidiary is nowadays most commonly related to the development of the manager's talent and experience. The lack of qualified host country nationals is not as important reason anymore, since there has been increase in the amount of highly educated candidates in every country (Scullion 2006, 173-78). The Figure 8 summarizes the reasons that explain the employment of expatriate managers to foreign subsidiaries.

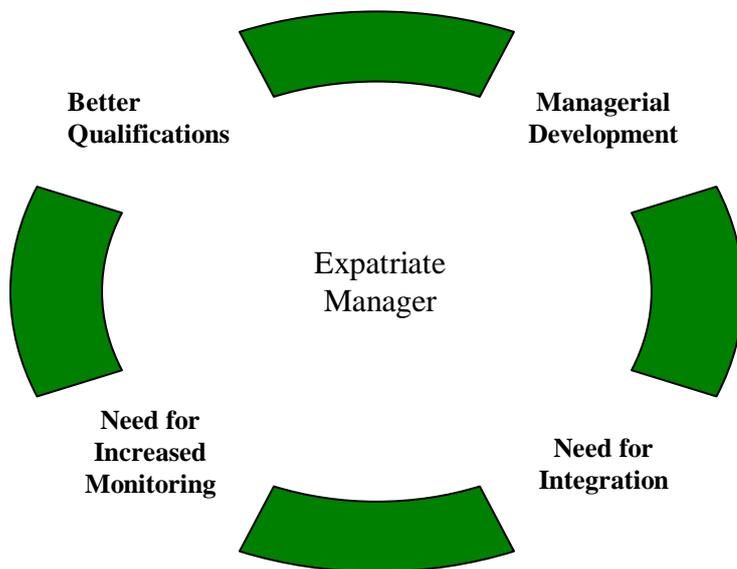


Figure 8. Illustration of the reasons for choosing expatriate manager (modified from Edström & Galbraith 1977, Torbjörn 1982, Rosenzweig & Singh 1991, Delios & Björkman 2000, Peterson 2002, Shay & Back 2004, Sparrow et al. 2004, Scullion and Collings 2006).

2.8.2 Importance of Company Loyalty

Peterson (2002) points out that the findings of Torbjörn (1982)'s study suggest that the expatriate managers are viewed as more loyal to the organization and chosen to run the foreign subsidiaries to ensure that the staff would remain loyal. Furnham & Bochner (1986, 50-55) also refer back to Torbjörn's research. They suggest discuss that the expatriates are used to provide technological and administrative services and to transfer information between the headquarters and the subsidiary. Stening & Everett (1984) conducted similar study but instead the sample consisted of British, American, and Japanese multinationals that had Singaporean subsidiaries. Their research clearly revealed

that the multinational corporations, in fact, did not trust the local managers. This point of view explains why the use of expatriate is popular even when there are technically talented host country nationals available.

Mostly the company loyalty of the expatriate managers has been taken from a face value. The multinational corporations are argued to generally believe that the expatriate managers are more loyal towards the organization. Bahai & Reisel (1993) have tested the correctness of this assumption. Their results findings indicated that the nationality of the employee had, indeed, a strong impact on the company loyalty. Therefore, the assumption that the parent country national managers would be more loyal to the country might sometimes be the case. This finding helps to explain why expatriates are used in most of the important subsidiaries. However, it is important to be critical to this claim because the multinational corporations do not discriminate between the employees.

2.8.3 MNC's view on Host Country Nationals

The host country national managers have received considerably less attention than the expatriate managers amongst the academics. Harzing (for example, Harzing 2001, Harzing & Ruysseveldt 2005) has recently published many journals that aim to fill this gap. Her contribution is notable in the field of management practices. However, she has received some criticisms due to the rather theoretical approach to the subject field. Most of the empirical support to Harzing's theories comes from mail surveys. In one of her surveys with a sample of 2689 managing directors from over 200 multinational corporations investigated the reasons for the use of host country nationals. These reasons include their familiarity with the local market and the lower cost associated with the local managers.

Peterson (2002) also investigated the use of host country nationals. His interviews with 46 European and American multinational corporate representatives examined the subsidiaries located in Central and Eastern Europe. He found that the host country national managers were commonly used in Europe. Peterson (2002) found that the benefits of host country nationals that were important to the multinational corporations were the technical expertise and the superior knowledge of the local politics and businesses that they possessed.

Peterson (2002) showed with his research that the European firms were generally willing to employ European citizens outside the host country of the parent company. Peterson pointed that the host country national managers based in Europe almost always had a common language with the headquarters. This suggests of the importance of a shared language between the parent company and its managers.

Interestingly, the studies that examine the subsidiaries of European firms have focused on the benefits of host country national managers (Harzing 2001, Harzing & Ruysseveldt 2005 and Peterson 2002). The expatriate managers seem to be covered more by the American researchers. However, there are quite few studies that focus on the reasons for host country national employment. The comparisons between the use of expatriate and host country national managers is yet another area that remains not fully investigated among the researchers in general, which we previously identified as the research gap in this thesis.

Figure 9 lists the reasons for choosing a host country national manager to run a foreign subsidiary that are identified in the previous empirical studies. The local knowledge, cheaper cost and technical qualifications are among the most important findings. The host country nationals were also frequently reported to be able to communicate with the

headquarters by sharing a common language (Harzing 2001, Harzing & Ruysseveldt 2005 and Peterson 2002).

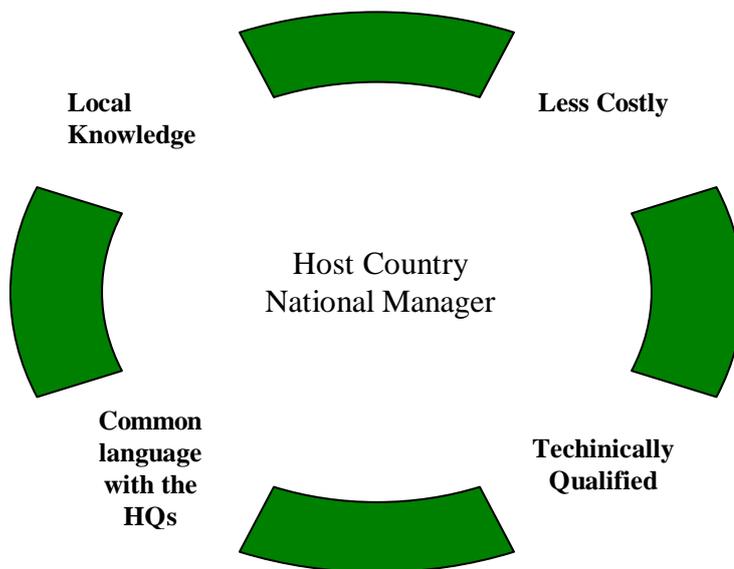


Figure 9. Illustration of the reasons for choosing host country national manager (modified from Harzing 2001, Harzing & Ruysseveldt 2005 and Peterson 2002).

2.9 Summary and Future Aspects

The purpose of this literature review was to explore the factors that the multinational corporations take into account in their choice of manager to control the foreign subsidiaries. The empirical studies of the subsidiary control in multinational corporations seem to suggest to a large extent that the multinational corporations view the expatriate managers as more trustworthy than the host country national managers. However, there is a trend towards the use of host country national managers. It is likely that with the globalization, the multinationals will have more linkages to foreign countries, which in turn strengthen the trust of multinationals towards the locals. This would increase the

employment of the host country nationals as suggested by Belderbos & Heijltjes (2005). The organizational experience in whichever country had a strong positive effect on the use of host country national managers in the other subsidiaries of the multinational corporation as well (ibid).

There has been plenty of discussion about the current trends in this field. As the lack of technical expertise of host country nationals is not a major reason to turn to expatriate managers anymore (Peterson et al. (2000), the general trend seems to be towards host country nationals or even the third-country nationals. Harzing (2001), Peterson et al. (2000) and Bebenroth et al. (2008) all found that there is a decreasing trend in the use of expatriates in the Western European and English-speaking countries. In Asian multinationals the use of expatriate managers, however, remains high. The increased political pressures on the multinational corporations, for example to provide career opportunities to their local staff, also might have had an effect on the staffing decisions of multinational corporations (Harzing 2001, Peterson et al. 2000 and Bebenroth et al. 2008).

Mayrhofer & Brewster (1996), however, did express some disagreement about the idea that the use of expatriate managers is decreasing. They argued that the use of expatriates is more frequent when strict control is required. Harzing (2001) and Belderbos & Heijltjes (2005) have actually also found that the use of expatriate managers is largely due to control and coordination. It would be safe to conclude that at least the use of expatriates due to lack of technically qualified host country nationals is decreasing, but the control function of the expatriates still remains. The trend is towards the use of host country national managers or even global managers.

The Figure 10 gives a summary of the factors that remain open to question among the researchers. The effects of the physical distance, high cultural difference and the subsidiary age are contradicting in different empirical studies.

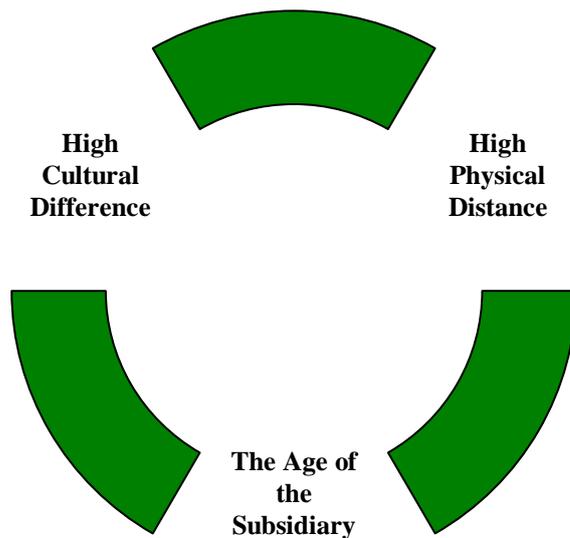


Figure 10. Illustration of the factors that remain the most contradicting among the researches (modified from Mayrhofer & Brewster 1996, Peterson et al. 2000, Harzing 2001, Belderbos & Heijltjes 2005, and Bebenroth et al. 2008).

3. THEORETICAL FRAMEWORK

In this section, we will establish a theoretical framework that might help explain how multinational corporations choose their managers to foreign subsidiaries. Our model is formed based on Perlmutter's staffing policy, Volkmar's theory (2003) and results of the separate empirical studies. There seems to be three important criteria that ultimately help predict the choice of manager in the multinational corporations. We will go through these criteria in the following subchapters.

3.1 Centralized control

The first criterion that affects the choice of manager is the need for centralized form of control in the subsidiary. Most of the empirical results seem to suggest that certain factors increase the use of expatriate managers. These studies often explain their results with the common assumption that the expatriate managers offer stricter form of control in the subsidiary. Based on these assumption and researches, we predict that the need for centralized form of control predicts that expatriate managers will be chosen in these cases.

There are multiple situations where the centralized control method is preferred by the multinational corporations. These situations occur when the subsidiary is underperforms and the multinational has to exert stricter control to make sure that money will not be lost. Similarly, the subsidiaries which lack the language competence and are physically and culturally more distant from the headquarters require increased control to ensure that the subsidiary is able to execute the orders from the headquarters. This is one possible explanation to the increased use of expatriate control in the developing countries as Storey (2007, 357-59) has suggested.

The subsidiaries that are of higher importance to the multinationals also deserve increased control. Some of the factors that make the subsidiary more valuable to the organization included the subsidiary size, ownership structure and the specific knowledge in the subsidiary. The need for centralized form of control also varies across the multinational corporations. Certain multinational corporations prefer to control their subsidiaries more tightly than the others. The empirical studies, such as Gong (2002), Harzing & Ruysseveldt (2005) and Bebenroth et al. (2008), suggest that this is the case in those multinationals whose national cultures are uncertainty avoidant and high power

distant. The international experience that the multinational corporations possess also affects their management decisions.

3.2 International Experience

The second criterion that affects the choice of manager is the familiarity with working abroad in the multinationals. Similarly to Belderbos & Heijltjes (2005), we suggest that the use of host country nationals increases with the organizational experience in foreign subsidiaries. We base this criterion on the assumption that the host country nationals are the natural choice to manage the foreign subsidiaries.

We do not go as far as to suggest that the host country national managers are generally more able to run the subsidiary than their expatriate counterparts. Even though, the expatriate failure rates are generally high and Volkmar (2003) did emphasize that in most cases the national managers are better suited to manage the subsidiary. Volkmar's theory (2003) suggests that in the cases of perceived low legitimacy, the organizational changes require a host country national in charge. However, our theoretical framework suggests that the host country national managers are very attractive for the multinational corporations. For example, we argue the host country national managers are more able to control the local staff as well as more familiar with the culture in the subsidiary. Since the cost of host country national managers is also less, the organizations should in theory be more willing to turn to the host country nationals.

There are also other factors that make the choice of host country nationals as subsidiary managers appealing. The local laws and political pressure to employ host country nationals are another reason why the multinationals should prefer locals. Therefore, we assume that the main reason for not employing the host country nationals is the multinational's preference for centralized decision making and lack of trust in the locals.

We argue that the increased knowledge of the international operations abroad will make the multinational corporations more trusting towards host country nationals. We, therefore, argue that the more internationally-experienced companies are more willing to use the locals as their subsidiary manager. This assumption has another implication as well. Since the organizations are becoming increasingly more internationalized, we predict that the use of host country nationals will rise in the future. The final factor also helps to explain why the amount of host country nationals might rise.

3.3 The Expatriate-specific tasks

The third criterion that contributes to the choice of manager is the cases where host country national managers cannot be used. These tasks are usually specifically designed for the expatriate managers, hence the title. Since we have assumed that the multinational corporation's first choice is to employ the host country national managers, the third criterion covers those cases when they cannot be chosen.

The expatriate-specific tasks are often developmental or technical in nature. For example, sometimes multinational corporations exclusively hire expatriate managers to develop their leadership abilities. Other cases of expatriate-specific tasks include the lack of technically qualified locals. When the multinational corporation want to embed the corporate culture of the organization into the foreign subsidiaries, this is more easily done with the help of expatriate managers from the headquarters than with the host country national managers.

Based on these three criteria, we have formed our framework. The Figure 11 expresses the main points that have emerged from our discussion. The review of previous empirical results suggests that the choice of manager should take the culture into account, since

only those expatriates contribute to the control of a foreign subsidiary that can adjust to the culture. The utilization of host country national managers seems to be the current trend; however expatriates still remain the multinationals choice whenever tighter control is needed in the subsidiary. We suggest that the multinational corporations that are our cases are more likely to use host country national managers because of their internal expertise. Canon Inc. is an uncertainty avoidant multinational corporation, which means that we predict that in the company there is also some centralized form of control. However, based on our predictions the effect of international experience is likely to be the strongest. With the case of Nordic Cjif Oy, we predict because they have less years of international experience that the use of expatriate managers is common.

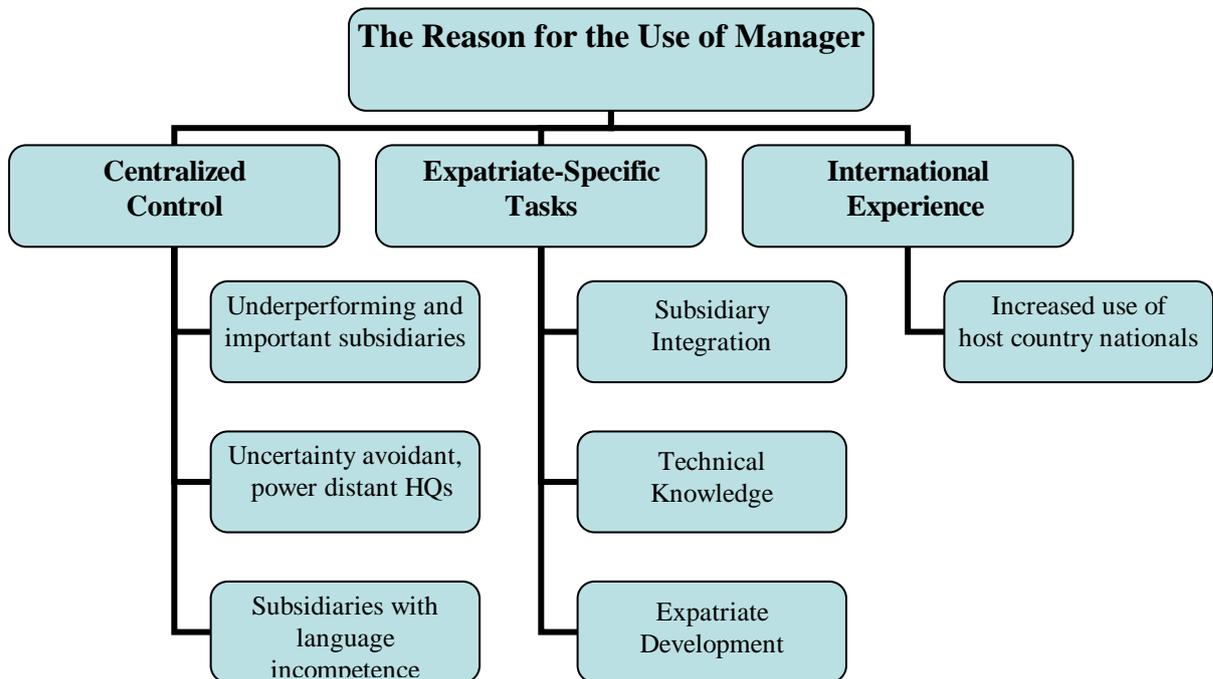


Figure 11. The theoretical framework in this thesis.

4. RESEARCH METHODOLOGY

4.1 The Choice of Methodology and Case Companies

This chapter explains the research methodology and data collection. It clarifies how the data has been analyzed and generalized. It deals with the issues of research validity and reliability. The study was qualitative multiple-case study. The data was collected through personal and phone interviews.

According to Yin (2003, 1-11), there are five different research strategies> case study, experiments, surveys, histories and archival analysis. The chosen method to investigate this subject was a qualitative case study. The case study is considered suitable when there is a *how* or *why* question about a situation over which the examiner has little or no control (ibid). The quantitative methods were not chosen, because we did not have a clear theory that we wanted to test. Instead, we focused to examine the reasons behind the management choices. Therefore, the qualitative method suited this thesis because it allowed insights into the topic (Merriam 1998, 6). On the other hand, the information obtained with qualitative method is subjective and objective. The examiner also has no control over how the multinational corporations decide on their choice of subsidiary managers. The case study has been criticized for the poor base of generalization as well as lack of rigor in the sense of allowing personal biases to influence the results. (Yin 2003, 1-13).

The research design chosen for this thesis was multiple-case design. It was chosen in order to compare and contrast the data of three different multinational corporations. Focus on three cases allowed us to look into the details of each of the interview while still able to contrast the data of the different cases. There are five things about the research design that are important to keep in mind especially for case studies. These are

the questions of the study, the propositions, the units of analysis, the logic linking data to propositions as well as the criteria for interpreting the findings. (Yin 2003, 19-23).

Study proposition and unit analysis are concerned with focusing on the aspect that should be examined (ibid, 20-23). In this thesis, the subject of examination will be the factors that determine the choice of subsidiary manager in multinational corporations. The logic linking of the data and criteria for interpreting the findings in this thesis will be organizing the main contents of the interview data into the categories of the framework. The data will then be analyzed in the light of this framework. The purpose of this research is to develop a framework of the factors that affect the choice of subsidiary manager in multinational corporations.

Canon Inc., KONE Corporation and Nordic Cjf Oy were the cases chosen for this study. The cases of this study were chosen by opportunity amongst multinational companies that were either Finnish or had their subsidiaries in Finland. The case companies were chosen so that they would represent different aspects of the theoretical framework. The sample was chosen by convenience and opportunity. Canon Inc. was chosen because it can be seen to represent centralized control aspect of the framework. This is because Canon Inc. can be viewed as a typical Japanese based multinational that values centralized form of control. KONE Corporation, on the other hand, represents an internationally experienced company and is based in Finland, where centralized forms of control are not so dominant. Since the other companies had plenty of international experience, Nordic Cjf Oy was to chosen because it relatively newly established international company.

There are six important data collection methods that are common in case studies. These are interviews, documents, archival records, direct observations, participant observation and physical artefacts. (Yin, 2003, 85-97). The data collection method for this research

was semi-structured interviews with the representatives of different multinational corporations. The reasons for choosing the interview method include the possibility to target the questions directly to the research question as well as the possibility to obtain insightful data. Secondary data was collected from the annual reports and websites of the case companies. We gathered data about the reasons that affect the management choices in the multinational corporations. In the semi-structured interviews, the themes are prepared beforehand by the interviewer but there remains possibility to ask clarifying questions. Semi-structured interview suited this study because it allowed for clarifying questions as well as discussion of the themes relevant to the research objective. Another benefit of this data collection method is the conversational setting, which allows comprehensive and in-depth knowledge about the topic. Similar amount of information would not have been possible with questionnaires, for example.

4.2 Reliability and Validity

Since the research method was a multiple-design case study, there are possible bias from both the researcher and interviewees. For example, the representative of Canon Inc was a marketing manager, who was not from the headquarters of the multinational corporations. This means that his answers might differ from the actual point of view of the multinational corporation. The results of the case studies are not easily generalized because they do not represent a balanced sample.

Because the interviews are objective, the reliability of the results received with this method can be questioned. There is the possibility of researcher bias and bias due to poorly structured interview questions. This means the researcher has room for his own interpretation of the results. The researcher might not always be objective but instead allow his expectations to influence the perception of the answers. The interviews were not verbally recorded; instead notes were taken about the key contents. To cope with

this limitation, the questions were quite strictly structured before the interviews and the goal was to limit the amount of clarifying questions in order to not lead the interviewee. Lincoln and Guba (1985, 36-38) have suggested that the reliability of the interview is based on credibility, transferability, dependability and conformability (Morrow 2005).

The credibility is determined by internal validity in the unity of theoretical conclusions, concepts and data. In this thesis, this is achieved by following the developed theoretical framework. External validity establishes the transferability, which is the degree of generalization of the results of the empirical study beyond the contexts of the research (Morrow 2005). In this study, the cases studies were tested based on the assumptions of the previous research findings. Even though the cases themselves do not represent a sample that can be easily generalized, the purpose of the research is to suggest factors that have an effect on the choice of manager. In this sense, there is no strict theory being formulated but rather factors being suggested. This should mean that these results can be generalized as possible factors that can influence the choice of subsidiary manager. The conformability refers to the degree that others can verify the results (ibid). To ensure this, the data was discussed with two fellow students.

Dependability describes the reliability of the results. It is possible that if someone is to replicate this research, they might not come up with the same results. There might be some researcher bias in interpreting the answers. However, my findings were mainly similar to those factors that the previous researchers have also found before. Therefore, there is similarity in the findings, which means that there is likely to be quite similar results if the study is to be replicated.

The subjects of the interviews might also provide biased information. Occasionally interviewees might tell the researcher what he/she wants to hear or give a biased opinion. However, in this study we are interested in the opinions in the multinational

corporations, which means that the case study is the ideal method to gain insights to the values of the companies. Nevertheless, we keep in mind that the interviewees might not give their real opinions on the subject matter. There is also possibility of inaccuracies due to imperfect documentation of the interviews.

The generalization of the results is also rather limited, because we gathered data from a sample that is not representative of the population of multinational corporations. However, the purpose of this thesis was not to form a theory. Instead, the data of the case studies was sufficient for the purpose of this thesis, which is to add more information to the framework. The framework itself is a suggestion on how companies choose their managers to foreign subsidiaries. The aim of the data was to develop this suggestive framework a bit further. This framework, then, might later on be empirically tested in the future studies.

The first interview was a phone interview with a marketing manager of Canon Inc. in Helsinki. The subject of the interview was 50 years-old and has 20 years of working experience from Canon Inc. The interview that took place 23th of August 2009. The second interview was a personal interview with Susanne Skippari, who is Area HR Director in KONE Corporations. She has worked five months in her current job and she has worked two years as the Head of Talent Management. The interview took place in 2nd of September 2009. The last interviews were phone interviews with the CEO and assistant manager of the Nordic Cjf Oy. Dong Jie is the assistant manager of Nordic Cjf Oy and has been working in the company ever since it was funded. Beisong Wang is the CEO of Nordic Cjf Oy and also has working experience for many years. Their interviews took place 4rd of September 2009. The language of the interviews was English and the clarifying questions were seldom needed. The interviews lasted approximately an hour. The interview questions are found from the Appendix 1. The details about the interviewees are found from Appendix 2.

The data was analyzed and interpreted in the light of previous framework. The key contents of the interviews were organized under the three main aspects of the framework: centralized control, expatriate specific tasks and international experience. The key contents were then allocated under these three categories. A fourth category for the data naturally includes those themes that emerged but do not fit into any of the three aspects of framework. The key contents of the interviews were compared with assumptions. The case companies were also compared with each other. Data from secondary sources has been used in the analysis as well. For example, the value statements of the companies were also incorporated to the analysis.

5. EMPIRICAL FINDINGS

In this chapter, we will go through the results of the empirical part of this thesis. The results are organized under four sections. The first subchapter is about the centralized form of control. The second subchapter focuses on expatriate specific tasks. The third subchapter concentrates on the international experience of the case companies. The first three subchapters are based on the framework, whereas the last subchapter lists the data that does not fall under the framework.

5.1 Centralized control

In this subchapter, we will go true the data that was connected to the centralized control aspect of the framework. The preference for centralized form of control in the parent company as a possible factor on the choice of manager seemed to be relatively strong in Canon Inc. and present in Nordic Cjf Oy as well.

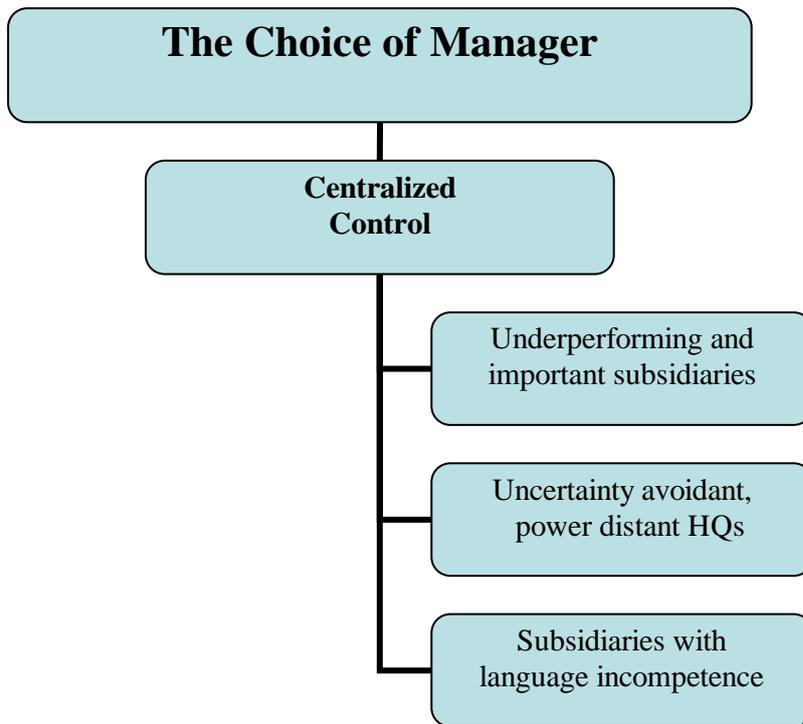


Figure 12. The aspect of centralized control in the theoretical framework.

The cultural dimensions in the country of the parent company were predicted to increase the use of centralized control in the corporation. Canon Inc. is a Japanese multinational corporation, which means that the parent culture is highly uncertainty avoidant. Nordic Cjf Oy, on the other hand, comes from a Chinese parent country culture, where there is high power distance. These two companies are, therefore, predicted to rely more strongly on the centralized form of control than KONE Corporation. KONE Corporation as a Finnish company comes from a parent culture that scores low on both uncertainty avoidance and power distance. The centralized form of control was shown to lead to increased use of expatriates, which means that there should be difference in the use of expatriates between the case companies.

The structure of Canon Inc. does indeed seem relatively hierarchical, which is typical for corporations that prefer centralized form of control. In Canon Inc. most of the top managers are Japanese. There is clearly a high level of Japanese top managers working in Canon Inc., but if we consider the overall structure, approximately 2/3 of the subsidiary managers are host country national managers. This is still not relative high figure of host country national managers. Therefore, there seems to be a preference to keep especially the top managers as parent country nationals. This implies that in Canon Inc., there might, indeed, be a preference for centralized form of control.

The headquarters of Canon Inc. frequently influence the actions of the subsidiaries. The corporation keeps most of the knowledge in the headquarters. The host country national managers, for example, commonly receive advice from the headquarters. The headquarters seek to maintain a form of control and awareness of what is going on in the subsidiaries. Therefore, even though Canon Inc. might often have host country national managers or presidents in charge of the foreign subsidiaries, these managers regularly receive advice from the parent country nationals. There are cases where the parent country national acts as a type of advisor for the manager who is from the host country.

Canon Inc. is quite typical Japanese manufacturing company that relies on centralized control to at least some extent. Most of the Japanese manufacturing companies have a rather centralized power structure. The Japanese corporations frequently use expatriate managers in their foreign subsidiaries. (Tung 1982, Kopp 1994). For example, in Canon Inc. most of the core knowledge is kept in the headquarters. The technical knowledge particularly is often developed and transferred from Japan to the subsidiaries.

Nordic Cjf Oy also employs relatively many expatriates. The Chinese national culture has a high power distance, which might be an explaining factor why the expatriates seem to be more frequently used in Nordic Cjf Oy than host country nationals. The majority of

the subsidiary managers for Nordic Cjf Oy are parent country national managers. Wang from Nordic Cjf Oy felt that they wanted to keep the structure of the corporation somewhat hierarchical. Therefore both Canon Inc. and Nordic Cjf Oy seemed to have a preference for at least certain degree of centralized form of control. KONE Corporation, on the other hand, chooses its managers based on competences, experiences and the results from the past.

KONE Corporation is a Finnish company and the national culture in Finland is not uncertainty avoidant or high power distant. These types of national cultures that are not uncertainty avoidant are thought to easily trust the employees despite the nationality and to readily embrace the differences (London 1995, 282). KONE Corporation has a vision to be a truly global company. Therefore, we assume that KONE tries to eliminate the differentiation between the choice of host country national manager and expatriate manager, while aiming to achieve the vision about a truly global corporation.

KONE Corporation has another way of controlling the subsidiary than just the manager. The corporation uses a reporting system for the control of the subsidiaries. KONE Corporation sets certain targets for the subsidiaries and the control systems help to monitor the subsidiaries. It might be the case that most of the multinational corporations do not actually need to control the foreign subsidiaries with the help of the managers anymore. Since the multinational corporations have well/developed reporting systems, they can assure enough control over their subsidiary without a controlling manager. The role of manager might have changed from what it used to be before the other forms of control systems. However, this is an assumption that should be tested in the future researches.

Both Canon Inc. and Nordic Cjf Oy have relative high amount of expatriate managers in their foreign subsidiaries. This supports the framework that both uncertainty avoidance

and power distance in the parent company culture might result to increased centralized control in the multinationals. This preference for centralized control is, in turn, associated with increased expatriate control in the foreign subsidiaries.

5.2 Expatriate specific tasks

In this subchapter, the contents of the data that are related to expatriate specific tasks is collected. This second aspect in the theoretical framework suggests that there are certain assignments that are restricted to the expatriate managers. These factors include the subsidiary integration with the parent company, the superior technical knowledge of the expatriates or the developmental aspect for expatriates. There were examples of each of these type of missions found from the data of the case companies.

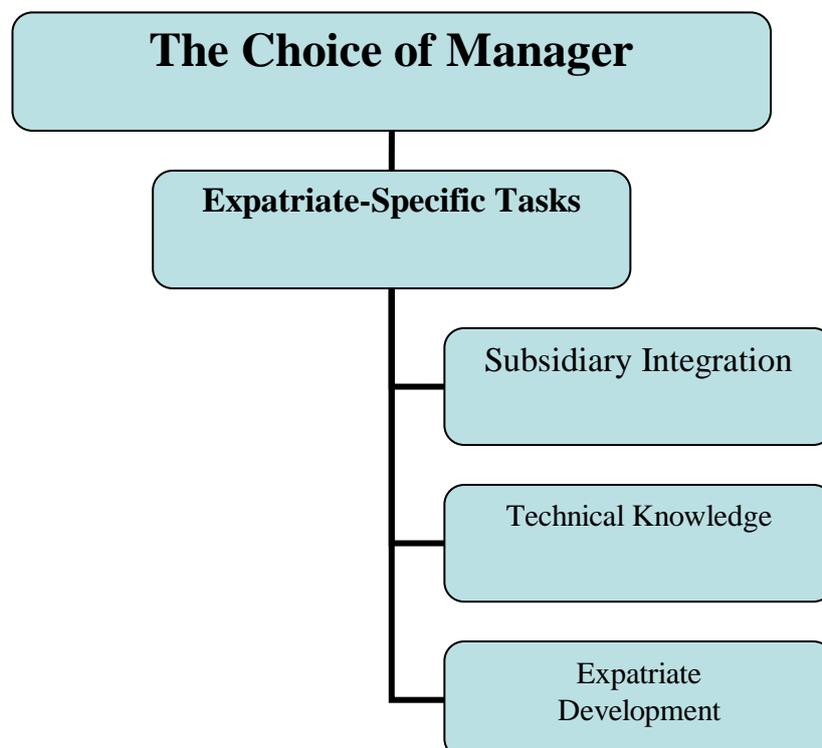


Figure 13. The aspect of expatriate specific tasks in the theoretical framework.

5.2.1 Subsidiary Integration

Multinational corporations generally spread the values of the corporate culture into their subsidiaries. The multinationals occasionally spread these values to their foreign subsidiaries with the help of expatriate managers. This is because the expatriate managers are generally more familiar with the corporate culture in the parent company. The expatriate managers might, therefore, be particularly useful in the missions that require a strong degree of subsidiary integration.

Canon Inc. seems to value the importance of subsidiary integration to a particularly great extent. Canon Inc. considers it important that the company values are present in all of its subsidiaries. The corporation does frequently use expatriate managers to help familiarize the employees in the foreign subsidiaries with the corporate culture of the parent company. The expatriate managers in Canon Inc. are viewed as successful in spreading the knowledge about the corporate culture into the foreign subsidiaries.

Wang from Nordic Cjf Oy also pointed out that expatriate managers are good at integrating the values of the headquarters into the subsidiary. Nordic Cjf Oy uses the expatriate managers to initially establish the desired corporate culture in the subsidiary. Corporate culture needs to be taught to the parent country national managers, which is not viewed as a fairly simple task. Nordic Cjf Oy considers that the expatriate managers know better how to make the foreign subsidiary similar to the parent company.

The results from Canon Inc. and Nordic Cjf Oy seem to support the idea that expatriate managers might be used frequently on the cases of subsidiary integration. However, Volkmar 2003 suggested that the host country national managers are suitable for this task as well. It seems though that the knowledge of the parent company as well as

knowledge of the local culture are both considered important. However, it is not clear which one is more helpful in implementing the corporate culture. The general view might be that the expatriate managers are better suited to this task.

All of the three case companies see the benefits of using expatriate managers to implement the corporate culture of the multinational corporations globally. Although, they all note that the implementation process does not necessarily require expatriate managers for the task. However, the companies see the expatriate managers as positive tools in this process of integration. The corporate culture can alternatively be realized in the meetings of the employees from different subsidiaries, which was common in Canon Inc. and Nordic Cjf Oy.

5.2.2 Technical Knowledge

In Canon Inc. the technical assignments of expatriate managers are fairly common. Since the technical knowledge is mainly concentrated in the national headquarters of Canon Inc., it is natural that the corporation often uses the expatriate managers in certain technical positions. Canon Inc. mainly uses the expatriate managers to carry out technical operations as well as for their analytical skills. Canon Inc., therefore considers the technical knowledge of the expatriates as one of the most important reasons for choosing expatriate managers. This finding directly questions the prediction that the use of expatriates is decreasing due to lack of local expertise (Peterson et al. 2000).

The technical knowledge is not always the only kind of superior knowledge that mainly the expatriate managers have. For example, Nordic Cjf Oy occasionally chooses expatriate managers because of their knowledge of their own national culture. One of the core competences in Nordic Cjf Oy is the knowledge of how to do business in China. This type of knowledge is part of the services that Nordic Cjf Oy offers for its customers.

Wang from Nordic Cjf Oy also pointed out that even though their managers need knowledge of the Chinese way of business, this needs to be combined with the local knowledge of the way of doing business in the subsidiaries. The process for choosing the subsidiary manager seems rather complex because there are many factors that need to be taken into account. The cultural knowledge is only part of the overall competence of the manager.

5.2.3 Expatriate Development

The expatriate development aspect also seems important in the three case companies. KONE Corporation seems not to pay much attention to the previous knowledge of international assignees about the subsidiary culture. KONE Corporation trusts that their chosen managers are able to overcome the obstacles as well as to get localized to their new environment. KONE Corporation provides cultural training before and during the assignment. KONE views this possibility from the perspective of personal development to the managers and seems to encourage the employment of the managers who are not initially familiar with the subsidiary. In Nordic Cjf Oy, the aspect of expatriate development was also highly valued.

Even though the knowledge of the local subsidiary is not required, it is still viewed as important to the success of the manager. Skippari from KONE Corporation explained that the knowledge of the local business scene that the host country national managers have of the subsidiary is viewed as a competence. Familiarity with the local business is considered part of the competences but it is not a must. KONE Corporation has also send people who are not familiar with the local market because they believe they can learn to understand the market in time. The case companies similarly recognize the value of understanding the local business scene. However, the multinational corporations might believe that their managers will be able to learn these things. Therefore, the level of

previous knowledge about the subsidiary company is not necessary to as great extent as it might initially seem.

It appears that sometimes the expatriate missions are specifically meant to develop the managers. Sometimes, sending expatriate managers to other place is to grow him or her as a leader. The four core values of KONE Corporation emphasize the passion for performance and winning together. The company wants its managers to grow and learn and the foreign missions are a great tool for personal development. Skippari notes that the target is to localize the position, so the expatriate should develop one of the local persons to be his/her successor and return or change position.

Nordic Cjf Oy similarly feels that the expatriate managers can take the adjustment to the subsidiary culture as a challenge. Even though it is an advantage to have connections in the local business scene, here are other factors that are considered more important in the manager. Nordic Cjf Oy trusts that their subsidiary managers have the abilities to adjust to their subsidiary. The expatriate managers are provided enough training to succeed despite previous knowledge about the culture. Even though cultural knowledge is important, it is not a requirement.

However, it also turns out that there are some host country national specific tasks as opposed to expatriate specific tasks. The requirements of the subsidiary culture, for example, can affect the choice of manager. These external factors are independent of the multinational corporation and occasionally the external situation makes it impossible for the multinational corporations to assign parent country nationals in charge of the foreign subsidiaries.

5.3 International Experience

The framework in this thesis suggests that the international experience increases the use of host country nationals. It was argued in the formation of the framework that host country national managers should be a preferred choice to the expatriate managers, for example because the costs of host country national managers are generally less. The framework suggested that unless the multinational corporation has a preference for centralized form of power or unless the task is specifically designed for expatriates, a host country national manager will be chosen.

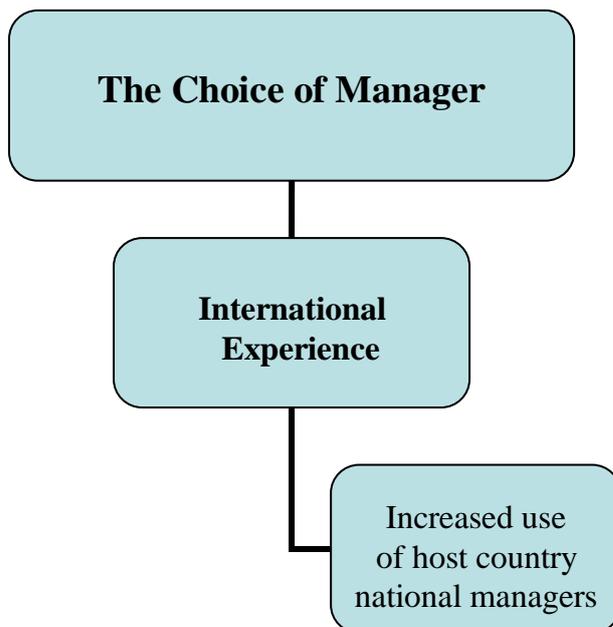


Figure 14. The aspect of international experience in the theoretical framework.

Canon Inc. and KONE Corporation are both an example of companies that have plenty of experience from previous international assignments. Nordic Cjf Oy, on the other hand, is relatively new in sending its managers to foreign subsidiaries. The previous experience

from international assignments in the light of the main contents of the interviews seemed not to support the assumption that the amount of host country nationals increases as the international experience grows. Even though some support to this claim was found, it was not to the same extent that it was predicted by the framework. There was no evidence that Canon Inc. or KONE Corporation is strongly increasing the use of host country national managers in the future.

Canon Inc. has operated in every continent and 2/3 of the managers are host country national managers. Even though Canon Inc. has plenty of experience on international assignments, the corporation still seems to rely on the expatriate managers despite its international experience. One explanation to this, based on the theoretical framework, is the possible desire for centralized control in Canon Inc. There might even be growth in the number of host country national managers in foreign subsidiaries. At least in Canon Europe, this seemed to be the case. However the data did not show whether the level of internationalization in Canon Inc. influences the choice of manager or not.

KONE Corporation also has plenty of experience from international assignments. The corporation has about 100 international assignees around the world on regular basis. KONE Corporation can, therefore, be seen to have plenty of experience on international assignments. On the other hand, Nordic Cjf Oy has relatively little experience of international assignments. Interestingly, in Nordic Cjf Oy, there has been talk that the use of host country nationals will increase in the corporation in the future. However, currently the expatriate managers are more common in the organization. This might imply that the international experience might also be a factor, at least in the case of Nordic Cjf Oy. However, the data from the other two companies does not let us to draw conclusions about how international experience has affected the choice of manager.

In Canon Inc, there is a high level of expatriate managers and it is not certain if the amount of host country managers will start to increase. However, at least in the case of newly established companies, expatriate managers might be occasionally used due to convenience and lack of established networks in the subsidiary country. Wang from Nordic Cjf Oy noted that they will choose more host country national managers in the future but they prefer to establish themselves better in their current subsidiaries before that. He also confirmed that in his opinion the knowledge of other international assignments increases the likelihood of hiring host country national managers.

It seems that the experience of previous international assignments in some cases increases the use of host country nationals. This is at least the case in Nordic Cjf Oy. However, in the other case companies, this was not as clear. The underlying theoretical assumption in the framework was that the companies ultimately prefer to hire host country national managers, because of their cheap cost for example. However, none of the case companies felt that the host country national manager is a better choice than the expatriate manager. Even though the companies identified that the main reason for possible failures is probably due to problems of expatriate adaptation with culture in the subsidiary, the host country nationals were not viewed that have any upper hand. It seems that the third aspect of the framework might be worth reconsidering. It seems that there are other factors that affect the choice of manager to greater extend.

5.4 Alternative factors

In this subchapter, we go through the factors that emerged during the interviews but that do not belong too closely to any of the previous aspects in the framework. These include the importance of the personality of the manager and the prevailing market situation.

All the case companies seem surprisingly indifferent about the distinction of choice of manager between the host country national manager and expatriate manager. The case companies seemed not to consider that as important and they did not seem to differentiate between the two. Even though, the host country national managers have more knowledge about the local business scene, this is viewed as only one part of the overall competencies of the manager candidate. Instead, the choice of manager is more influenced by other aspects that are more important in the choice of manager.

It appears that the case companies are particularly interested in the managers as individuals with unique competences. Rather than focusing solely on the subsidiary culture, the market situation can also be considered as important in the choice of managers. The subsidiary managers are chosen based on their abilities to control the current market situation. The market situation is a new idea that was not mentioned in our framework. However, market situation is clearly important with the choice of suitable manager in the foreign subsidiaries.

The representative of Canon Inc. talked about the importance of the individual qualities of the managers. Aittomäki saw the leadership and management skills as important for the managers. The representatives for Nordic Cjf Oy and KONE Corporation also mentioned that the management qualities are important. Aittomäki pointed out that, however, it is rather vague what is meant by leadership qualities. In Canon Inc., they have a certain type of person that they are looking for. Especially the importance of social skills is crucial in the Canon Inc. managers. The contents of the interviews revealed that the importance of the personal skills portfolio in the manager candidate should be added to the framework.

The subsidiary managers are chosen by comparing the competences of the managers in order to determine which manager is more suitable to the specific subsidiary role. KONE uses these competences of the managers as well their work experience and their past

performance to help make the decision. The assessment of the candidates is important in the selection process. KONE Corporation has its own criteria for each subsidiary role. The choice of manager is also not dependent on only one person but rather a result of assessment and discussion. The choice of manager also sometimes depends on the market situation. For example, if the market situation is more dynamic, then a manager who is more of a challenger is preferred. If the market situation is more stable, a manager capable to refresh and develop the organization is preferred.

Another factor that might influence the choice of manager was discovered in the interview with the representative of Canon Inc. Canon Inc. sometimes uses expatriate managers in the foreign subsidiaries in order to form better relations with the subsidiaries. For Canon Inc. it is important to know what is going on its subsidiaries and to increase the knowledge flow between the subsidiaries and headquarters. Canon Inc, therefore, seeks to increase the communication between the headquarters and its subsidiaries. Sharing of the knowledge and competences is viewed as particularly important. The company wants to ensure that the knowledge is spread evenly around its units and does not remain in only one particular subsidiary. The role of expatriate as a subsidiary manager is taught to increase the knowledge sharing between the subsidiaries and headquarters.

All of the three case companies emphasize the specific competences of the managers and especially the social skills. The nationality of the manager seems to be irrelevant. The previous results of the manager candidate were viewed as important. The market situation was also a subject under consideration when deciding on the subsidiary manager. Occasionally the expatriate managers were used to increase communication and knowledge sharing between the subsidiaries and headquarters as well. Therefore, the personal competences of the managers, need for increased knowledge sharing as well as

the market situation should be included in the framework as determining factors in the selection of subsidiary managers.

6. DISCUSSION AND ANALYSIS

In this chapter, we will analyze the findings of the empirical study. The findings are compared with the previous studies and literature in the light of the theoretical framework of chapter three.

The first aspect of the theoretical framework was concerned with the preferences for centralized control in the multinational corporations. For example, Canon Inc. seems to prefer to use centralized form of control. This means that most of the top managers in Canon Inc. are parent country nationals and that the use of expatriate managers is quite common. The preference for centralized control is actually quite typical for the Japanese manufacturers (Steers & Nardon 2006, 280-85). Japan is characterized by high uncertainty avoidance according to Hofstede's four cultural dimensions (Lane et al. 2003, 258-59). The uncertainty avoidant countries generally rely more on the centralized form of control. The multinational corporations, whose headquarters that are uncertainty avoidant, do not easily trust the host country nationals (ibid). They prefer to have centralized form of control. This might help explain why Peterson (2002) research found that the use of host country nationals is very common in European multinational firms. Peterson (2002) and Harzing (2001) have both concluded that there are differences in the use of expatriates. Japan and Germany are the leading employers of expatriate managers. Both Japan and Germany are also examples of countries in which there is high uncertainty avoidance.

The national culture in KONE Corporation, on the other hand, does not have as high uncertainty avoidance. It has been argued that countries with low uncertainty avoidance are more trusting in their operations (Steers & Nardon 2006, 280-88). The representative of KONE Corporation stated that they feel that there is no difference in the loyalties of the host country nationals or parent country nationals. Instead, KONE Corporation visions to be a truly global company, where these differences are valued.

The expatriate specific tasks were another consideration based on the framework. The subsidiary integration is common in the case companies and the expatriate managers were seen as an advantage but not as a necessity. The knowledge of culture in the subsidiary country has two different aspects: a benefit and a challenge. The knowledge that the host country national managers have on the local business scene is recognized as an advantage by the case companies. However, this is only small part of the overall competence portfolio of the manager. Interestingly, the case companies occasionally view the lack of previous knowledge about the subsidiary culture positively. It was seen as a challenge for the expatriate managers. The case companies valued the possibility to develop the personal and leadership qualities of the expatriate managers. This surprising result might be explained by companies being able to control their subsidiaries in other ways. Most of the companies might use control systems to the extent that the manager is not needed to solely regulate the foreign subsidiary. If this is the case, it implies that role of the expatriate assignments in the future will increase in the importance of the developmental opportunity that it provides for the managers.

All of the case companies, however, understand the importance of the cultural knowledge. The case companies provide their expatriate managers with cultural training as well as give them time to adjust to the host county. The rare cases of failures that were recognized by the representatives of the case companies as lack of cultural knowledge and time to adjust For Nordic Cjf Oy, the knowledge about the parent

country is also important because it is part of their services. This means that occasionally the nationality has an effect but only as a part of the overall competence. It seems that the case companies trust that their chosen expatriate managers are able to get localized to the subsidiary.

The international experience was the last part of the framework. The previous framework suggested that the host country national managers would be the first choice of the multinational corporations, except in the case of corporations that prefer centralized control or need expatriates for expatriate-specific missions. There was no sign that this is the case. It was predicted Nordic Cjf Oy prefers to employ more expatriate managers because they have less years of international experience. In fact, the representative of Nordic Cjf Oy confirmed this to certain extent. He said that the expatriate managers are frequently chosen, for example for the convenience reasons. He also mentioned that in the future, they plan to employ more host country national managers as their experience on international assignments increases. However, Canon Inc. seemed not to use too many host country national managers regardless of the strong experience of operating in all of the continents. The centralized form of control might explain why this was not the case in Canon Inc.

The issue of trust and company loyalty was not noted in our data. Schniederjans (1998, 37-40) and Stening & Everett (1984) have argued that multinational companies occasionally employ the expatriate managers based on trust. Bahai & Reisel (1993) provided some support to this claim by confirming that nationality has an effect on the company loyalty. These suspicions have been argued to depend, for example, on the level of uncertainty avoidance in the national culture of the multinational company. It should also be noted that even though Bahai & Reisel (1993) showed that nationalities have a strong influence on loyalty, the uncertainty avoidant multinational corporations might prefer to use expatriate managers for other reasons. The uncertainty avoidant

multinationals might trust the local managers but still prefer to keep a centralized form of control in the company. The findings from our empirical part, however, indicated that the case companies do not perceive any difference between the host country manager and expatriate manager.

The individual competences of the managers emerged as one of the most important themes from the three cases. Little if any emphasis was placed on the differences of the expatriate and host country national manager. The emphasis was on the personal competences of the managers and how well they suit the role and subsidiary. The assessment tests were an important tool that was used to find the most suitable candidate for the foreign subsidiary for all of the three companies. The market situation was also used to evaluate the suitability of the candidates to the managerial role.

Even though data collected from three unique cases is not easily generalized, we use the results of this case with the findings of the previous research to suggest a new revised theoretical framework. The framework suggests some of the factors that might be important when the multinational corporations decide on the manager of a foreign subsidiary. Since the previous theoretical framework was based on previous researches and the current findings were mostly aligned with the existing literature, the revised framework should have common elements that make it more applicable to other big multinational corporations.

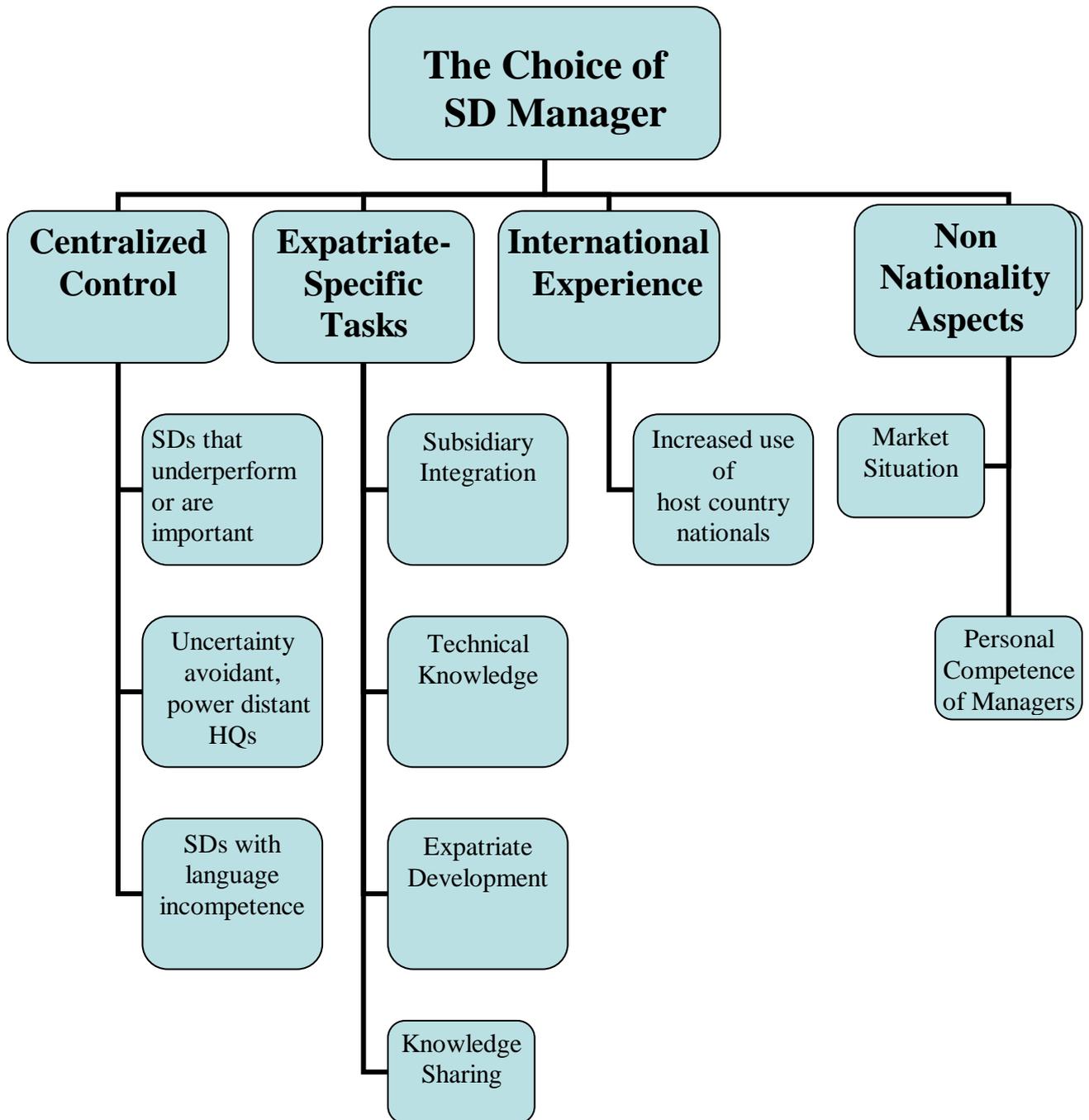


Figure 15. The revised theoretical framework, which sees the choice of subsidiary manager as dependent on the degree of centralized form of control, degree of expatriate specific task, degree of international experience as well as non-nationality factors.

7. SUMMARY, CONCLUSION AND RECOMMENDATIONS

This chapter is divided into three subchapters. The first subchapter is a brief summary of the whole research project, which covers the motivation, theoretical part and research method and a summary of the main findings of the empirical part. The second subchapter discusses practical implications and contributions to the theory of control in foreign subsidiaries of multinational corporations. The final subchapter covers the suggestions that are given for future research.

7.1. Main Findings and Theoretical Contribution

This thesis discussed why companies prefer to choose either the host country national manager or the expatriate manager to control a foreign subsidiary. We looked at the staffing choices in the international human resource management literature as well as studies on the subsidiary control to find answers for this question. The main limitation of this thesis is that it leaves a lot of the interrelations between the factors that affect the choice of manager unexamined. This thesis also did not examine the actual performance of the manager to determine what kind of manager is more suitable to certain subsidiary position. Instead, this thesis looked at the reasons of the multinational corporations. Since the research method was a multiple-design case study, there are possible bias from both the researcher and interviewees. This means that the validity and reliability of the results are open to question.

The main finding of this thesis was the multinational corporations make their choices about the subsidiary managers based on the individual competences of the managers. The differences of expatriate managers and host country national managers are rather

irrelevant for our case companies, even though sometimes certain subsidiary environments make a difference to this choice. The case companies, however, prefer not to differentiate between the two managers and have similar selection processes for both of them.

Canon Inc. represented a typical Japanese manufacture company, where the centralized form of control is persistent. Nordic Cjf Oy on the other hand was an example of a Chinese company that also preferred centralized form of control in the corporation. The expatriate managers are common in this form of control. However, it seems most multinational corporations have control systems that make the role of the subsidiary manager less solitary. This means that the role of subsidiary manager is not one of sole control anymore. Therefore, the expatriate tasks seem to be increasingly viewed as important opportunities for the managers of the company to develop their leadership abilities as well as other personal skills.

The market situation and the personal competences of the managers were frequently the determining factor in the choice of subsidiary manager. Assessment tests as well as previous performance of the managerial candidates were emphasized in the selection process. The success rates of the chosen managers were particularly high and possible problems were mostly related to lack of time for the expatriate managers to adjust to the host country. Overall, the cultural factors lacked the importance on the choice of manager that they were initially assumed to have in the framework.

The whole assumption that the differences of the host country national managers and the expatriate managers are significant was shown to be wrong. These findings contribute to theory by suggesting that mainly the individual competences of the managers are important. The three cases were rather different and the parent country national culture seemed to have an effect on the choice of manager because they had different preference

for centralized control. Our findings describe the three individual case companies; however we are quite safe to assume that most of the multinational corporations feel indifferent about the choice between expatriate manager and host country manager.

7.2 Managerial Implications

This subchapter discusses about the managerial implications that this thesis was able to provide. Since the results are based on three separate cases, we discuss the generalization of the implications as well.

This thesis implies that the multinational corporations do, to certain extent, prefer (if they have not yet) to move away from the differentiation between the parent country managers and host country national managers. The literature review seemed to suggest that the companies are not as neutral towards the different nationalities of the managers as the results of this empirical study suggest. For example, Bahai & Reisel (1993) previously showed that nationality has important effect on the company loyalty. However, the results of this thesis confirm that this is not the case. This implies that the multinational corporations base their decision mainly on the individual competences of the manager, which they seek to assess. This means that the different assessment tests have become increasingly important. Similar emphasis on assessment tests is quite common in other multinational corporations as well, which seems to suggest that other multinationals are quite similar in their decision-making.

The Canon Inc. case was an example of rather centralized multinational corporation. For example, Peterson (2002), Gong (2002) and Bebenroth et al. (2008) reported similar results from their experiments that most uncertainty avoidant corporations do prefer the centralized form of control. Our results, therefore, imply that in certain multinational corporations, where there is high uncertainty avoidance, there is a strong preference to

control the subsidiary hierarchically. There might be multinational corporations that prefer to use expatriate managers to ensure stricter form of control. However, this is not likely to be a matter of trust according to our findings since the case companies saw no differences in the loyalties of the employees of different nationalities.

Our results imply that the role of nationality, however, is irrelevant. The case companies trust both the expatriate and host country national manager equally. For example, KONE Corporation expressed its vision to be truly a global company. These results imply that it is likely that the multinational corporations currently aim to become more global and to stop differentiation between the employees based on factors, such as nationality. This is a highly positive direction for the multinational corporations.

To conclude, the multinational corporations are taking a global perspective to the choice of manager. Each manager is assessed based on individual competences and the element of managerial development is important. As there seems to be increasing control in the headquarters to control their subsidiary, for example, through cultural controls system. Our results imply that other multinational corporations should also have a control system that allows the corporation to monitor the performance of the subsidiary. This allows the headquarters to participate in the control of the foreign subsidiaries and the subsidiary manager seems not to be solely responsible for control anymore.

7.3 Suggestions for Further Research

In this section, we give suggestions for further research. These suggestions are concerned with the interrelations between the factors that affect the choice of manager, the reasons why uncertainty avoidant multinationals prefer centralized form of control and the relationship between the assumptions of the multinationals with the actual managerial performance.

Further research could focus on the interrelations between the factors that affect the choice of manager. The link between the age of the subsidiary and the cultural distance is among the few that has been presently studied and these results remain mixed as well. Other linkages and interrelations between these factors should be identified and studied further. The variety of environments, where the multinational corporations operates, clearly suggests that these factors should not be studied in isolation. Further research could also take into account the effect of training. Volkmar (2003) has argued that the costs of trainings given to both expatriate and host country national manager equal. However, this assumption should be tested in practice.

One reasons for why certain multinational corporations prefer to employ expatriate managers despite their international experience could be a direction of future research. Our results showed that the need for expatriate managers and centralized form of control was strong in Canon Inc. and Nordic Cjf Oy. The explanation that we were able to provide for this is the uncertainty avoidant culture in Japan and high power distant culture in China. On further investigation on previous research, we found that the use of expatriate managers is highest in Japan and Germany, both of which have high uncertainty avoidant cultures (Peterson 2002). However, it was left open to debate whether this is because the problem with host country national trust or because of some other reason. Case studies that compare multinationals with high uncertainty avoidance to those with low uncertainty avoidance could focus on why the expatriates are more important to the uncertainty avoidant multinational corporations.

The correctness of the assumptions that the multinational corporations make about the suitability of the manager needs to be critically tested. So far, we have mainly examined the beliefs and practices of the multinational corporations without thinking the actual value of these assumptions. Even though it is important to know why the multinationals

make the choices that they do, we also need to investigate which choice is better in practice. For example, Colakoglu and Caligiuri (2008) have showed that higher expatriate ratio was related to lower subsidiary performance when the cultural distance was high. This result questions the common belief that is held by most of the multinational corporations. Volkmar (2003) is one of the few who has suggested a theory based on which of these two types of managers would actually perform better. We do not need to point out that the expatriate failure rates have been frequently discussed. Further case studies, therefore, are needed to test how the assumptions of the multinational corporations relate to the actual managerial performance in the foreign subsidiaries. Especially, the assumption that the expatriate manager allows stricter control of the subsidiary should be investigated from the point of view of actual managerial performance.

The most important suggestions for future research emerged from the case studies. For example, future researches could investigate which competences are important in the manager. The effect of the market situation should also be studied further.

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Interviews

Aittomäki, K. Marketing Manager, Canon, Helsinki, 23th of August 2009.

Skippari, S. Area HR Director, KONE Cooperation, 2nd of September 2009.

Wang, B.S. CEO, Nordic Cjf Oyj, Helsinki, 4rd of September 2009.

Jie, D. Assistant Manager, Nordic Cjf Oyj, Helsinki, 4rd of September2009.

APPENDICES

APPENDIX 1

The following questions were asked during the four interviews.

Can give your name, job title and the amount of your work experience in years?

How does your corporation choose its managers for locations outside the home country?
Is there any standard procedure?

How frequently are host country national managers considered for foreign subsidiaries?

What are some of the reasons for hiring a local manager?

Are expatriate managers the logical choice in the more important subsidiaries?

Does your corporation perceive equal loyalty from each type of the manager?

What about the need for control when the managers are selected?

What about the need for cultural control?

When it comes to the cultural controls, would the expatriate managers be more helpful?

APPENDIX 2

This table lists the information about the interviewees, with the name, job description, and nationality, time and duration of the interview as well as the interview method.

<i>Name</i>	<i>Job description</i>	<i>Nationality</i>	<i>Time of interview</i>	<i>Duration</i>	<i>Interview method</i>
Kai Aittomäki	Marketing Manager, Canon	Finnish	23th of August 2009	50 minutes	Phone interview
Susanne Skippari	Area HR Director, KONE	Finnish	2 nd of September 2009	1 hour	Personal interview
Beisong Wang	CEO, Nordic Cjf Oyj	Chinese	4rd of September	1 hour	Phone interview
Dong Jie	Assistant Manager, Nordic Cjf Oyj	Chinese	4rd of September	1 hour	Phone interview

APPENDIX 3

After the thesis was written, it was sent for the case companies and they were thanked for their participations.

Dear Company Representative,

Thank you for your participation in the interview. Here is the thesis as attached. This thesis investigated the choice between the host country national managers and expatriate managers. The research findings indicate that this question is irrelevant in the multinational corporations when they make decisions about the subsidiary managers. The multinational corporations seem to base their choice of manager on the competences and past results of the candidates.

Thanks again for your participation,

Best Regards,

Long Zhuoying