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A thesis submitted in partial fulfillment of the requirements for the Doctor of Philosophy degree in Business

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**EMPLOYMENT OF RETURNEES AND THE PERFORMANCE OF
MULTINATIONAL SUBSIDIARIES IN CHINA**

**(Spine title: Returnees and Multinational Subsidiaries in China)
(Thesis format: Monograph)**

Huanglin Wang

Graduate Program
in
Business Administration

A thesis submitted in partial fulfillment
of the requirements for the degree of
Doctor of Philosophy

The School of Graduate and Postdoctoral Studies
The University of Western Ontario
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London, Ontario, Canada

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Employment of Returnees and the Performance of Multinational Subsidiaries in China

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ABSTRACT

Returnees, those who went overseas for higher education and then returned to their home countries, represent a unique group of employees for multinational enterprises (MNEs). However, they have been ignored in the MNE staffing literature which has developed a staffing typology based on nationality, specifically parent country nationals (PCNs), host country nationals (HCNs), and third country nationals (TCNs). We propose that cultural understanding is a more appropriate criterion than nationality in categorizing staff in MNEs and compare returnees with the existing categorizations of MNE staff. Returnees may be closer to the ‘balanced individuals’ that MNEs need compared with either expatriates or locals. Therefore, they may be a good staffing choice for MNE subsidiaries in China.

This study was conducted in two stages. The first stage was qualitative. Ten top executives from multinational subsidiaries in China were interviewed in order to identify and delineate the unique characteristics of returnees. They suggested that returnees understand multiple cultures, possess cross-cultural communication skills, and a global perspective; and act as a “bridge” between expatriates and locals, between a subsidiary and the other units of the MNE (including headquarters and the other subsidiaries), as well as between the MNE and the local environment.

The second stage was quantitative. We first developed a theoretical model from an organizational learning perspective. We hypothesized that a subsidiary’s degree of geocentrism, ownership status, top executive background, and subsidiary age may have an impact on the employment of returnees. We further hypothesized that the ratio of

returnees in a management team may have a positive impact on subsidiary performance, and that socialization and geocentrism may moderate this relationship.

A survey was used to collect the primary data for hypotheses testing. Questionnaires were sent to top executives in multinational subsidiaries in mainland China. We found that joint ventures employ fewer returnees than wholly owned subsidiaries, and that returnee and expatriate top executives are more likely to hire returnees than local top executives. In addition, the relationship between subsidiary age and employment of returnees takes a downward sloping U-shape, which is similar to the relationship between subsidiary age and employment of expatriates in the literature. On the other hand, joint ventures are more likely than wholly owned subsidiaries to have a returnee as the top executive, and subsidiary age has a negative impact on the possibility of a returnee being the top executive. We also found that employment of expatriates negatively impacts employment of returnees. We did not observe any relationship between returnees and subsidiary performance.

This study contributes to the literature by proposing a new criterion for staffing categorization in MNEs, by studying a new type of staff – returnees, by focusing on the subsidiary level, and by combining qualitative and quantitative data. It directs us to a promising direction in MNE staffing research and has the potential to help managers develop more effective overseas staffing strategies.

Keywords: MNE staffing, returnees, sea turtles, ex-host country nationals, expatriate, subsidiary performance.

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CHAPTER 1 INTRODUCTION

The most important factors for the success of multinationals are the quality of human resource management (HRM) and the development of human resources (Bartlett & Ghoshal, 1992). Larry Bossidy, the former CEO of Honeywell International said, “Don’t bet on strategy, bet on people” (Schuler & Tarique, 2007: 727). Another multinational general manager noted, “Virtually any type of international problem, in the final analysis, is either created by people or must be solved by people. Hence, having the right people in the right place at the right time emerges as the key to a company’s international growth. If we are successful in solving this problem, I am confident we can cope with all others” (Duerr, 1968: 43).

Several recent executive surveys further highlighted the talent challenge. A global survey of 4,741 executives in 83 countries conducted by The Boston Consulting Group (BCG), World Federation of Personnel Management Associations (WFPMA), and Society for Human Resource Management (SHRM) showed that having the right people at the right locations is one of the main HR challenges, and managing talent was near the top of the agenda in every region and industry. Their report suggested that one way to tackle this challenge was to deliberately identify new talent pools (Caye, Dyer, Leicht, Minto, & Strack, 2008). Another survey developed by the McKinsey Quarterly in 2006 suggested that finding talented people was likely to be the “single most managerial preoccupation” for the rest of this decade (Guthridge, Komm, & Lawson, 2008). A recent survey of 1,306 executives showed that global labour and talent markets were one of the six global trends that were expected to have the greatest impact on profitability

(McKinseyquarterly.com, 2008). At the 2008 annual conference of the Academy of International Business, Andrea Guerra, CEO of the Luxottica Group and the AIB Fellows' International Executive of the Year, said that finding the right managers for different locations was the top challenge for MNEs in the next five to ten years.

The talent challenge is widely emphasized because managing talent across borders has been a complex and demanding task for MNEs. However, those MNEs who did this better enjoyed superior performance (Guthridge & Komm, 2008). Poor staffing often creates difficulties in international operations and leads to failure (Dowling, Schuler, & Welch, 1994; Tung, 1984). Therefore, researchers should identify the most effective ways to coordinate and control subsidiaries through staffing (Schuler & Tarique, 2007).

Human resource management (HRM) is an effective control mechanism (Edstrom & Galbraith, 1977) and staffing, one of the HRM functions, is a major tool that MNEs use to coordinate and control their subsidiaries (Dowling & Schuler, 1990; Pucik & Katz, 1986). In today's global environment, MNEs rely more on people than organizational structure for global integration (Evans, Pucik, & Barsoux, 2002). Thus MNE staffing becomes an important research area. Traditional MNE staffing research centers on expatriate Parent Country Nationals (PCNs) at the individual level with a focus on human resource management issues such as selection, training and development, acculturation, and assignment failure (e.g., Black & Mendenhall, 1990; Black, Mendenhall, & Oddou, 1991; Harvey, Speier, & Novecevic, 2001; Mark, Edward, & Gary, 1987; Tung, 1982). Another stream of research focuses on the antecedents of expatriation at the firm level (e.g., Belderbos & Heijltjes, 2005; Delios & Björkman, 2000; Xu, Pan, & Beamish, 2004). Some recent studies have investigated issues such as staffing choice among PCNs, host

country nationals (HCNs) and third country nationals (TCNs), staffing composition at subsidiaries (Dowling, Welch, & Schuler, 1999; Gong, 2003b), and their impact on strategic outcomes such as subsidiary survival and performance (Chung & Beamish, 2005; Goerzen & Beamish, 2007; Gong, 2003a, b; Peterson, Sargent, Napier, & Shim, 1996).

However, the MNE staffing literature has several limitations. First, it has focused on two extremes - the individual level and the parent firm level. The subsidiary level has received little attention. Scholars have strongly encouraged moving the level of analysis to the subsidiary level and linking staffing to behavioral and financial outcomes (Gong, 2003b; Schuler, Budhwar, & Florkowski, 2002). Second, many models and factors have been proposed to have an impact on subsidiary staffing, but empirical tests of these hypotheses are rare (Boyacigiller, 1990). With a focus on the subsidiary level and an empirical design, this study tries to shed new light on MNE staffing research.

The literature has developed a typology of MNE staffing based on nationality: PCNs, HCNs, and TCNs. Each type has its own advantages and disadvantages (Scullion & Collings, 2006). To better reach a balance between global efficiency and local responsiveness (Bartlett & Ghoshal, 1989), MNEs need 'balanced individuals' (Doz & Prahalad, 1986). However, the idea of 'balanced individuals' remains a theoretical construct up to now. There has been little empirical research with regard to who the 'balanced individuals' are or how they perform. A typology based on nationality and a single focus on expatriates in international business research may have seriously narrowed our perspective and hampered progress in finding the right people for MNEs. This study proposes cultural knowledge as a new criterion for MNE staff categorization

and focuses on a special group of people: the returnees (“sea turtles”) within the context of MNE subsidiaries in mainland China.

For this study, China was chosen for a number of reasons including China’s economic importance, data availability, as well as the researcher’s language ability. China is the most important destination among the emerging economies for foreign direct investment (Child & Mollering, 2003). It overtook the United States as the top destination of foreign direct investment in 2003. However, managing operations in China requires policies and practices that are quite different from those adopted in other countries. The biggest issue faced by foreign invested firms in China is HRM (Ahlstrom, Bruton, & Chan, 2001; Björkman & Lu, 1999; Sergeant & Frenkel, 1998; Shaw, 1998). Therefore, studying HRM issues in China has potential significance to the international business field.

China’s rapid economic growth has been attracting more and more Chinese nationals to return home after graduating from overseas universities, which makes data collection for such a study feasible. According to statistics from the Education Ministry in China, from 1978 to 2006, 1,067,000 people went overseas and among them, 275,000 returned to China after overseas education. More than 20,000 people returned each year after 2003. These people tend to cluster in large cities such as Beijing and Shanghai. By the end of 2005, there were over 60,000 returnees in Shanghai (Hou, 2007; Wang, 2006). According to a survey published in 2005, foreign invested firms were an attractive employment destination for returnees. About one-third of them worked for foreign invested firms (Gmw.cn, 2005). Most returnees are employed in managerial positions in

which they can influence parent firm control over the subsidiary and contribute to the balance between global efficiency and local responsiveness.

Gamble (2000: 899) interviewed expatriate and local managers in 29 foreign invested firms in China from 1997 to 1999, and concluded that “Expatriates with linguistic and cultural competence, who are bilingual and culturally fluent in both the domains of the head office and the overseas plant, are likely to be the most successful.” Most expatriates cannot speak Chinese and do not completely understand the culture, but returnees are bilingual, culturally fluent in the Chinese subsidiary, and aware of and sensitive to the culture at the head office. Therefore, they might be the employees who are best able to contribute to the success of foreign invested firms in China. However, the literature has largely ignored this special group of people. There are only sporadic suggestions that returnees may be a good staffing choice for MNEs in China (Gamble, 2000; Lasserre & Ching, 1997). This is surprising given their huge numbers and potential contribution.

The current study focuses on returnees as a separate group and as a staffing choice for multinational subsidiaries in China. Managerial human capital plays important roles in organizations (Penrose, 1959) and staffing managerial positions is a strategic concern; therefore, we focus on the returnees in managerial positions. Given the paucity of literature about this group of people, we developed a two-stage research design. The first stage used semi-structured interviews in order to understand the unique characteristics of returnees. The second stage was theoretical model development and empirical testing of the model. A mixed-method approach - a combination of qualitative and quantitative

methods - provides a more comprehensive understanding of the phenomenon of interest: the returnees.

The rest of the thesis is organized as follows: In the next section we propose that cultural understanding is a more appropriate criterion for staff categorization in MNEs than nationality. The second chapter reviews the MNE staffing literature. The third chapter summarizes the unique characteristics of returnees as revealed from the interviews of top executives in MNE subsidiaries in mainland China, which is followed by a comparison of returnees' advantages and disadvantages with those of PCNs, HCNs and TCNs. In the fourth chapter, we hypothesize the factors that may affect the employment of returnees and its impact on subsidiary performance. The fifth chapter describes the survey used to collect data and the measures of the variables. The sixth chapter presents data description including company characteristics and respondent profiles, followed by the results of the data analysis. Finally, we discuss the results, highlight our contributions and point out future research areas.

Cultural knowledge as a criterion for staff categorization

While MNEs have traditionally staffed their overseas subsidiaries with expatriate PCNs, this approach has not always been successful (Stening & Hammer, 1992; Stroh, Gregersen, & Black, 1998; Tung, 1987). In the 1980s, the average failure rate of expatriate assignments was as high as 40 percent (Black, 1988; Tung, 1981), resulting in huge economic losses for MNEs (Dunbar, 1992; Minbaeva & Michailova, 2004). The reasons for the failures include family issues such as dual career couples, expatriates' personal maturity, managerial competence, and inability to adjust to a new environment

(Harvey, 1998; Tung, 1981). The most prominent problem, and also the most difficult to overcome, may be adjusting to the different culture of the host country (Dowling et al., 1999; Kobrin, 1988). Furthermore, many people are reluctant to accept expatriation assignments due to the uncertainties associated with repatriation, the unwillingness to disrupt their children's education and their own personal and social lives, consideration of life quality, and the uncertainties caused by international terrorism and political unrest (Black, Gregersen, & Mendenhall, 1992; Forster, 2000; Scullion & Linehan, 2004). Because of the high costs and the issues associated with expatriate PCN assignments, MNEs tend to hire more host country nationals (HCNs) and third country nationals (TCNs) in their overseas subsidiaries (Heenan & Perlmutter, 1979). A TCN is "an employee, working temporarily in an assignment country, who is neither a national of the assignment country nor of the country in which the corporate headquarters is (are) located" (Reynolds, 1997: 34). The literature on MNE subsidiary staffing has focused on these three nationality-based categories: PCNs, TCNs, and HCNs.

However, the PCN, TCN, and HCN categorization is too simplistic for three reasons. The first is a classification issue. It assumes that individuals are familiar with the culture of their nationality. This does not apply to all people. For instance, a Chinese may immigrate to the United States but return to China to work. China does not allow dual nationality so he/she loses the Chinese nationality. He/she is an American citizen but is not as familiar with the American culture as he/she is with the Chinese culture. The people who hold dual nationality may be much more familiar with one culture than the other. In addition, the traditional categorization creates difficulty in this situation. For example, how can we categorize someone who has dual citizenship such as Canadian and

French who works in France for a Canadian multinational? Immigrants and dual-nationals are not a small population in some Western countries. Furthermore, those people who grew up in a different country or several different countries other than the country of their nationality may be more familiar with other cultures than the culture of their nationality. For example, ‘third-culture kids’ live abroad with their parents and are exposed to a wide diversity of cultural and educational influences. They are internationally oriented and often have difficulty adapting to their home country culture, the culture of their nationality, when they come back (Pollock & Reken, 2001).

Second, people sharing the same nationality may not share the same culture. Skin color and facial features are not related to cultural beliefs and attitudes. Hong Kong Chinese, Taiwanese Chinese, and mainland Chinese share the same ancestry, but they often regard each other as foreigners because of substantial differences in morality, taste, behavior, and business practices (Gamble, 2000). This can be partly attributed to history. Mainland China had thousands of years of feudalism and decades of planned economy before adopting an ‘open door’ policy in 1979. This history has contributed to many unique features in the mainland Chinese culture. It is quite difficult for people who grow up outside the mainland to understand its culture, even though they may speak fluent Mandarin. Speaking the language is not enough to understand the culture. However, individuals who know the culture usually also speak the language. Therefore, cultural knowledge rather than nationality should be the criterion for categorizing multinational employees. Culture is an important factor that constrains the applicability of management theories and practices in foreign countries (Hofstede, 1993). Understanding the local culture is essential to successfully implementing managerial knowledge in a host country.

Third, cultural knowledge is a major obstacle to expatriation success and thus a key attribute for a manager to be qualified for MNEs' overseas positions. HR managers in MNEs emphasize that host country culture is more important than its language. They prefer someone who is open-minded to someone with the right language skills for international assignments (Guthridge et al., 2008). Therefore, categorizing staff based on their cultural knowledge can help MNEs find the right people for overseas subsidiaries.

For these reasons, we suggest that returnees are a unique group worthy of attention in the international business area. Returnees are operationalized as the individuals who grew up in mainland China, had higher education overseas and may have also worked overseas, and are currently working in mainland China. We exclude people who share the Chinese origin but grew up in Hong Kong, Taiwan, Macau, or any other country because they are not as familiar with the mainland Chinese culture, even though many of them speak Mandarin. Hong Kong, Taiwan and China have distinctive culture scores in Hofstede (2001). The key features that distinguish returnees from expatriates and locals are: (i) they understand multiple cultures including the Chinese culture and, to a lesser extent, the culture of the country where they studied; and (ii) they possess academic training that is comparable with that of expatriates. They are a combination of expatriates' technical and business knowledge and locals' cultural knowledge. They can arguably accomplish some work that cannot be done by either expatriates or locals alone.

CHAPTER 2 LITERATURE REVIEW

Two streams of research— HRM and multinational strategy—intersect in the relationship between staffing and MNEs’ strategic need to reach a balance between global efficiency and local responsiveness. In this section, we review the relevant research in these two fields.

2.1 Link between HRM and Strategy

Traditional HRM research has focused on the HRM processes such as selection, training, appraisal, and rewards. Each has developed into a separate subdiscipline (Fombrun, Tichy, & Devanna, 1984). Starting in the 1980s, researchers (e.g. Beer, Spector, Lawrence, Mills, & Walton, 1985; Evans, 1986; Fombrun et al., 1984; Rowe & Wright, 1997; Schuler & Jackson, 1987; Schuler & MacMillan, 1984; Tichy, Fombrun, & Devanna, 1982) began to link HRM to strategy (Pieper, 1990). They suggested that HRM affects strategic outcomes such as performance, and that effective HRM is important to strategy implementation. Strategic human resource management (SHRM) emerged as a new discipline and subsequently HRM was integrated into the strategic management process. Schuler (1992: 19) defined SHRM as “All those activities affecting the behavior of individuals in their efforts to formulate and implement the strategic needs of the business”. Wright and McMahan (1992: 298) defined it as “the pattern of planned human resource deployments and activities intended to enable an organization to achieve its goals.” SHRM emphasizes congruence and coordination among the HRM processes. Wright and McMahan (1992) further specified the research scope of SHRM theory,

which was the determinants of human resource practices, human resource composition, human resource behaviors, and effectiveness of human resource practices including performance, satisfaction, absenteeism, and so on.

This link between HRM and strategy is supported by the resource-based view. “The resource-based view suggests that human resource systems can contribute to sustained competitive advantage through facilitating the development of competencies that are firm specific, produce complex social relationships, are embedded in a firm’s history and culture, and generate tacit organization knowledge” (Lado & Wilson, 1994: 699). Other studies suggest that human resources and a systematic approach to HRM design including human resource policies and practices are sources of competitive advantage (Galbraith, 1992; Lado & Wilson, 1994; Schuler & Jackson, 1987; Schuler & MacMillan, 1984; Wright, McMahan, & McWilliams, 1994).

The link between HRM and strategy has been extended to the international arena. Evans (1986: 162) described the connection between international HRM to MNE strategy: HRM is used to “facilitate the integration of business units while retaining the decentralized operational differentiation that these units require.” Schuler, Dowling, and De Cieri (1993) defined strategic international human resource management (SIHRM) as “human resource management issues, functions, and policies and practices that result from the strategic activities of multinational enterprises and that impact the international concerns and goals of those enterprises” (1993: 422). They developed an integrative framework and identified inter-unit linkage and internal operation as the major MNE strategy components that influence SIHRM. They identified some exogenous factors including industry characteristics and country/regional characteristics; and some

endogenous factors including MNE structure, headquarters' international orientation, competitive strategy and international experience that influence SIHRM. They further listed five MNE concerns and goals that are affected by SIHRM: global competitiveness, efficiency, local responsiveness, flexibility, and organizational learning.

Up to now, the factors revealed in the SIHRM literature all fall into the comprehensive framework that Schuler, Dowling, and De Cieri (1993) laid out. As shown in Table 2.1, industry (Kobrin, 1994), cultural distance (Gong, 2003a) and host country environment (Adler & Ghadar, 1990; Chung & Beamish, 2005; Milliman, Von Glinow, & Nathan, 1991; Xu et al., 2004) are the exogenous factors in the framework; MNE strategy (Delios & Björkman, 2000; Kobrin, 1994; Rosenzweig & Nohria, 1994), MNE international experience (Adler & Ghadar, 1990; Delios & Björkman, 2000; Milliman et al., 1991), headquarters' strategic orientation (Hedlund, 1986) and parent's resources (Delios & Björkman, 2000) are the endogenous factors; and business strategy (Bird & Beechler, 1995) and organization life cycles (Milliman et al., 1991) are some of

Table 2.1 Factors in the Literature and Schuler et al. (1993)'s Framework

Aspects in the framework	Exogenous factors	Endogenous factors	MNE concerns and goals
Factors revealed in the literature	<ul style="list-style-type: none"> • Industry (Kobrin, 1994) • Cultural distance (Gong, 2003a) • Host country environment (Adler & Ghadar, 1990; Chung & Beamish, 2005; Milliman et al., 1991; Xu et al., 2004) 	<ul style="list-style-type: none"> • MNE strategy (Delios & Björkman, 2000; Kobrin, 1994; Rosenzweig & Nohria, 1994) • MNE international experience (Adler & Ghadar, 1990; Delios & Björkman, 2000; Milliman et al., 1991) • Headquarters' strategic orientation (Hedlund, 1986) • Parent's resources (Delios & Björkman, 2000) 	<ul style="list-style-type: none"> • Performance (Goerzen & Beamish, 2007; Gong, 2003a) • Survival (Chung & Beamish, 2005)

the strategic MNE components. The part of the framework that is comprised of MNE concerns and goals is relatively less studied (Chung & Beamish, 2005; Goerzen & Beamish, 2007; Gong, 2003a).

There are different SIHRM orientations corresponding to different MNE strategic orientations (Heenan & Perlmutter, 1979; Perlmutter, 1969). Taylor, Beechler, and Napier (1996) defined MNEs' SIHRM orientation as "the general philosophy or approach taken by top management of the MNC in the design of its overall IHRM system, particularly the HRM systems to be used in foreign affiliates" (1996: 966). The MNE's SIHRM orientation will determine how it manages its international human resource management (IHRM) system to share HR systems between headquarters and its subsidiaries and among the subsidiaries. They identified three kinds of SIHRM orientations: adaptive, exportive, and integrative. In an adaptive SIHRM orientation, the IHRM system helps subsidiaries adopt local HR practices. It emphasizes localization and is consistent with the polycentric view of MNE management. In an exportive SIHRM orientation, the parent firm's HRM policies and practices are transferred to foreign subsidiaries. It emphasizes standardization and corresponds to the ethnocentric view of MNE management. An integrative SIHRM orientation takes the 'best' HRM policies and practices from the parent firm or its subsidiaries, and applies them throughout the whole MNE. This approach focuses on global integration but accommodates some localization. It corresponds to the geocentric view of MNE management.

The links between SIHRM orientations and MNE strategic orientation reinforces that HRM is critical to realizing MNEs' strategic goals. One challenge in reaching the

strategic goals comes from the tension between global efficiency and local responsiveness. Good staffing strategies in MNEs can alleviate this tension.

2.2 The Tension between Global Efficiency and Local Responsiveness

Since the late 1970s, economic and political imperatives have pushed MNEs in opposite directions. Economic forces encourage globalization, but political forces require localization (Martinez & Jarillo, 1989). MNEs must respond to these two forces simultaneously in order to satisfy the needs of efficiency and legitimacy.

A primary concern of MNEs is efficiency (Tarique, Schuler, & Gong, 2006). Economic, technological, and competitive circumstances (Doz & Prahalad, 1984) demand that an MNE coordinates its subsidiaries in order to realize its global strategic goals. Thus, R&D, manufacturing, and distribution should be centrally controlled and coordinated across subsidiaries. This requires interdependence among the subsidiaries located in different countries with different cultures (Lawrence & Lorsch, 1967).

On the other hand, institutional theory asserts that organizations must gain and maintain legitimacy in order to survive. Thus, organizations need to adopt structures and processes that reflect the institutional environment (DiMaggio & Powell, 1983; Meyer & Rowan, 1977), which is defined as a “set of highly established and culturally sanctioned action patterns and expectations” (Lincoln, Hanada, & McBride, 1986: 340). There are three kinds of forces pushing organizations to take environmental isomorphism: coercive, mimetic and normative (DiMaggio & Powell, 1983). Therefore, each multinational subsidiary has to respond to its local environment in the host country. Institutional theory highlights the organization’s legal and cultural environments (Scott, 1983). MNEs must

understand local government regulations and local cultures and their subsidiaries must proactively conform to the host countries' norms and standards.

These two strategic requirements of global efficiency and local responsiveness are called integration and differentiation in organization design and management (Galbraith, 1973; Lawrence & Lorsch, 1967; Thompson, 1967), and are also commonly described as 'think globally and act locally' (Kamoche, 1996). Each MNE must integrate its subsidiaries into a single organization with an overall strategy; while at the same time allow each subsidiary to differentiate its internal operations to accommodate the special political, social, and economic environments in the host country.

These two goals are often incompatible, causing conflict between integration and differentiation (Bartlett, 1986; Bartlett & Ghoshal, 1989; Doz & Prahalad, 1984; Ghoshal, 1987; Porter, 1986; Prahalad & Doz, 1987). The solution, however, is not to achieve either one or the other, but to achieve "the strategic integration of their operations in various countries in the presence of strong forces for national responsiveness and fragmentation" (Doz & Prahalad, 1984: 55). This involves difficult trade-offs in order to reach a balance. Such a strategy was termed as 'transnational' by Bartlett (1986). Integration and differentiation are not mutually exclusive; high levels of global efficiency and local responsiveness can be reached simultaneously (Nohria & Ghoshal, 1994). A subsidiary must keep consistency with other subsidiaries of the same MNE due to the parent firm's organization replication and its imperative of control, as well as the need to adapt to local institutional demands in the country where it is located (Rosenzweig & Singh, 1991).

The balance between the two may differ across functions. Many studies found that in MNEs, finance and R&D were the most centralized functions, personnel was the least centralized, and production and marketing were in between (Martinez & Jarillo, 1989). Such differences may be attributed to the location-bounded feature of resources and competencies (Anand & Delios, 1997). Non location-bounded resources and competences such as R&D are easy to standardize across different countries, resulting in high efficiency; whereas location-bounded ones such as personnel and marketing require localization for effectiveness. The different processes within the same function may also differ in terms of the degree to which they can be globalized. For example, in IHRM, performance appraisal is global in many MNEs but labor relations are commonly local (Schuler & Tarique, 2007). HRM strategy for high-level executives is often globally integrated, while the strategy for other employees is adapted to local conditions (Evans & Lorange, 1989).

Between integration and differentiation, integration is the major challenge for MNEs (Martinez & Jarillo, 1989) since foreign subsidiaries tend to strive toward autonomy (Ghoshal & Bartlett, 1990). Geographic and cultural distances among subsidiaries and headquarters make integration more complex and difficult than differentiation. Research has subsequently focused on integration (Gong, 2003b). MNEs achieve integration through control and coordination (Katz & Kahn, 1978).

2.3 Control and Coordination

Control is any process that aligns the actions of employees to the interests of the employer (Tannenbaum, 1966). In the case of multinationals, control also aligns

subsidiary operations to parent firm interests. Control is the process by which MNEs execute power and authority, or inculcate corporate values and norms so that subsidiaries adhere to the goals of the parent firm (Etzioni, 1965; Jaeger, 1983). Control directly intervenes with subsidiary operations (Gong, 2003b). In joint ventures, control is particularly important since the partners may have conflicting goals (Gamble, 2000). Control of foreign operations is a precondition of foreign direct investment (Caves, 1971; Hymer, 1976), as well as an ongoing concern throughout foreign operation (Rosenzweig & Singh, 1991). The purpose of control is to achieve coordination in the organization (Ouchi, 1979). Coordination is the process by which subsidiaries take coordinative actions to achieve a unity of effort (Lawrence & Lorsch, 1967).

MNEs have three types of control strategy: centralizing, bureaucratic (Child, 1972, 1973), and socializing (Edstrom & Galbraith, 1977). A centralizing strategy controls subsidiaries by confining decisions to the high levels in the parent firm. It is personal and direct. However, large organizations such as many multinationals are not able to use direct control as the delays caused would give little room for local responsiveness and flexibility.

Bureaucratic control sets up procedures and records for subsidiaries to follow and allows subsidiaries to make decisions within these limits. It is impersonal and indirect. It allows some local discretion while maintaining overall control and coordination across different subsidiaries. Bureaucratic control approaches include budgets, on-site inspections, and management processes (Doz & Prahalad, 1984). Effective bureaucratic control occurs when the subsidiary accepts authority and power of the parent firm, which usually rely on controlling resources (Etzioni, 1980).

A socializing strategy encourages individuals in subsidiaries to learn and internalize functional behaviors and rules so that the parent firm's orders and procedures are carried out without surveillance. Organizational socialization is a process by which "an individual is taught what behaviors and perspectives are customary and desirable within the work setting" (Van Maanen & Schein, 1979: 21). Gupta and Govindarajan (1991: 779) defined the corporate socialization of subsidiary managers as "the process through which subsidiary managers' values and norms become closely aligned with those of the parent corporation." Socialization is an effective approach for encouraging subsidiary managers to identify with, and commit to, the whole MNE. It also allows local discretion while maintaining overall integration. Socialization is also labeled cultural control (Jaeger, 1983) or clan control (Ouchi & Jaeger, 1978). With socialization, organization members share beliefs and values, understand what constitutes proper behaviors, and become highly committed to the organization. These reduce the need for explicit surveillance and evaluation (Ouchi, 1979). The typical socialization approaches are job rotation across subsidiaries and management development programs (Edstrom & Galbraith, 1977). It can happen either in subsidiaries when expatriates socialize HCNs into the parent firm or at headquarters when HCNs are transferred there for a period of time (Scullion & Collings, 2006). A socialization control strategy develops normative authority and power (Etzioni, 1980).

These three kinds of control strategies are cumulative rather than alternative. Multinationals are dispersed organizations that tend to use bureaucratic and socializing control strategies (Edstrom & Galbraith, 1977). The essential condition for exerting bureaucratic control mechanisms is either that the desired performance is measurable so

that output control can be applied, or that the behaviors to achieve the desired performance are known such that behavior control can be effective. Under either condition, rules for control can be developed. If neither of these two conditions is satisfied, socialization becomes the only choice (Ouchi, 1979).

An adaptive SIHRM orientation requires no transfer of HRM policies and practices and has the lowest level of control over the subsidiaries' HRM systems. An exportive SIHRM orientation needs a whole transfer of the parent firm's HRM policies and practices to subsidiaries resulting in the highest level of control. An integrative SIHRM orientation would have a medium level of control as it has integration as well as localization (Taylor et al., 1996).

Staffing is a major tool that MNEs use to coordinate and control their subsidiaries (Dowling & Schuler, 1990; Pucik & Katz, 1986). In today's global environment, MNEs rely more on people than on organizational structure for coordination and control (Evans et al., 2002).

2.4 MNE Staffing

HRM is an effective control mechanism (Edstrom & Galbraith, 1977). Traditional IHRM focuses on expatriate PCNs while traditional expatriate research concentrates on the HRM issues such as selection, training and development, acculturation, and assignment failure (e.g., Black & Mendenhall, 1990; Black et al., 1991; Harvey et al., 2001; Mark et al., 1987; Tung, 1982). Recent studies have integrated strategic-level issues such as staffing with PCNs, HCNs and TCNs (e.g., Dowling et al., 1999; Gong,

2003b) and its impact on strategic outcomes (e.g., Gong, 2003a; Gong, 2003b; Peterson et al., 1996).

Corresponding to MNEs' orientations (Heenan & Perlmutter, 1979; Perlmutter, 1969) and those of strategic international human resource management (SIHRM) (Taylor et al., 1996), there are four commonly discussed staffing approaches: ethnocentric, polycentric, geocentric and regiocentric. Ethnocentric staffing fills top management positions in overseas subsidiaries with PCNs. Polycentric staffing fills top management positions in overseas subsidiaries with HCNs, but they are excluded from managerial positions at headquarters. Geocentric staffing appoints people to managerial positions in overseas subsidiaries and headquarters based on merit without considering nationality. The staffing approach that uses TCNs is called regiocentric. It fills top management positions in subsidiaries and regional headquarters with people from the same region, but excludes them from headquarters (Perlmutter & Heenan, 1974). The construct validity of these four staffing approaches was demonstrated by Caligiuri and Stroh (1995).

The following sections first review the respective advantages and disadvantages of staffing with PCNs, TCNs, and HCNs as they have been identified in the literature. We then add to Scullion and Collings' typology (2006: 25-26) to compare returnees with the existing categories from the perspectives of the parent firm and the subsidiary.

2.4.1 Expatriates

The traditional staffing approach is ethnocentric—expatriate PCNs are sent to overseas subsidiaries. Not surprisingly, the literature on expatriates is mainly about PCNs. MNEs have three major reasons for assigning expatriates to subsidiaries: position filling,

management development, and organization development (Edstrom & Galbraith, 1977). Position filling applies to situations where there are no competent local personnel available for certain technical or managerial positions. Expatriates transfer technical knowledge and organization culture to subsidiaries. Management development aims to develop expatriates' international experience and prepare them for future roles in subsidiaries or headquarters. Organization development uses expatriation to change or maintain organizational structures or decision processes, enabling the parent firm to keep control and coordination among its subsidiaries. Socializing, or cultural control, is the main mechanism for organization development (Harzing, 2001b). The importance of these three purposes differs among MNEs from different home countries and subsidiaries in different host countries (Harzing, 2001a). Furthermore, the reasons for expatriation are not mutually exclusive as one assignment may serve more than one purpose. However, all three purposes aim to integrate subsidiaries. With their strategic decision-making positions, expatriates are pivotal in integrating global resources (Gamble, 2000) and they serve as a mechanism for control and coordination.

Expatriation is a formal control mechanism as well as an informal one (Jaeger, 1983; Martinez & Jarillo, 1989). The two are referred to as direct control and indirect control by Harzing (2001b). As a formal control mechanism, expatriation serves both as a form of personal control and of behavioral control (Martinez & Jarillo, 1989). Expatriates make sure subsidiaries are on the right track. In joint ventures, they also act as "watchdogs" who monitor the partner's activities and protect the parent firm's technology and capital (Gamble, 2000).

As an informal control mechanism, expatriation transfers knowledge, including both technology and managerial knowledge, as well as parent culture and values (Jaeger, 1983). Transferring culture is an important role for expatriates, especially PCNs, who are in a position to socialize subsidiary staff (Harzing, 1999; Westney, 2001). It requires that the expatriates involved have substantial experience with the firm's historical and current situations (Ondrack, 1985; Temporal & Burnett, 1990). Different from technology knowledge, it takes a longer time for people to understand and internalize values and culture in their mentality. Ghoshal and Nohria (1993) named this 'normative integration'.

Informal control is essentially an organizational learning process. The ability to transfer knowledge across borders is a source of competitive advantage for multinationals (Kogut & Zander, 1992). To this end, staffing decisions are strategically important (Downes & Thomas, 2000). Expatriates are the major agents in cross-border knowledge transfer in MNEs (Kamoche, 1997). Expatriates also develop local staff and their successors through training programs and self-demonstration (Gamble, 2000). However, while some technologies can be learned by subsidiaries quite easily, other knowledge, especially corporate culture and managerial processes, cannot. That is the special knowledge that expatriate PCNs can bring to subsidiaries (Gong, 2003a). Therefore, expatriation builds competitive advantage by capturing and disseminating knowledge across borders.

The learning is bidirectional. Aside from transferring knowledge to subsidiaries, expatriates also bring market-specific knowledge about the host country back to the parent firm. This knowledge includes the transportation, distribution, and supply networks in the host country, local government policies and regulations, labor markets,

customer preferences, and special ways of doing business (Bonache & Brewster, 2001; Hocking, Brown, & Harzing, 2004; Lazarova & Tarique, 2005; Welch, 2003). This market-specific knowledge is gained over time through the subsidiary's exposure to the host country's legal, cultural and social environments. Subsidiary managers are in a better position to acquire this knowledge, which is important for MNEs' balance between global integration and local responsiveness (Birkinshaw, 1997). Repatriation is one approach to obtain the knowledge expatriates gained overseas at headquarters and disseminate it across subsidiaries (Kamoche, 1997). By accumulating market-specific knowledge from all subsidiaries, the parent firm gains general knowledge about the international market (Downes & Thomas, 2000), which in turn helps the parent firm coordinate day-to-day operations among its subsidiaries and formulate global strategies that balance global efficiency and local responsiveness (Gamble, 2000).

Expatriates act as the liaison people between the parent firm and subsidiaries by sending reports to, and taking orders from, the parent firm. During this process, they act as the "culture brokers" to explain the local situation to the parent firm and explain the parent firm to the local staff (Gamble, 2000). The communication process between the parent firm and the subsidiaries is subsequently smoothed out (Downes & Thomas, 2000).

Expatriation as an informal control mechanism is deemed to be effective because expatriates understand the values, goals, and perspectives of the parent firm (Smith, Smith, Olian, Sims, O'Bannon, & Scully, 1994). Expatriate PCNs are more likely to identify with the parent firm because they share a common national identity (Egelhoff, 1988; Kobrin, 1988). This is supported by social identification theory. Social identity is "that part of the individual's self-concept which derives from his knowledge of his

membership of a social group together with the value and the emotional significance attached to the membership” (Tajfel, 1978: 63). It comes from an individual’s strong belief and acceptance of the organization’s values and goals (Kagan, 1958; O’Reilly & Chatman, 1986). Because expatriate PCNs and the parent firm share national identity, they are more likely to identify themselves with the parent firm (Egelhoff, 1988; Kobrin, 1988), which in turn increases the parent firms’ trust in the subsidiaries with expatriate PCNs (Gong, 2003b). Trust reduces the parent firms’ perceived uncertainty and thus lowers agency costs (Tarique et al., 2006). On the other hand, local managers may have a stronger identification with, and commitment to, the local subsidiary than to the parent firm (Tung, 1982; Zeira, 1976). This seems to be common among U.S., Japanese, and European MNEs (Zeira & Harari, 1979).

Such different identifications may be caused by the different cognitions and motivations that expatriates and locals have. Cognitively, local managers may have a better understanding of the local environment while expatriates may have a better understanding of the MNE’s overall strategy. Local managers develop their career mainly in the host country rather than in the hierarchy of the MNE, whereas expatriates are more likely to be promoted in the MNE. Again, these different identifications and commitments can be attributed to expatriates and locals’ different cultural backgrounds, which cause differences in managerial perspectives (Gupta & Govindarajan, 1991).

When considering three purposes of assigning expatriates (Edstrom & Galbraith, 1977), filling positions mainly serves the role of knowledge transfer to subsidiaries, organizational development serves the control and coordination roles, and management

development realizes the role of knowledge acquisition for headquarters, as accumulated by expatriates from host countries (Hocking et al., 2004).

In summary, the advantages of the expatriation control mechanism are that PCNs share the national identity with the parent firm and they understand its values and systems (Boyacigiller, 1990). However, staffing with PCNs has drawbacks. First, it is an expensive approach with high failure rates. Second, it may impede learning and innovation in subsidiaries (Gong, 2003b). Third, it reduces career opportunities for locals and thus decreases their morale. Fourth, expatriate assignments are usually short-term so PCNs may not take a long-term view of the subsidiary in their decision-making (Mayrhofer & Brewster, 1996).

2.4.2 TCNs

TCNs are a popular alternative to PCNs, for several reasons. First, they are less expensive than PCNs. Second, some TCNs know the host country language and culture better than PCNs because usually they are from a country near the host country (Scullion and Collings, 2006). Third, many TCNs are keen to accept international assignments because there may be limited career opportunities in their home countries. Finally, TCNs' socialization can ease the relationship between PCNs and HCNs in day-to-day operations. PCNs and HCNs tend to be ethnocentric. Thus their relationship with each other may be bipolar, making it difficult for them to have an effective dialogue. A lack of common knowledge and language decreases communication and cooperation between the two groups (Gong, 2003b). TCNs can bridge these two cultures. However, they may still take a short-term view and suffer from cultural and language barriers. Repatriation is still a

problem (Reynolds, 1997). TCNs in general have less knowledge about headquarters' culture, systems, procedures and personnel (Hocking et al., 2004); therefore, socialization at headquarters is necessary before sending them overseas. Hiring too many TCNs and HCNs may cause MNEs to lose strategic control over the subsidiary (Kobrin, 1988).

2.4.3 HCNs

With their in-depth knowledge of local language and culture, HCNs can help subsidiaries gain local legitimacy. They are also less expensive than expatriates (Delios & Björkman, 2000; Eddy, Hall, & Robinson, 2006; Tarique et al., 2006). Staffing with HCNs provides opportunities for locals to develop their careers, improving staff morale and motivation. However, locals may not be able to communicate with headquarters well, thus it may be more difficult for the parent firm to control subsidiaries. Control and coordination have to rely on formal procedures and organizational culture. The latter would be possible only if HCNs are provided with socialization opportunities (Tarique et al., 2006). Staffing with HCNs also reduces career opportunities for PCNs (Scullion & Collings, 2006). Therefore, every type of staffing has its own advantages and disadvantages, which have been summarized by Scullion and Collings (2006).

Today's multinationals cannot operate with a pure global or local orientation. They need to mix both elements and balance them. Traditional control systems through resource dependence on headquarters and standard systems and procedures are less effective in achieving the balance. Instead, staffing becomes an important strategic control approach. The key issue here is to develop 'balanced individuals' who appreciate both corporate and subsidiary interests and are able to find solutions that meet both global

efficiency and local responsiveness rather than simple compromises (Doz & Prahalad, 1986). These employees understand the ‘global picture’ of the MNE and the parameters of the local environment. They glue together multinational subsidiaries and are the fulcrum in global coordination (Kobrin, 1988). However, where can MNEs find balanced individuals? In the following chapter we argue that returnees may be closer in profile to balanced individuals than most PCNs, HCNs, and TCNs for multinational subsidiaries in China.

We categorize people into three groups according to cultural knowledge: returnees, expatriates (including PCNs and TCNs), and locals. A Chinese sent by the parent firm on an expatriate contract is classified as a returnee rather than an expatriate, as long as he/she grew up in mainland China and was educated overseas. This study does not distinguish PCNs from TCNs because most of them are less familiar with the Chinese culture than returnees and locals.

CHAPTER 3 INTERVIEWS

There have been sporadic suggestions in the literature that hiring returnees may be a good choice to meet the human resource demand in multinational subsidiaries in China (Gamble, 2000; Lasserre & Ching, 1997). However, the employment of returnees in multinationals has almost never been systematically investigated. Given the embryonic nature of the research on returnees in a multinational context, as a first step we conducted semi-structured interviews, after ethics approval, to gain some understanding with regard to the employment of returnees in multinational subsidiaries in China. Ten senior managers in multinational subsidiaries in China were interviewed by phone from early December 2007 to early January 2008. Table 3.1 presents their positions and the home countries of the firms they represented.

Table 3.1 The Interviewees' Positions and Their Companies' Home Countries

Position		MNEs' Home Country	
President	2	Hong Kong	3
Vice President	4	The United States	2
General Manager	1	France	2
Managing Director	1	England	1
Regional Representative	1	Japan	1
Human Resources Director	1	Czech Republic	1
Total	10	Total	10

Each interview lasted for about one hour and focused on two questions: what are the special characteristics of returnees which led to their employment, and what special contributions, if any, have they brought to the subsidiary as well as to the entire MNE? This chapter summarizes the managers' key points and supporting statements.

3.1 What is Special about Returnees?

Language ability, cultural knowledge, communication skills and global perspective were all mentioned as the reasons for hiring returnees. While language ability is the basis, it is not the unique quality the returnees have. With modern education in China, many young Chinese without overseas education can speak foreign languages fluently, one manager noted. The unique knowledge they possess is cultural knowledge.

During their time abroad, returnees gain academic training, making them comparable to expatriates in terms of professional knowledge and superior to most locals. A manager said that the advantage of Western education over traditional Chinese education is that the former teaches students to solve real world problems. Therefore, returnees are more capable in jobs than the majority of locals who received the same level of education in China. Returnees also learned about different cultures. Usually there were students from many other countries in the classes they attended. Interacting with professors and students at school developed their ability to communicate with people from many different cultures and backgrounds. Therefore, their cultural knowledge may not be limited to the culture of the country where they studied. Furthermore, according to one manager, people who have overseas experience look at the Chinese culture from a different perspective and are able to understand it at a deeper level.

This multiple-culture knowledge – the Chinese culture and at least one overseas culture - is tacit in nature and cannot be easily imitated by other people; thus it contributes to returnees' competitive advantage in the labor market for multinationals in China. As one manager said, "I do not think you can learn cultural differences from

textbooks.” Understanding several cultures develops their ‘translate competence’, which is “the ability to translate the meaning of one culture into a form that is appropriate to another culture” (Spradley, 1979: 19).

This translate competence leads to good cross-cultural communication skills, which is a key to success in international business (Oddou & Mendenhall, 1991). One manager said that communication skills are returnees’ “key contribution” to the company. They are able to communicate with expatriates, headquarters, locals, Chinese government, and customers. Those who have learned foreign languages from Chinese universities do not possess these skills. Cross-cultural communication skills are based on cultural knowledge and can only be gained through interactions with foreign people (Oddou & Mendenhall, 1991). One manager said that while many locals speak fluent English, they still cannot communicate effectively in English. Another manager from an American firm said, “Because returnees have the experience of studying and working in a foreign country (in North America)..., it is relatively easy for this group of people to understand and accept the North American culture, the reasons for North American managers’ decision making, and the North American ways of thinking.” Subsequently, they are efficient in communication and “are much better at team working with headquarters than local employees.” On the other hand, expatriates cannot communicate with locals effectively because “the Chinese culture is more complicated,” one manager pointed out, “which is why foreign firms need Chinese employees to help them do business in China... The trick to do well in China is to understand the real Chinese business culture.” However, “It is very difficult for a foreigner to really understand the Chinese culture... I think 90 percent of the foreigners still do not understand China after two years of stay.”

Global perspective is another important competitive advantage, aside from cultural knowledge, that returnees possess over locals, according to one manager. Global perspective, cross-cultural communication, and the comprehension of business trends and events are the top knowledge-based competencies that people gain through their overseas assignments (Oddou & Mendenhall, 1991). Returnees also gain these competencies in their time spent studying or working overseas. This point was made by several managers: “People with overseas experience are more open-minded;” they have “a broader view” and can “think actively;” “returnees can do more jobs because of their global perspective and international experience.” Even though they are in China, they maintain social networks all over the world through alumni clubs and other networks. Talking to people in the networks also contributes to their global perspective.

These attributes make returnees competitive candidates for jobs in multinational subsidiaries in China. One manager who is a returnee from North America said that it is relatively easy for people like him to find a job because they understand both the Chinese and North American culture. Another manager said, “The combination of both language skills and actual experience of multiple cultures makes returnees more competent for the job(s).” Managers commonly expressed their preference for returnees. One manager at a European multinational said it is very useful for people in managerial positions to have “strong language abilities and experience of double culture”; and that “people who lived and/or studied in Europe, and then came back, are more suitable for more senior positions” in their subsidiary in China. Another one said that “people with local insights and overseas experience will be a bonus to us.” Still, another said that some local employees may be good at the jobs of the senior managers, but they lack good communication skills.

Therefore, “we would like to consider returnees first for senior management positions because of their good communication skills.”

Although returnees have these important qualities that MNEs desire, there are some problems. First, the managers pointed out that after staying overseas, returnees need a period of time, usually one or two years, to readapt to the environment in China. People who stayed overseas longer may need longer time to readapt and experience more difficult adaptation processes. China as an emerging market has a higher level of environmental complexity and business practice specificity (Shenkar & Von Glinow, 1994). This represents a prominent difference between advanced markets and emerging ones (Luo, 2001). Environmental complexity creates difficulties for MNEs in making strategic decisions and deploying resources (Ghoshal, 1987) and consequently lowers global integration (Bartlett & Ghoshal, 1989). Special business practices are formed by the emerging markets’ unique historical, social, and economic situations (Luo & Peng, 1999; Xin & Pearce, 1996) and necessitate localized learning (Tallman, 1991). One manager said that because China is changing very quickly, there is a gap between their understanding of the local culture and the business environment in China when they come back. They need time to close this gap. Another manager said that China is a very “complex” environment. Some of his friends who had stayed in Canada for four years, which is a relatively “simple and pure” environment, felt that they could not adapt to the environment in China.

Second, most returnees have knowledge about several cultures but not necessarily about the corporate culture. After joining the firm, they still need time to learn about the corporate culture. Without enough socialization, returnees are very likely to know less

about the parent firm than most expatriates and those locals who have stayed with the MNE for a long period of time. Therefore, they may be less favored than the locals for some positions. One manager said that MNEs always use the cheapest labor for each position; they would not use a returnee for a position if a local can do the job since returnees are more expensive than locals.

Third, headquarters usually trust expatriates more than returnees. The possibility that returnees are a better staffing choice than expatriates and locals does not mean that MNEs do not need to send expatriates to China. MNEs still need to send expatriates for management development, organization development (Edstrom & Galbraith, 1977), and control purposes. Although expatriates may not identify themselves with the parent firm consciously, they are more likely to be responsive to the objectives of headquarters than locals whose career is in the subsidiary (Kobrin, 1988). They are deemed to be more loyal to the parent firm. A manager mentioned that expatriates' opinions are more readily accepted by headquarters. In some companies, the top positions such as CEO are always occupied by expatriates. Another manager said that they will always send expatriates for one or two key positions for control reasons. Another manager said that sometimes, employment is "all about trust (from headquarters), not necessarily about skills." According to a manager, expatriates "act as watchdogs to oversee how Chinese operations run." In a sense they are "value (income) protectors" rather than "value creators." On the other hand, locals may not trust returnees very much either. They nickname returnees "sea turtles", which has the same pronunciation of "oversea returnees" in Chinese, and tend to treat returnees as a different kind of people because of their overseas experience. They call successful returnees "seagulls" because they fly

internationally frequently, returnees who are working hard at middle or low levels “seaweeds”, and those who are having difficulties finding jobs “kelps”. One manager pointed out that a big challenge that returnees face is to gain trust from both “foreigners and locals.”

The last problem is that, among the returnees’ knowledge of multiple cultures, the understanding of Chinese culture is deeper than that of other cultures. One manager said that it is difficult for the Chinese who stay overseas to understand everything in another culture, just like some foreigners who have stayed in China for a long time still cannot understand every detail of the Chinese culture. Therefore, it is not easy for Chinese to gain senior management positions in a foreign country. Another manager who had been overseas for five years said that he found it easier to communicate with locals than expatriates because he had lived in China for more than 20 years before going overseas and knew the ways locals think very well. He said that they have good local understanding and a “global perspective” at the same time. Therefore, returnees may not possess much competitive advantage if they were in another country other than China.

3.2 What are Returnees’ Special Contributions?

The word “bridge” was used by most of the managers to describe returnees’ special roles. This bridge role is manifested both within and outside of multinational subsidiaries in China.

Inside multinational subsidiaries in China, the translate competence enables returnees to explain local conditions to their expatriate colleagues and explain headquarters policies to their local colleagues. They can interpret what expatriates say

and do to locals in ways they can understand, and vice versa. Thus they help the two ethnocentric ‘polars’ (Reynolds, 1997) of expatriates and locals understand each other and dialogue effectively. According to social identification theory, nationality-based categorization and identification may arise among a heterogeneous staff body, which impedes affective and behavioral integration in the organization (Tajfel, 1978; Tajfel & Turner, 1986; Turner, 1987). Being able to communicate to both ‘polars’, returnees glue the people together. They also act as the “bridge” between the parent firm and the Chinese environment, and between expatriates and locals. This bridge role improves headquarters’ control over subsidiaries, the management in subsidiaries, and the bi-directional learning between headquarters and subsidiaries. In addition, returnees facilitate locals’ learning of technical knowledge and corporate culture as well as expatriates and headquarters’ learning about the Chinese environment and people.

Managers widely attribute the “bridge” role to cultural knowledge. One manager said that “... it is always easier for people who have experience of two different cultures (returnees) to make that bridge (between expatriates and locals).” Another manager said that “They (returnees) become the bridge because they have the understanding of different cultures, social manners, as well as the language ability.” Another manager further commented that “To be able to connect between foreign and local people is the competitive advantage for returnees... It is relatively easy to cause misunderstanding when (foreigners are) doing business because of the different cultural backgrounds between West and East.”

Being the “bridge”, returnees improve communication and alleviate conflicts. One manager in a joint venture said that returnees are able to integrate two different cultures

of the local parent and foreign parent in the company, which is very important for a joint venture. He said that returnees “act as the bridge to facilitate the communication between (the) two parties.” Another manager said that when there were conflicts between the headquarters and local employees, returnees could act as a “cushion” to solve the problems if they communicated with both “wisely”.

Being the “bridge”, returnees improve parent firm control over their subsidiaries. They are capable of recommending which operational practices will or will not work in China, resulting in better decision-making for strategies and operations there. One manager said that expatriates should be in the subsidiary to realize real global integration because they understand how the multinational operates internationally and have the parent firm’s perspective without any bias. However, what they bring to the Chinese subsidiary may not work. Returnees can help them figure out why it does not work. Therefore, returnees can help expatriates manage the subsidiary. They can also buffer expatriates from cultural shock, and teach them international communication skills and local culture (Edstrom & Galbraith, 1977), resulting in expatriates’ better acculturation in China. Subsequently, expatriates are able to take appropriate personal and behavioral control approaches in daily operations.

Being the “bridge”, returnees are able to manage local staff more effectively than expatriates. A deep understanding of the Chinese people enables them to assess which Western management approaches are appropriate in China and adapt headquarters’ management policies and practices to the Chinese situation. Their translate competency enables them to manage people at the subsidiary and gain support from the parent firm. One manager said that they need managers to manage “essentially 100 percent Chinese”

employees who account for the vast majority of the employees at the lower levels and at the same time, to “closely connect to the company’s (headquarters’) business, knowing why they are doing the business.” Returnees are able to do both.

Outside of the subsidiaries, returnees can develop local networks and business efficiently. Good relationships with local customers, suppliers, competitors and government authorities create competitive advantages and attenuate environmental hazards for both the subsidiary and headquarters (Ghoshal & Nohria, 1989). It is especially important to cultivate and maintain these relationships in China (Xin & Pearce, 1996). Returnees are more efficient than expatriates in doing business in China. One manager said that they are more efficient in communicating with local government officials and clients than expatriates with their understanding of these people. Such understanding is a valuable asset for the multinational. Returnees can communicate without interpreters, whom expatriates need, since they have a full understanding of the Chinese cultural background. Back in the office, they can communicate fluently with expatriates and headquarters in the corporation’s official language and with the understanding of the relevant culture, which most locals cannot do. One manager said that they also hire returnees to explore global expansion opportunities. Their global perspective, language and communication skills are the basis for such a job.

A good “bridge” is far more than a pure interpreter, according to one manager. He went further saying it should be the “glue” that bundles everyone to work together, and returnees must gain trust from both expatriates and locals to be a good bridge. He used the drinking of alcohol, a special business characteristic in north China, as an example, “Many foreigners do not understand why you have to get drunk to do business. If you

(returnees) can explain to them that in north China, ... people like to drink with each other to tell each other the truth after getting drunk, then they can become real friends. Once you gain trust through drinking, it will accelerate the business negotiation process because now they trust you... If you explain the rationale behind drinking to others (foreigners), they are more likely to ... understand. So next time, the foreigners will ask you out for a drink to build ‘trust’.”

To summarize, the qualifications that returnees possess are a hybrid of those of expatriates and locals. They are closer to “balanced individuals” for MNEs in China than either expatriates or locals. One manager said, “...they (returnees) have advantages over both local employees and expatriates.” They can contribute to localization better than expatriates and contribute to integration better than locals, thereby helping MNEs in China achieve a better balance between global integration and local responsiveness. Figure 3.1 shows the appropriate positions of expatriates, locals and returnees serving MNEs’ global integration and local responsiveness.

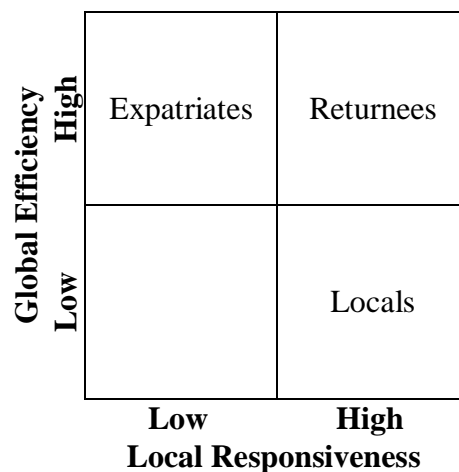


Figure 3.1 Returnees, Expatriates and Locals for Global Integration and Local Responsiveness

For the purpose of global integration, locals may perform poorly. One manager said that the subsidiary was once managed by locals, but some negative consequences occurred. For example, headquarters lost control over the financial situation in the subsidiary as well as the customer information, which was a core resource for the multinational; corporate values were not shared by the subsidiary employees who subsequently became narrow-minded; furthermore, the subsidiary could not get support from the headquarters when it had technical problems because there was little knowledge sharing between them. All these occurred because the local managers could not communicate effectively with headquarters. In terms of localization, one manager compared returnees with expatriates saying, “Because Chinese local business culture and business procedures are quite different from the North American ways, the key problem for expatriates is that they do not understand the local laws, business culture and business procedures.” Therefore, it is difficult for them to perform well in China. Without localization, “it is hard to support local business.” Another manager said that “at the management level, there are not many competent foreigners now.” This is because managers in multinational subsidiaries in China need to have knowledge about the industry, speak both Chinese and English, and understand the Chinese business culture to be successful. However, “many expatriates do not meet these criteria” and “returnees are more likely to meet these requirements.”

Adding the insights gained from the managers about returnees to Scullion and Collings’ advantages and disadvantage of PCNs, HCNs and TCNs (2006: 25-26), Tables

3.2 and 3.3 compare returnees with the existing categories from the perspectives of both the parent firm and the subsidiary.

An approach to staff localization

Returnees could help MNEs to realize staff localization in China. Staff localization is the process of replacing expatriates with local employees. It is desirable for MNEs to localize staff for several reasons. First, expatriates are a rare resource. MNEs have limited numbers of qualified expatriates and cannot always satisfy the demands from all their subsidiaries (Beamish & Inkpen, 1998). Second, it helps MNEs to overcome the language barrier and to establish networks of personal and business contacts. Third, it shows the local governments their commitment to the host countries. Fourth, it reduces costs. Finally, it enables MNEs to ‘think globally, act locally’. However, shortages of local managers and inferior management skills in China historically made implementation of localization a daunting task (Lasserre & Ching, 1997). Now, MNEs may consider returnees as a choice. Returnees with enough experience may be able to take over the tasks traditionally assigned to expatriates. Gong (2003a) suggested that HCNs with work experience may help parent firms control subsidiaries, gain local legitimacy, and transfer knowledge to the subsidiaries at the same time. Returnees would be a better choice than HCNs because of their advanced knowledge and their ability to communicate with headquarters.

Table 3.2 A Comparison of Returnees with Other Major Staffing Alternatives: A Corporate View

	PCNs	HCNs	TCNs	Returnees
Staffing Approach	Ethnocentric	Polycentric	Regiocentric	Geocentric
Advantages	<ul style="list-style-type: none"> • Direct and personal control over subsidiary • Help to transfer and establish organizational culture in early stages of establishment • Provide a career ladder for high performing HQ employees 	<ul style="list-style-type: none"> • Knowledge of local culture, legislation and market • Provide career path for high performing local employees • Generally a cheaper option than PCNs • Ensure continuity in host management teams, as opposed to frequent managerial changes associated with expatriates • Perceived well by local government and employees • More likely to take a long-term view of subsidiary operations due to the fact that appointment is long term 	<ul style="list-style-type: none"> • Even though TCNs may be just as socialized into corporate as PCNs, they may not be as threatening to host employees – a neutral alternative • Salary and relocation costs may be lower than PCNs • May reduce language barriers, e.g. a Spanish employee of a US MNC transferred to a new Mexican operation • Significantly expand recruitment pool within MNC • May be more willing to accept international assignments than PCNs due to limited market opportunities in their country of origin 	<ul style="list-style-type: none"> • No language barrier to the parent firm and the local government/employees • Knowledge of local culture, legislation and market • Better knowledge of the home country culture and parent firm culture than HCNs • Generally cheaper than PCNs • Not threatening to HCNs • Better accepted by local government • Bridge between locals and expatriates as well as local environment and headquarters
Disadvantages	<ul style="list-style-type: none"> • Can be an expensive option • Risks associated with expatriate failure • May create tensions with host government • Supply and demand issues for assignment in volatile areas and assignees with families-dual career • Limited awareness of local culture, legislation and market • PCNs may take a short-term view of subsidiary operations; interested only in what happens when they are there • May result in discontinuity in host management team, particularly with shorter team assignments • May have work permit and other legislative restrictions 	<ul style="list-style-type: none"> • More difficult to exercise control: rely on formal procedures and organizational culture • Reduced career opportunities for PCNs • Possible lack of familiarity or network with HQ personnel – may make communication more difficult 	<ul style="list-style-type: none"> • TCNs may take a short-term view of subsidiary operation; interested only in what happens when they are there • May have work permit and other legislative restrictions • Possible national cultural difficulties, e.g., Greece and Turkey • Overuse of TCNs may result in the MNC ‘losing control’ of its foreign operations • Repatriation problems as there may be no similar position for manager on return to their home country • May be selected on basis of language competency rather than technical or managerial ability 	<ul style="list-style-type: none"> • Less familiar with home country and parent firm than PCNs • Reduced career opportunities for PCNs, TCNs and HCNs • Those who obtained nationality from another country may have work permit and other legislative restrictions • May be selected on basis of language competency rather than technical or managerial ability

Adapted from Scullion and Collings (2006: 25).
The “Returnees” section is contributed by the current study.

Table 3.3 A Comparison of Returnees with Other Major Staffing Alternatives: A Subsidiary View

Staffing Approach	PCNs	HCNs	TCNs	Returnees
	Ethnocentric	Polycentric	Regiocentric	Geocentric
Advantages	<ul style="list-style-type: none"> • Increased expertise means learning opportunities for HCNs • Eases transition in MNC for HCNs • Experienced technical expertise for problems which may arise from operation • Provides a lead time for HCNs to reach the required standard performance • A direct and immediate contact with HQ 	<ul style="list-style-type: none"> • Career opportunities for high performing employees • Perceived autonomy for subsidiary operations 	<ul style="list-style-type: none"> • Increased expertise means learning opportunities for HCNs • TCNs more likely to appreciate legal and cultural idiosyncrasies of host country due to likely international career experience • Lower level TCNs are generally perceived as short-term assignments and thus not perceived as a threat to HCNs career paths 	<ul style="list-style-type: none"> • Good learning opportunities for HCNs using their native language • Appreciate and understand legal and cultural environments in China • Better management of employees • Better communication with HQ than HCNs • Better communication with locals than PCNs and TCNs
Disadvantages	<ul style="list-style-type: none"> • Lack of career opportunities for HCNs • Resentment due to possible differences in reward package between PCNs and HCNs 	<ul style="list-style-type: none"> • A lack of technical and managerial competence may lead to poor performance and demise of subsidiary • May result in political conflicts within the subsidiary over key appointments 	<ul style="list-style-type: none"> • Higher level TCNs seen as an alternative to PCNs and viewed as blocking career opportunities for HCNs • Lack of career opportunity for HCNs • May be cultural biases if TCNs come from a country with a history of conflict, e.g. India and Pakistan 	<ul style="list-style-type: none"> • Fewer career opportunities for HCNs

Adapted from Scullion and Collings (2006: 26).
The “Returnees” section is contributed by the current study.

CHAPTER 4 HYPOTHESIS DEVELOPMENT

From an organization learning perspective, this chapter examines the factors that may affect the employment of returnees in multinational subsidiaries in China and the consequences of such employment. Figure 4.1 summarizes the model.

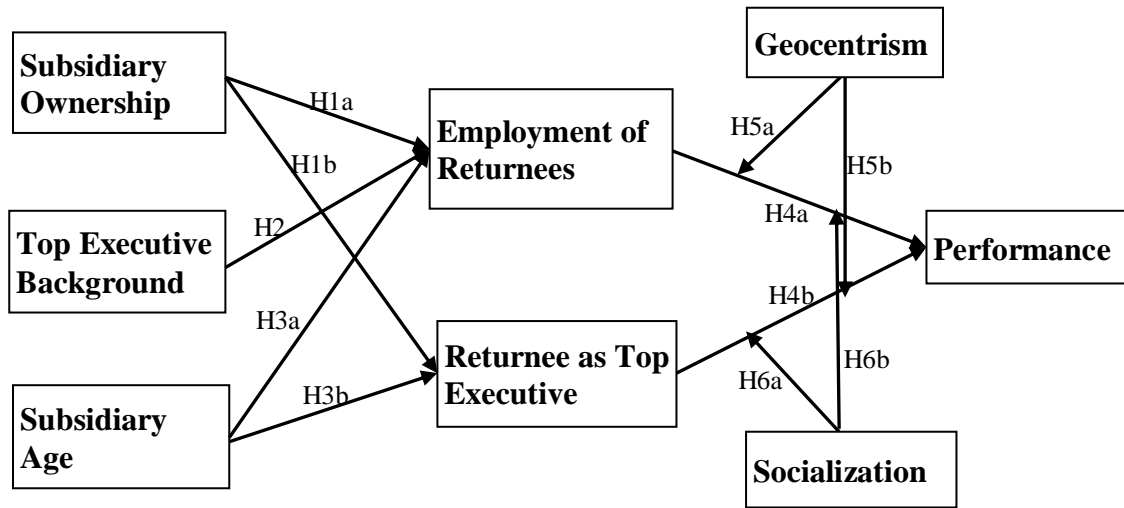


Figure 4.1 Theoretical Framework

4.1 MNE subsidiary learning

Both the resource-based view (Barney, 1991; Wernerfelt, 1984) and the knowledge-based view (Grant, 1996) recognize that knowledge is a source of competitive advantage. Collective learning is a core competence of an organization and strategies should be learning-driven (Prahalad & Hamel, 1990). Each MNE can be viewed as a social community for knowledge creation and transfer (Kogut & Zander, 1993). Both headquarters and subsidiaries are creators and recipients of knowledge at the same time (Ghoshal & Bartlett, 1990; Gupta & Govindarajan, 2000; Kostova & Roth, 2003; Nohria & Ghoshal, 1997; Tsai, 2002). Knowledge flows both vertically between headquarters

and subsidiaries and horizontally among subsidiaries (Mahnke & Pedersen, 2004). Knowledge created by subsidiaries may also bring competitive advantages for MNEs; thus headquarters are not the sole source of competitive advantage (Birkinshaw, 1997; Birkinshaw & Hood, 1998; Birkinshaw & Morrison, 1995; Johnston, 2005). However, researchers have only recently shifted from studying knowledge management at the firm level to the subsidiary level (Cantwell & Mudambi, 2005). The host country is another source of knowledge for a subsidiary. Learning from its external environment including the parent firm, other subsidiaries, and the host country improves a subsidiary management's ability to think globally and act locally, which is demanded for superior performance in a globally competitive environment (Bartlett & Ghoshal, 1989).

A subsidiary relies on its staff for learning. A large part of knowledge resides in individuals and groups working in different parts of the organization (Spender, 1996). People are critical for successful knowledge transfer (Argote & Ingram, 2000) and to a large extent decide how much an organization learns (Kostova, 1999). Distribution of experts in an organization is an important source of its absorptive capacity (Cohen & Levinthal, 1990). The team is the fundamental unit for organizational learning (Senge, 1990). Team learning is the process by which a team takes action, reflects on the feedback to the action, and makes corresponding changes to adapt or improve work (Argote, Gruenfeld, & Naquin, 2000). Within a team, subgroups may be formed based on some "faultlines" such as demographic characteristics (Lau & Murnighan, 1998). Using cultural understanding as a faultline, expatriates, locals, and returnees may well be the three subgroups within the management team in a subsidiary.

Previous research has suggested that people may lose psychological safety in front of those with more power; thus they are unwilling to contribute their ideas and suggestions (Argyris, 1982: 203). Demographic differences may have a similar effect. People are more willing to talk to those who are similar in terms of age, gender, nationality, experience, and so on. Therefore, locals may not feel comfortable communicating with expatriates because of the perceived power and demographic differences, which impedes organizational learning in subsidiaries. Both expatriates and locals may feel more comfortable communicating with returnees because returnees share cultural understanding, language or nationality with either of them. Effective communication is a precondition for organizational learning (Inkpen & Tsang, 2007), thus internal learning in subsidiaries becomes easier with the “bridge”.

With regard to external learning, other subsidiaries and headquarters constitute an important source of knowledge for the focal subsidiary. Communication between units facilitates knowledge flows within MNEs (Ghoshal & Bartlett, 1988). Learning from other units avoids its own trial-and-error learning (Hansen, 1999; Szulanski, 1996). Learning from the local environment is important for adapting knowledge learned from other units (Jensen & Szulanski, 2004) and realizing local responsiveness (Luo, 2001). Locals are able to learn from the local environment and expatriates are able to learn from headquarters and other subsidiaries. However, returnees are able to learn from all three with their ability to communicate with every aspect in the environment. They have higher individual absorptive capacity and could produce new knowledge that cannot be produced by expatriates or locals after the integration and assimilation of the learning from the MNE and the host country.

Returnees increase the subsidiary's absorptive capacity by facilitating a subsidiary's internal learning and being more efficient in its external learning than expatriates or locals. A subsidiary's absorptive capacity is the most important factor determining the amount of knowledge it is able to receive (Gupta & Govindarajan, 2000; Lane & Lubatkin, 1998; Szulanski, 1996) and it "depends on the individuals who stand at the interface of either the firm and the external environment or at the interface between the subunits within the firm" (Cohen & Levinthal, 1990: 132). Having returnees standing at these two interfaces communicating with the host country environment and other units

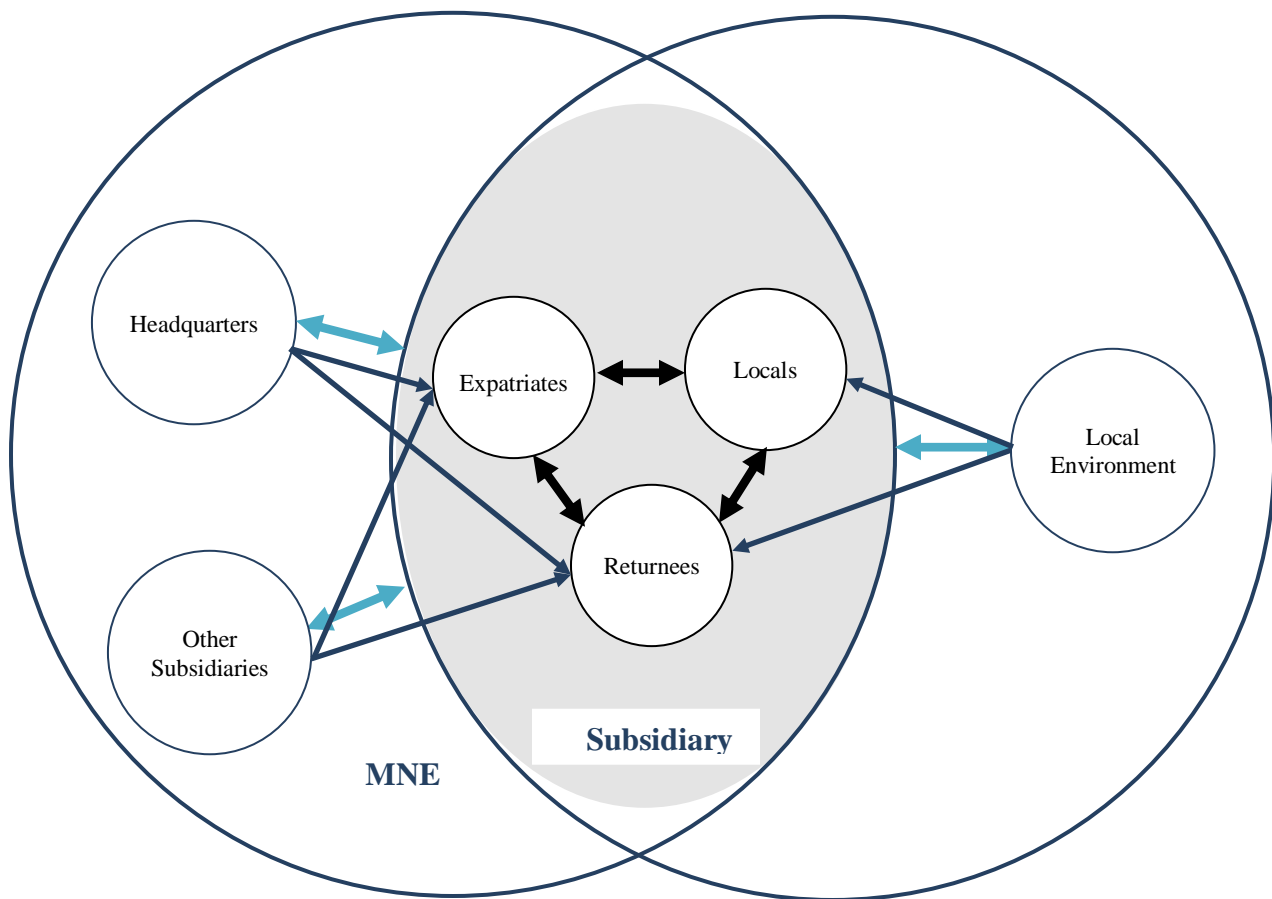


Figure 4.2 A Subsidiary's Internal and External Learning

could result in better learning. Figure 4.2 summarizes a multinational subsidiary's internal learning among the three subgroups of returnees, expatriates, and locals, and its external learning from other units of the multinational and the local environment.

The following section examines factors affecting the employment of returnees and the impact on subsidiary performance from an organizational learning perspective.

4.2 Antecedents of Returnees' Employment

4.2.1 Ownership status

In China, it is common for joint ventures to be required to accept managers sent by the local partner and to recruit local employees from the local partner. Thus, the organizational culture at the beginning may resemble that of the local partner (Björkman & Lu, 1997). An expatriate's presence at this stage can counterbalance the local organizational culture by instilling the parent culture and help the MNE maintain control and coordination (Gamble, 2000). However, having more than one parent creates difficulties in controlling the joint venture (Killing, 1982). The power distribution among the partners may be equivalent. Conflicts among the partners arise (Inkpen & Currall, 2004) sometimes because of different cultural backgrounds and may negatively affect organizational learning. Returnees may be able to alleviate or eliminate the conflicts with their ability to understand and communicate with all parties. They increase trust among the parties, which in turn facilitates the learning and cooperation among them (Inkpen & Currall, 2004). In the case of wholly-owned subsidiaries (WOSs), MNEs usually send expatriates in the early stages. There is less institutional pressure from existing

employees to conform to local practices (Taylor et al., 1996) and they tend to adopt the parent firm's practices (Bartlett & Ghoshal, 1989). The majority of the knowledge transfer is from headquarters to subsidiary and expatriates are the right people for the job. Conflicts may arise in WOSs, but the ownership status means that expatriates have a power advantage over locals. Expatriates may use their superior power to solve conflicts. The need for appropriate people to alleviate the conflicts may not be obvious. Therefore, returnees are likely needed more in JVs than in WOSs.

Top executives in JVs need to satisfy both parents and gain competitive advantage for the JV. This places high pressure on them because the parents may have divergent or even conflicting interests, operating policies, and organizational cultures (Buckley & Casson, 1988; Frayne & Geringer, 1990; Ganitsky & Watzke, 1990; Schaan & Beamish, 1988; Shenkar & Zeira, 1992; Sullivan & Peterson, 1982). Top executives in JVs need to balance the parents' different priorities and goals (Hoon-Halbauer, 1999). They have different skills from those in WOSs to meet these special requirements (Geringer & Frayne, 1993; Schaan & Beamish, 1988). One of these distinguishing skills may be the ability to understand different parent cultures and communicate with all parents. Based on their understanding of the parents and their knowledge about deploying resources available in China, returnees may be better at processing information from the different parents and finding solutions to reconcile the conflicts in interests, goals and policies among the different parents.

Hypothesis 1a: JVs proportionately hire more returnees than WOSs.

Hypothesis 1b: JVs are more likely than WOSs to have a returnee as the top executive.

4.2.2 Top executive background

The people who make recruitment decisions may also affect what kind of people are hired. Many returnees are in managerial positions and usually top executives in subsidiaries determine whether to hire them. Managers' backgrounds may affect their choice of employees. Although returnees satisfy labor market needs, their chance of being employed in a particular subsidiary may depend on the preferences of subsidiary executives. Expatriate and returnee executives may be more likely to hire returnees than local executives.

Expatriates and returnees share the same educational background and related experiences. People with similar backgrounds such as socioeconomic status or other attributes share some values and life experiences, which make their interactions easier (Ancona & Caldwell, 1992; O'Reilly, Caldwell, & Barnett, 1989; Pfeffer, 1983). They feel more attracted to each other, at least in the very beginning (Kanter, 1977; Pfeffer, 1983; Ziller, 1972). People sharing demographic backgrounds have similar views and richer exchanges of information and understand each other better than people with different backgrounds (Gibson & Vermeulen, 2003). Their communication of new ideas results in deeper learning in knowledge, attitude and behavior (Rogers, 1995). Similar backgrounds result in a feeling of cohesion that lowers the psychological fear inhibiting expression of ideas and cooperation (Kramer, 1990). A similar education level is positively related to a supervisor's personal attraction for a subordinate (Tsui & O'Reilly, 1989). Therefore, expatriate and returnee executives may be predisposed to hire returnees. Although locals and returnees share race, which is also positively related to a supervisor's

personal attraction (Tsui & O'Reilly, 1989), local executives may not be able to understand returnees' advanced ideas learned from their overseas experience. In some cases they may fear that they will eventually be replaced by their returnee subordinates. Therefore, local executives may be less likely to hire returnees.

Hypothesis 2: Expatriate and returnee top executives are more likely to hire returnees than local top executives.

4.2.3 Subsidiary Age

When foreign subsidiaries are first established, there is an immediate need to transfer knowledge. Local managers at new subsidiaries lack experience working with their foreign parent and are not familiar with the corporate routines and policies. Under such conditions, interaction at the individual level is an effective approach to transfer, recombine and create knowledge (Grant, 1996). Headquarters often adopt an ethnocentric approach and sends expatriates (Heenan & Perlmutter, 1979). These expatriates transfer technology, managerial knowledge, and best practices to the subsidiary, and market-specific knowledge from the subsidiary back to the headquarters. They follow the policies and processes that have been successful in the parent firm (Nelson & Winter, 1982). Such a replication is caused by the high ambiguity and uncertainty perceived in a new environment (DiMaggio & Powell, 1983; March & Olsen, 1976), technology duplication (Rosenzweig & Singh, 1991), and the cognitive limitations of the managers in charge of the establishment (Robock & Simmonds, 1989). In time, the subsidiaries develop their own knowledge base (Gong, 2003a) and robust systems and practices

(Downes & Thomas, 2000), which enable them to better learn from the parent and the environment. The demand for expatriates subsequently decreases.

Such an evolution between expatriation and internationalization has been supported by several studies. Downes and Thomas (2000) found that the relationship between the proportion of expatriates in a subsidiary and the subsidiary age takes a U-shape. In their sample of 32 MNE subsidiaries, the younger subsidiaries had a larger proportion of expatriates than the older ones. However, those subsidiaries that were much older had a slightly larger proportion of expatriates than the older ones. Taylor, Beecher, and Napier (1996) suggested that when a MNE initially pursues a global strategy, it may adopt an exportive SIHRM orientation and staff its subsidiaries with mostly expatriates. Later, as the MNE becomes more familiar with the local environment, it may shift to an adaptive orientation and staff subsidiaries with mostly HCNs, or an integrative SIHRM orientation and employ a combination of expatriates and HCNs. A declining use of expatriates in overseas subsidiaries has been observed in other studies (Beamish & Inkpen, 1998; Gong, 2003a; Wilkinson, Peng, Brouthers, & Beamish, 2008).

When expatriates leave China, their positions need to be filled by others. When a subsidiary is at an early age, returnees may be preferred because of their strong cross-cultural communication skills and advanced knowledge. They are able to take over jobs without extensive training. As the subsidiary gets older, some locals within the subsidiary attain enough training and socialization, which make them mature enough for managerial positions. They may become more competent than returnees at this stage with the firm-specific knowledge they have accumulated over the years.

Therefore, when a subsidiary is newly established, there may be few returnees. As time goes on, the number of expatriates decreases, the number of returnees may increase at first and then decrease with more locals being promoted to managerial positions.

Hypothesis 3a: The relationship between subsidiary age and the employment of returnees takes an inverted U-shape.

Hypothesis 3b: The relationship between subsidiary age and the likelihood of a returnee as the top executive takes an inverted U-shape.

4.3 Subsidiary Performance

The effect of learning on international performance is also well supported (Barkema, Shenkar, Vermeulen, & Bell, 1997; Inkpen & Beamish, 1997; Luo & Peng, 1999). Returnees may improve organizational learning with their effect on group diversity and control mechanisms.

Each returnee has a unique background and experience, which increases the heterogeneity of staffing composition in a subsidiary. The organizational learning perspective suggests that a heterogeneous staffing composition improves learning and innovation, which further improves subsidiary performance (Gong, 2003b).

With their bridge role, returnees act as a glue between expatriates and locals and bring more production out of the two groups, which benefits subsidiary performance. Without returnees, a communication gap exists between expatriates and locals; subsidiary management has to resort to more formal control mechanisms that impede innovation (Damanpour, 1991). As the bridge, returnees facilitate communication and cooperation between the two groups. Thus informal control mechanisms may become effective.

Informal control mechanisms increase organizational flexibility and facilitate learning, which lead to better innovation. Rapid innovation is the primary source of competitive advantage (Bartlett & Ghoshal, 1989). Empirical studies also support a positive effect of innovation on performance (Damanpour & Evan, 1984; Lawless & Anderson, 1996; Roberts, 1999)

The knowledge about the local environment that returnees possess, such as distribution channels, customer preferences, cultural values, and policies and regulations is “overseas knowledge” (Subramaniam & Venkatraman, 2001: 361) that cannot be easily codified and transferred systematically. However, it is key to international performance (Inkpen & Beamish, 1997). Besides, as stated earlier, returnees increase the subsidiary’s absorptive capacity, which further increases the amount of knowledge it can acquire and improves its performance.

As the proportion of returnees increases further, the heterogeneity of staffing composition decreases and so does the benefit of this heterogeneity. When there are few expatriates or locals, there is less of a need for a “bridge” between the two. Therefore, the benefit of the “bridge” also decreases. However, returnees still benefit performance because of the “bridge” role and their special knowledge. At this stage, the marginal performance improvement by increasing the proportion of returnees may decrease.

Hypothesis 4a: The relationship between employment of returnees and subsidiary performance takes an upward sloping inverted U-shape.

Hypothesis 4b: Subsidiaries with returnees as the top executive perform better than other subsidiaries.

4.3.1 Geocentrism

Geocentrism is the term this study uses to determine the degree to which both integration and localization are achieved. It indicates how well a firm performs in reaching the two conflicting strategic needs. An MNE's integration is reflected by the interdependence within its various units (Harzing, 2000).

A multinational subsidiary, the parent, and the other subsidiaries may depend on each other for resources such as technology and managerial knowledge, knowledge about the local market and society, raw materials, manufacturing components, and capital and export markets (Martinez & Ricks, 1989). A higher level of interdependence has been found to be related to more internal communications and more decentralized decision making (Aiken & Hage, 1968; Aldrich, 1979; Van de Ven, Delbecq, & Koenig, 1976), which put more demand on the liaison function of managerial positions (Galbraith, 1973; Lawrence & Lorsch, 1967; Lorsch & Allen, 1973). Managers need to be efficient in intersubsidiary and subsidiary-headquarters learning.

Localization, on the other hand, requires managers to learn from the local environment. When a subsidiary has a high level of geocentrism, intensive learning happens both between the subsidiary and the other units of the MNE and between the subsidiary and the local environment. As discussed earlier, returnees are able to learn from every aspect of the subsidiary environment. They may be able to help subsidiary performance by using their absorptive capacity to a greater degree.

When a subsidiary emphasizes either integration or localization, in other words, when the degree of geocentrism is not high, returnees use their learning capabilities at a lower level: learning capabilities from the local environment are needed less for

integration and learning capabilities from other units of the MNE are needed less for localization. Subsequently, their ability to help subsidiary performance may also be lower. On the other hand, expatriates may be able to improve performance at the subsidiary when it emphasizes integration, and locals are a better choice when the subsidiary emphasizes localization. Therefore, as the degree of geocentrism decreases, so too does the benefit returnees bring to subsidiary performance.

Hypothesis 5a: The degree of geocentrism positively moderates the relationship between employment of returnees and subsidiary performance.

Hypothesis 5b: Geocentrism moderates the relationship between returnee as the top executive and subsidiary performance: As the degree of geocentrism increases, the performance of the subsidiaries with returnees as the top executive increases more than the performance of other subsidiaries.

Figures 4.3 and 4.4 show the two interactions. Hypothesis 5a indicates that a high level of geocentrism improves performance more than a low level of geocentrism; therefore, the performance difference between the high proportion of returnees and the low proportion of returnees is larger than that for the latter. For the same proportion of returnees, a high level of geocentrism results in better performance; therefore, the performance associated with a high level of geocentrism shall always be better than with a low level of geocentrism. In other words, the line for high geocentrism shall always be above that for low geocentrism in Figure 4.3. For the interaction between geocentrism and returnee as the top executive, based on Hypothesis 5b, the slope for high geocentrism is deeper than that for low geocentrism so that the performance difference between returnee top executive and non-returnee top executive at a high level of geocentrism is

bigger than that at a low level of geocentrism. A returnee top executive should bring better performance than a non-returnee top executive; therefore, the performance for the former is better than that for the latter in Figure 4.4.

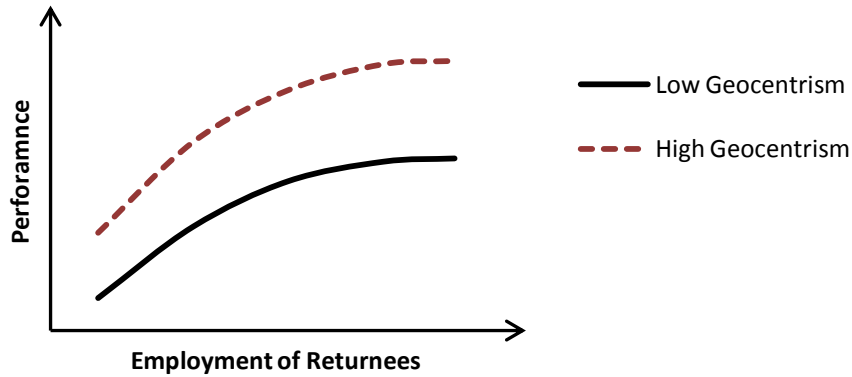


Figure 4.3 The Interaction between Geocentrism and Employment of Returnees

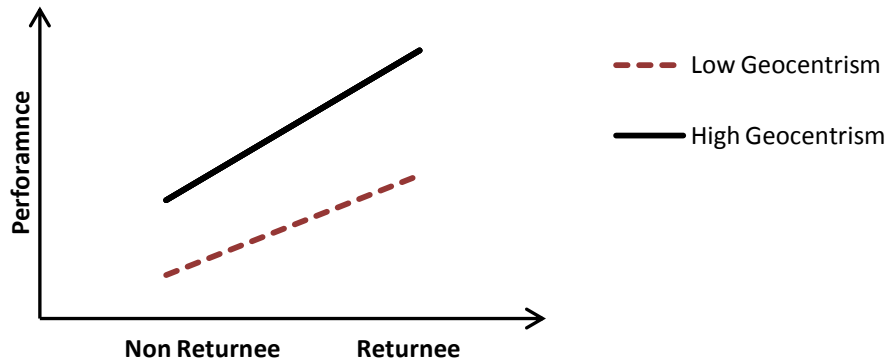


Figure 4.4 The Interaction between Geocentrism and Returnee as the Top Executive

4.3.2 Socialization

Management transfer and socialization of managers can improve organizational identification and commitment, and facilitate learning, control and coordination in subsidiaries (Adler & Ghadar, 1990; Edstrom & Galbraith, 1977; Evans, 1992; Gupta & Govindarajan, 1991; Milliman et al., 1991). When HCNs and TCNs are employed, firms

coordinate and control their subsidiaries in two main ways: by establishing rules and procedures for HCN and TCN managers to follow, and by socializing HCN and TCN managers to think and behave like expatriates. The former does not allow much organizational flexibility and impedes learning. Socializing helps these managers learn and internalize the values and norms of the parent firm (Pucik & Katz, 1986) and increases their organizational commitment. Employees who understand the values are likely to develop positive attitudes (Kostova & Roth, 2002). Socialization serves as a transmission channel for knowledge transfer, which is a primary determinant of knowledge transfer success (Bartlett & Ghoshal, 1989; Ghoshal, Korine, & Szulanski, 1994).

Through a system of transfer and socialization, subsidiary managers also build a personal information network in the MNE. This personal network increases openness and richness in intersubsidiary and subsidiary-headquarters communication (Daft & Lengel, 1986; Ghoshal et al., 1994; Gupta & Govindarajan, 2000). The informal communications through the personal networks produce deeper interactions among the managers and thus become more effective than formal communications (Churchman & Schainblatt, 1965). The strong ties with other units in the MNE within the network can produce relationship-specific heuristics, which facilitate tacit and system-dependent knowledge transfer (Hansen, 1999; Tsai, 2001; Tsai & Ghoshal, 1998). As a result, managers with a higher level of socialization bring more knowledge flow in and out of the subsidiary (Gupta & Govindarajan, 2000). Subsequently, MNEs simultaneously achieve integration and localization (Edstrom & Galbraith, 1977) and improve performance in terms of return on

assets, average annual growth of return on assets, and sales (Nohria & Ghoshal, 1994). In sum, socialized managers improve firm performance.

Returnees understand the local culture and they already possess business knowledge that is comparable with that of expatriates. The main disadvantage of returnees is the relatively lower understanding of organizational culture. Socialization provides returnees with opportunities to learn about the culture and routines at headquarters and leads them closer to becoming “balanced individuals”. Afterwards, returnees identify more with the MNE, become more loyal to the parent, and link their career aspirations to the MNE (Kamoche, 1997). The more they are identified with the parent firm, the more likely they are able to transfer knowledge successfully from the parent to the subsidiary (Kostova, 1999). Socialized returnees are also better able to socialize subsidiary employees than expatriates, leading to higher identification of the subsidiary with the parent firm. This identification increases employees’ understanding of MNE values and norms and eases acceptance and implementation of the knowledge transferred from other units (Kostova & Roth, 2002). The subsidiary subsequently learns and applies more knowledge and gains competitive advantages. Therefore, socialized returnees may be better able to improve subsidiary performance than expatriates and locals.

Hypothesis 6a: Socialization of returnees positively moderates the relationship between employment of returnees and subsidiary performance.

Hypothesis 6b: Socialization moderates the relationship between returnee as the top executive and subsidiary performance: As the degree of socialization increases, the

performance of the subsidiaries with returnees as the top executive increases more than the performance of other subsidiaries.

Figure 4.5 and 4.6 show the two interactions.

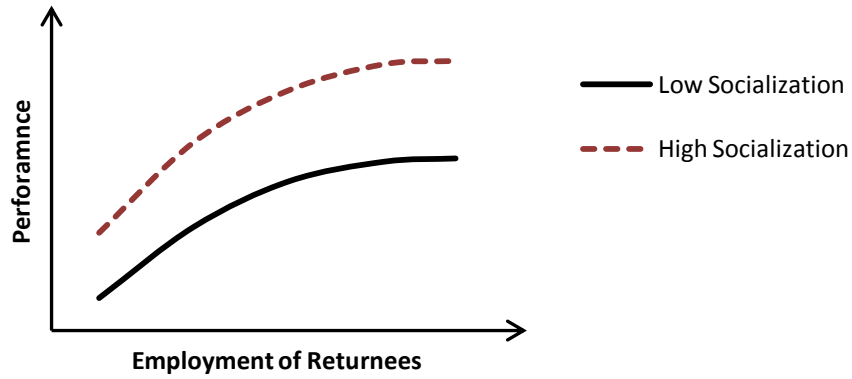


Figure 4.5 The Interaction between Socialization and Employment of Returnees

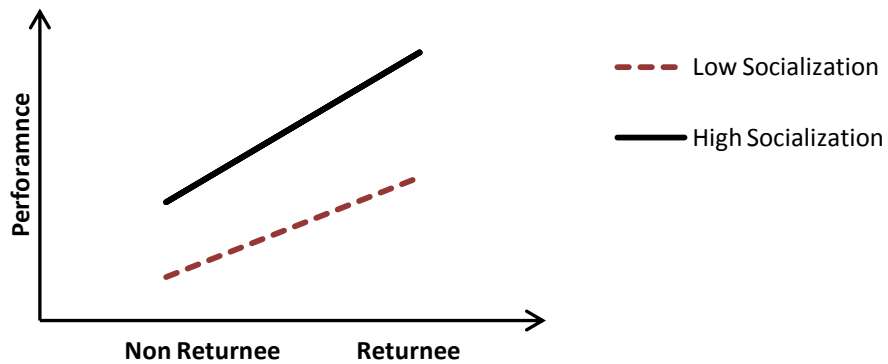


Figure 4.6 The Interaction between Socialization and Returnee as the Top Executive

CHAPTER 5 METHODS

The survey has been the most commonly used method to collect data in Chinese management research (Farh, Cannella, & Lee, 2008; Li & Tsui, 2000). The current study also used a survey to collect data from multinational subsidiaries in China.

A questionnaire was designed for the survey. Most of the questions were based on existing measures in the literature. The measures will be described in detail at the end of this chapter. We consulted five managers from multinationals and three university professors for clarification and appropriateness of the questions, and we improved the questionnaire based on their feedback (Appendix I). The targeted respondents were top executives with titles such as CEO, General Manager, Managing Director, President, or other equivalent titles in MNE subsidiaries in mainland China.

5.1 SAMPLE

We chose the multinational subsidiaries located in two big cities, Shanghai and Beijing, because returnees tend to work there in large numbers. In this study, a firm that has value-added activities in at least two countries is considered as a multinational enterprise (Teece, 1985).

5.2 PILOT STUDY

Before the main study, a pilot study was conducted after ethics approval. The draft questionnaire with an area for comments at the end of each section was sent to 90

top executives in China. Eleven responses were received. The executives were able to understand all the questions. They also gave some comments on the questionnaire.

The measure of integration, “the percentage of yearly output (in terms of value, including parts/semi-manufactured articles) of a subsidiary that is sold or delivered to global headquarters and other subsidiaries”, was questioned by two executives from service MNEs. They suggested that this measure was not applicable to their firms. This study is not limited to service industries; therefore, new measures needed to be developed for this construct.

This measure was first developed by Kobrin (1991) following the argument that integration is indicated by resource flows within an MNE (Bartlett & Ghoshal, 1987) and data on product flows are available for many firms. It has been adopted by other studies focusing on manufacturing MNEs. On the other hand, the percentage of yearly output (including parts and semi-manufactured articles) that is delivered to the local market has been used as a measure for localization (Belderbos & Heijltjes, 2005).

Another approach in measuring integration is to examine the activities along the value chain. Martinez and Jarillo (1991) took this approach and measured both integration and localization by focusing on the activities of purchasing, research and development, manufacturing, and marketing because these are the key sources of integration and localization (Doz, 1986; Porter, 1986; Yip, 1992).

Several studies applied both approaches. Birkinshaw, Morrison and Hulland (1995) and Kim, Park and Prescott (2003) measured global integration with a mix of resource flows and value chain activities. Harzing (2000) measured global integration

with intrafirm resource flows and measured local responsiveness following the value chain approach.

This study measured geocentrism with the interaction of integration and localization. We decided to measure both constructs taking the same approach. Since data on intrafirm product flows are not available from service firms, the value chain approach was adopted instead.

The activities in a value chain can be separated into two groups: upstream activities and downstream activities. Upstream activities produce competitive advantages mainly by enabling economies of scale while downstream activities tend to produce location-specific advantages (Porter, 1986). Research and development and marketing are the major activities that can represent upstream and downstream activities respectively. Therefore, the following two items were developed for integration:

- In the last two years, the percentage of company **products/services** sold by this subsidiary that were developed (totally or partially) by **headquarters or other subsidiaries**;
- In the last two years, the percentage of **marketing** for company products/services sold by this subsidiary that was adopted (totally or partially) from **headquarters or other subsidiaries**.

The value of integration is the average of these two items. Correspondingly, the following two items were developed for localization:

- In the last two years, the percentage of company **products/services** sold by this subsidiary that were especially developed or substantially modified for the **mainland China market**;

- In the last two years, the percentage of **marketing** for company products/services sold by this subsidiary that was especially developed for or consciously adapted to the **mainland China market**.

The value of localization is the average of these two items.

The measure for localization in the literature, the percentage of yearly output (in terms of value, including parts/semi-manufactured articles) of this subsidiary that was sold or delivered to the **mainland China market**, was also included in the questionnaire so that the validity of the new measures could be tested through the correlation between the old and the new measures. (The data from the main study show a correlation of 0.87 between the old measure and our measure of localization, and it is significant at the 0.01 level, so our measure appears appropriate.)

5.3 MAIN STUDY

Following ethics approval, the revised questionnaire was used for the main study. Due to the difficulty in obtaining responses from local Chinese managers, part of the data collection utilized a research service company in China as has been done in various other studies such as Luo and Peng (1999), Luo (2002), Filatotchev, Liu, Buck, and Wright (2009), Law, Song, Wong, and Chen (2009). A Chinese version of the questionnaire that had gone through a translation and back-translation procedure was used. Eight-hundred and fifty top executives were contacted. After following up three times, 89 useable questionnaires were returned. The response rate was 11.1%.

The rest of the data were collected adopting the 5-contact approach (Dillman, 2000) as described below. These respondents were drawn from the member directories of the American Chamber of Commerce in China and the European Union Chamber of

Commerce in China. This is a convenience sample from the multinational subsidiaries in China, the population that we study. We could not obtain a random sample because it was too difficult to acquire the names of top executives and their contact information.

The **first contact** was phone call. The top executives were contacted by phone and an email address was obtained from those who agreed to receive the survey request. In many cases, the phone was answered by the top executive's assistant, who could provide the top executive's email address, the assistant's own email address, or another email address (usually the company's public email address). These were all accepted as long as the assistant agreed to transfer the message to the top executive when the email address provided was not that of the top executive.

The **second contact** was email, sent promptly following the first contact. The cover letter (Appendix I) and the questionnaire were sent to the top executives. Each cover letter was personalized and confidentiality was also assured. The respondents could access the questionnaire either through a weblink from [surveymonkey.com](https://www.surveymonkey.com) or through the email attachment.

The **third contact** was a thank you/reminder note. It was sent by email three weeks after the second contact. This time lag was chosen based on the many "out of office" auto-replies that were received. These messages suggested that it was quite common for these executives to be away for as long as one or two weeks. Three weeks would be a period that gives them enough time to check their previous message before the next one arrives.

The **fourth contact** was a replacement questionnaire sent to non-respondents by email after three weeks.

The **fifth contact** was mail. Phone calls were made again to confirm the non-respondents' mailing addresses. A printed questionnaire was sent through Canada Post. Such a mode change from email to mail may increase the response rate since some people may be more likely to respond to one mode than to others (Dillman, 2000). Pre-addressed envelopes were provided so that the respondents could return the completed questionnaires directly to us. Pre-addressed envelopes may lower the risk of exposing the answers to other people in the firm (Gupta & Govindarajan, 2000). As well, a fax number was provided for those who preferred to fax the completed questionnaire, and an email address was provided also if they wished to send a scanned copy. The respondents also had the option of returning blank questionnaires as an indication of refusing participation.

Two research assistants called every company in the two directories and successfully obtained 551 email addresses. We sent email to all of them. Twenty-two replied that his/her company was not an MNE or that he/she was not the appropriate person to answer the questionnaire, and 46 refused to participate. A total of 71 responses were received. The response rate following the 5-contact approach was 12.9%. The total response rate for this study combining the survey by the Chinese company and that of the 5-contact approach was 11.8%. This low response rate may be satisfactory for a few reasons: 1) the respondents hold senior positions at organizations and are usually very busy; 2) some questionnaire items such as performance are sensitive (Finkelstein, 1992); 3) it may be more difficult to obtain responses in China than in developed countries because of its institutional and cultural environment. A recent study by Puck, Holtbrügge, and Mohr (2009) with similar respondents in China had a response rate of 9%.

The responses collected by the Chinese contractor and by ourselves were drawn from the same population, used the same questionnaire, were conducted during the same time period, and were administrated under a similar procedure; therefore, we do not see serious methodological issues in combining them. An independent sample t-test of subsidiary size showed that there was no significant difference between the data collected by the Chinese contractor and those collected by ourselves, which further justified such a combination.

We excluded seven responses that left one or two sections of the questions unanswered. To make sure the subsidiaries in our sample are viable organizations, we further excluded another 17 from companies that had less than 20 employees as suggested by Beamish and Inkpen (1998). Subsidiaries with 20 or fewer employees tended to be agencies or sales subsidiaries. There were a total of 136 useable responses including 72 subsidiaries (53%) without any returnees in the management team and 64 subsidiaries (47%) with at least one returnee.

Table 5.1 Sample

Responses Received 160	Excluded 24	Useful Responses 136
89 from the Chinese company	7 incomplete	72 (53%) subsidiaries without returnees
71 self collected	17 with less than 20 employees	64 (47%) subsidiaries with returnees

5.4 MEASURES

We adopted established measures in the literature as much as possible. Where necessary, we changed the wording of the questions to fit the subsidiary context and to improve clarification.

5.4.1 Dependent Variables

Employment of returnees

Employment of returnees is calculated as the ratio of returnee managers to the total number of management team members in the subsidiary including the top executive and all the managers that report directly to him/her. Many studies in the MNE staffing literature have used the ratio of expatriates to the total number of employees in a subsidiary to measure employment of expatriates. The reason for doing so may be that the data on the number of managers is not available in most cases. However, a survey method enables us to collect data about the management teams. We used both measures and the results were the same. The reports in this study were based on the ratio of returnees to the total number of management team members. This may be a better measure, because managers may arguably care much more about this ratio than the ratio of returnees to the number of employees when making strategic staffing decisions.

Returnee as top executive

This is a dummy variable, coded as 1 if the top executive is a returnee and 0 if otherwise.

Performance

Richards (2001) argued that subsidiary performance rather than corporate performance is deemed to be the more appropriate measure because expatriates are deployed to manage subsidiaries. Returnees in the sample also manage subsidiaries;

therefore, subsidiary performance is appropriate to measure their contributions. Any single measure of performance bears some criticism (Weiner & Mahoney, 1981), and multiple measures have advantages (Tallman & Li, 1996). However, it is not always appropriate to measure subsidiary performance with objective financial performance (Prahalad & Doz, 1987) because some subsidiaries serve strategic missions for MNEs such as building distinctive capability, analyzing the international environment, and testing and developing new strategic moves (Bartlett & Ghoshal, 1986); accordingly, some are not expected to make profits. Additionally, internal pricing practices and income shifting between the parent and its subsidiaries may distort the accuracy of accounting based measures. On the other hand, perceptual measures have been shown to have high correlations with objective accounting-based measures (Geringer & Hebert, 1991), and subjective measures have been widely used in surveys to measure subsidiary performance (e.g., Andersson, Forsgren, & Holm, 2002; Birkinshaw, Hood, & Young, 2005; Björkman & Xiucheng, 2002; Kim & Mauborgne, 1993; Park, Mitsuhashi, Fey, & Björkman, 2003).

Following Park *et al.* (2003), we asked top executives to rate subsidiary performance on a 7-point scale from “much worse” to “much better” comparing with the major competitors in its primary industry in the last two years on the following four items: 1) operating efficiency, 2) quality, 3) service, and 4) profitability.

Exploratory factor analysis resulted in one factor with an eigenvalue greater than one that explained 75% of the variance, and the reliability analysis showed a Cronbach α of 0.89. The construct had good internal consistency and unidimensionality. The factor score was saved for hypothesis testing. The factor scores do not assume an equal weight

for each item. However, the majority of the literature has used the average of all items. In this study, we used both in our hypothesis testing.

5.4.2 Independent Variables

Geocentrism

Geocentrism is the interaction term of integration and localization. The measures have been described in the pilot study (Section 5.1).

Ownership

Ownership is classified into JV and WOS and is dummy coded: JV is coded as 1 and WOS as 0. A subsidiary is deemed to be a JV if the percentage of equity owned by the foreign parent by the end of the last fiscal year falls between 20% and 80% (Dhanaraj & Beamish, 2004), while it is considered as a *de facto* WOS if it is more than 80%. The earlier literature used a broader classification: 5% to 95% foreign ownership as a JV and more than 95% as a WOS. We conducted sensitivity analysis on these two criteria where ownership was involved and the results were the same.

Top executive background

Top executive background is coded as a dummy variable. Local top executives are coded as 1, and returnees and expatriates are coded as 0.

Subsidiary age

Subsidiary age is measured by the difference between the year 2008 and the year of establishment.

Socialization

Top executives were asked to report socialization activities separately for both themselves and the returnee managers who reported directly to them. The items for socialization were adapted from several studies that used a level of analysis at the parent firm: the measure for socialization mechanisms is from Björkman, Barner-Rasmussen, and Li (2004), the measure for normative integration is from Ghoshal and Nohria (1989), and the measure for people-based integration mode is from Kim, Park, and Prescott (2003). Since expatriates also socialize their colleagues in subsidiaries by instilling corporate values (Ghoshal & Nohria, 1993; Welch & Welch, 1997), we included the item, “communication interactions with expatriates assigned to this subsidiary.” On a 7-point scale from “never” to “very frequently,” each top executive was asked to indicate how frequently he/she and the managers participated in the following activities:

- Training programs for managers who come from different countries.
- Global or regional meetings with managers from different countries
- Job rotations to headquarters and/or other subsidiaries
- Communication interactions with the expatriates assigned to this subsidiary
- Personal contact with other managers in headquarters and/or other subsidiaries
- Committees, teams and task forces with managers from headquarters and/or other subsidiaries

Factor analysis and reliability analysis were conducted to check the internal consistency and unidimensionality. The results for the construct socialization of returnees showed that the items loaded on one factor that explained 48% of the variance, and the Cronbach α was 0.73. The results for socialization of the top executive showed that one factor explained 57% of the variance and a Cronbach α of 0.81. Both had good reliability and unidimensionality. The factor scores were saved for hypothesis testing. For the same reason as with performance, we again used averages to see if the results were different. The socialization of all returnees is used to test the hypothesis related to employment of returnees (H6a). If the top executive is also a returnee, we first calculated the weighted average of each item, and then calculated the factor score/average of all the items for the construct. For H6b, which is related to the top executive, we used the factor score/average of all the items of this top executive's socialization.

5.4.3 Control Variables

Industry globalization

Industry globalization is a subjective measure. The top executives were asked to indicate their agreement with the statement, "In this primary industry, competition in one country is affected by that in other countries" using a 7-point scale from "strongly disagree" to "strongly agree."

Subsidiary size

Subsidiary size is measured by the total number of employees at the subsidiary. Considering the reluctance of managers to release financial data, we did not use subsidiary sales or equity to measure subsidiary size.

Managers with international experience

Managers with international experience are likely to be a valuable, rare, and inimitable resource, and they have an impact on performance (Carpenter, Sanders, & Gregersen, 2001). International experience is defined as living and working in a foreign country for at least one year (Gregersen & Morrison, 1998). The value for this variable is the sum of the number of returnees, the number of locals who have stayed overseas for one year or more, and the number of expatriates who have ever stayed for one year or more in a foreign country other than their own home countries/regions.

Employment of expatriates

Employment of expatriates is measured by the ratio of the number of expatriate managers to the total number of the top management team in the subsidiary.

First Investment

First investment is a dummy variable indicating whether the subsidiary is the MNE's first investment in China.

Cultural Distance

Cultural distance has been proven to have an impact on performance. We asked the respondents of the home country where the headquarters of the MNE are located. Cultural distance scores were calculated using Kogut and Singh's (1988) formula. The scores of cultural dimensions were from Hofstede (2001).

Table 5.2 summarizes the questions designed for each variable.

5.5 DATA SCREENING

Before proceeding with data analysis, we took several steps to examine the data including the following: missing data, distributions, non-response bias, common methods bias, and multicollinearity.

5.5.1 Missing Data

Most questionnaires returned were fully completed. All the variables that had missing data had less than five percent missing values. A missing values analysis shows that data were missing completely at random. If only a few points were missing in a random pattern, any procedure that handles missing values may yield similar results (Tabachnick & Fidell, 2007). We applied mean replacement to handle missing data.

5.5.2 Non-Response Bias

If data are not collected from every respondent in the sample, there may be non-response bias, which means that the respondents may be significantly different from the non-respondents. In the case where the characteristics of the non-respondents are not

Table 5.2 The Variables and Their Corresponding Questions

	Variable	Question(s)
DV	Performance	On a scale from 1 as “much worse” to 7 as “much better”, please indicate how you would evaluate the subsidiary performance comparing with the competitors in the primary industry in the following four dimensions. Operating efficiency Quality Service Profitability
DV/IV	Employment of returnees	How many managers who report DIRECTLY to you grew up in Mainland China (excluding Hong Kong, Taiwan and Macao) and had higher education overseas ?
	Returnee as the top executive	You grew up in (Please check one) <input type="checkbox"/> Mainland China (excluding Hong Kong, Taiwan and Macao) and had higher education overseas <input type="checkbox"/> Mainland China (excluding Hong Kong, Taiwan and Macao) and had NO higher education overseas <input type="checkbox"/> Other place (including Hong Kong, Taiwan and Macao), please specify _____
IVs	Geocentrism	In the last two years, the percentage of company products/services sold by this subsidiary that were developed (totally or partially) by headquarters or other subsidiaries was _____. In the last two years, the percentage of marketing for company products/services sold by this subsidiary that was adopted (totally or partially) from headquarters or other subsidiaries was _____. In the last two years, the percentage of company products/services sold by this subsidiary that were especially developed or substantially modified for the mainland China market was _____. In the last two years, the percentage of marketing for company products/services sold by this subsidiary that was especially developed for or consciously adapted to the mainland China market was _____.
	Ownership	At the end of the last fiscal year, the percentage of equity owned by the primary FOREIGN parent firm in this subsidiary was _____ %

(Continued)

Table 5.2 The Variables and Their Corresponding Questions (Continued)

IVs	Top executive background	You grew up in (Please check one) <input type="checkbox"/> Mainland China (excluding Hong Kong, Taiwan and Macao) and had higher education overseas <input type="checkbox"/> Mainland China (excluding Hong Kong, Taiwan and Macao) and had NO higher education overseas <input type="checkbox"/> Other place (including Hong Kong, Taiwan and Macao), please specify _____
	Subsidiary age	This subsidiary was established in Year _____.
Moderator	Socialization	How frequently the returnee, locals and expatriate managers in this subsidiary participate in the following activities (from “never” to “very frequently”). Training programs for managers who come from headquarters and/or other subsidiaries Global or regional meetings with managers from headquarters and/or other subsidiaries Job rotations to headquarters and/or other subsidiaries Communication interactions with expatriates assigned to this subsidiary Personal contact with other managers in headquarters and/or other subsidiaries Committees, teams and task forces with managers from headquarters and/or other subsidiaries
CVs	Cultural distance	The country where headquarters of this multinational enterprise are located _____.
	Industry globalization	In this primary industry, the competition in one country is affected by that in other countries. (degree of agreement)
	Subsidiary size	The number of employees in this subsidiary is _____.
	Managers with international experience	Among the LOCAL managers that report directly to you, how many ever stayed overseas (including Hong Kong, Taiwan and Macao) for one year or more? Among the EXPATRIATE managers that report directly to you, how many ever stayed in ANOTHER COUNTRY for one year or more other than their home country/region (please treat Hong Kong, Taiwan and Macao as regions)? How many years have you stayed in FOREIGN countries/regions other than your home country/region? (Please treat Hong Kong, Taiwan and Macao as regions, and put 0 if you never been in a foreign country.)
	Employment of expatriates	How many managers who report DIRECTLY to you grew up in other places (including Hong Kong, Taiwan, and Macao)?
	First investment	Is this subsidiary the first investment in China for this multinational enterprise? (Yes/No)

available, which is typical in surveys, a comparison between early respondents and late respondents is widely accepted as one approach to test non-response bias, since late respondents are found to be similar to non-respondents (Oppenheim, 1966). Both a T-test and a chi-square test were conducted to check potential response bias. We did not find any significant difference while comparing the early responses with the late ones regarding subsidiary size and subsidiary age. Therefore, there may be no serious non-response bias in this study.

5.5.3 Common Method Bias

Common method bias refers to the spurious correlations among the variables because of the common method used (Buckley, Cote, & Comstock, 1990), which causes method variance, the variance that is attributable to the measurement method used rather than the construct itself (Bagozzi & Yi, 1991). A same rater responding to the items in a questionnaire at the same time may result in common method bias, because the answers may affect one another (Kemery & Dunlap, 1986; Lindell & Whitney, 2001). However, Doty and Glick (1998) concluded that “many of the criticisms of research streams that rely predominantly on a single data collection procedure are probably overstated” (p. 398). Their study shows that a multiple-method approach is less essential when constructs are measured with fairly concrete items. Most of the questions we asked were factual rather than subjective; thus, the extent of common method bias should be minimal in this study.

Nonetheless, to examine the potential common method bias empirically, we conducted Harman’s one factor test as suggested by Podsakoff and Organ (1986). We

performed this test three times for the variables in each of the three equations respectively as an ex-post test. If there was serious common method bias, one factor should emerge that accounts for most of the covariance in the independent and dependent variables (Harman, 1976; Podsakoff & Organ, 1986). The variables in the first equation (employment of returnees as the dependent variable) produced four factors with an eigenvalue value greater than one, and each factor accounted for 13 percent to 19 percent of the variance. The variables in the second equation (returnee as the top executive as the dependent variable) also produced four factors with an eigenvalue value greater than one and each factor accounted for 12 to 18 percent of the variance. The variables in the third equation (performance as the dependent variable) produced five factors and each factor accounted for nine to 19 percent of the variance. The factor analysis shows that common method bias is not a threat in this study.

5.5.4 Normality and Data Transformation

Skewness and kurtosis of the data were examined for each variable. Subsidiary size and geocentrism were highly skewed and log transformation was subsequently applied. Managers with international experience and employment of returnees were moderately skewed and square root transformation was therefore applied. The skewness values of these variables were lowered to acceptable levels after the transformations. All other variables were either normally distributed or have little skewness and no transformation was needed.

5.5.5 Correlations

Table 5.3 displays means, standard deviations and bivariate correlations among the continuous variables. We obtained point-biserial correlation for dichotomous variables including ownership, returnee as top executive, top executive background and first investment. All the correlations were low except for the correlation between socialization of returnees and socialization of top executives. Since more than half of the subsidiaries did not have returnees, the construct “socialization of returnees” did not have value for many cases. The related hypothesis, which states that socialization moderates the relationship between employment of returnees and subsidiary performance, was not testable with such a small sample size. Therefore, the variable, socialization of returnees, was not used for hypothesis testing. We do not need to worry about the potential multicollinearity between the two variables. We further checked VIFs (Variance Inflation Factors) in each model. VIFs in the models with employment of returnees and returnee as the top executive as the dependent variable range from 1.5 to 3.5, while those in the model with subsidiary performance as the dependent variable ranged from 1.1 to 5.9. All are well below ten and; therefore, multicollinearity was not a concern in this study.

Table 5.3 Means, Standard Deviations and Correlations

	Mean	S.D.	1	2	3	4	5	6	7	8	9	10	11	12	13	14
1 Subsidiary Performance	5.27	.91														
2 Employment of Returnees	.14	.22	.068													
3 Ownership	N.A.	N.A.	-.289**	-.198*												
4 Returnee as Top Executive	N.A.	N.A.	-.017	.542**	-.126											
5 Geocentrism	1092	1569	.115	.150	.454**	-.057										
6 Top Executive Background	N.A.	N.A.	.000	-.384**	.226**	-.480**	-.127									
7 Subsidiary Age	10.23	5.45	-.025	-.199*	-.324*	-.182*	-.134	.163								
8 Socialization of Returnee	4.29	.98	-.159	.060	-.339**	.197	.136	-.379**	-.107							
9 Socialization of Top Executive	4.15	1.11	.022	.260**	-.120	.283**	.159	-.496**	-.127	.853**						
10 Cultural Distance	2.35	.92	.067	.091	.071	.133	-.025	-.163	-.251**	.210	.167					
11 Industry Globalization	5.29	1.84	.077	-.015	.094	.013	-.149	.220*	.244**	-.164	.116	-.062				
12 Subsidiary Size	244	331	.015	-.133	-.385**	-.006	-.060	-.043	.162	.043	.037	-.137	-.042			
13 Managers with International Experience	2.81	3.79	.040	.325**	-.273**	.084	.307**	-.473**	-.073	.250	.368**	.019	-.071	.079		
14 Employment of Expatriate	.10	.17	-.009	-.051	.207*	-.125	.298**	-.265**	-.133	.037	.208*	-.052	-.116	.180*	.573**	
15 First Investment	N.A.	N.A.	.018	.020	-.126	.058	-.106	.094	.121	.081	-.172*	-.152	.014	.014	-.263**	-.159

Mean and standard deviation for socialization returnee are based on N=61, and for Ownership N=132. For all other variables, N=133.

** . Correlation is significant at the 0.01 level (2-tailed); * . Correlation is significant at the 0.05 level (2-tailed).

CHAPTER 6 DATA DESCRIPTIVES

This chapter summarizes the major characteristics of the multinational subsidiaries and the respondents in the sample.

6.1 COMPANY PROFILE

6.1.1 Home Country Distribution

The multinational subsidiaries had their headquarters in 20 countries (Figure 6.1). The United States had 39 subsidiaries, accounting for 29 percent of the sample. Japan had the second largest number of subsidiaries (18 subsidiaries), and Germany ranked third (16 subsidiaries). The majority came from three continents: Asia (47 subsidiaries, 35%), Europe (43 subsidiaries, 32%), and North America (41 subsidiaries, 31%). There were only 2 subsidiaries (2%) from Australia (Figure 6.2).

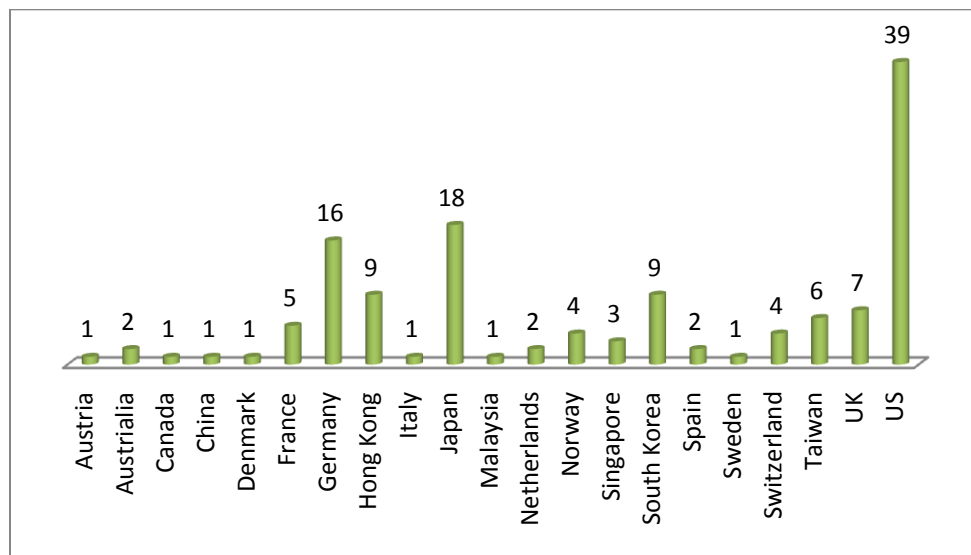


Figure 6.1 Home Country Distribution by Country

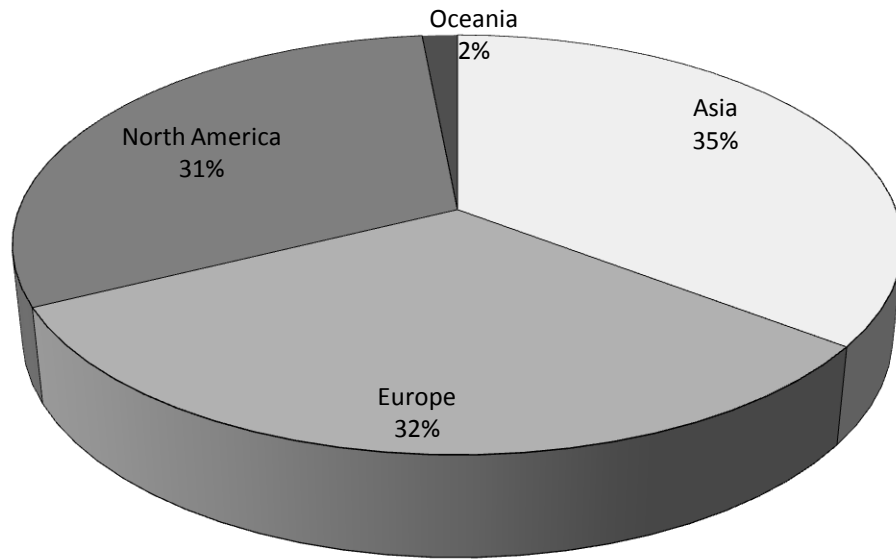


Figure 6.2 Home Country Distribution by Continent

6.1.2 Number of Employees

As stated earlier, the minimum number of employees in the Chinese subsidiary required for the study was 20; therefore, responses with less than 20 employees were excluded. The average number of employees in this sample was 400 with a standard deviation of 1,150. The maximum value, 9,000, was more than three standard deviations away from the mean. An examination found that there were two subsidiaries with 9,000 employees and another subsidiary with 4,000 employees. We excluded these three outliers.

The other 133 subsidiaries had an average of 244 employees. Forty-seven percent of the sample had 100 or less employees, 49 percent had 1,000 or less, and the remaining four percent had more than 1,000 employees.

6.1.3 Combinations in Management Teams

Among the 133 subsidiaries, three (2%) of them had a management team that were all returnees, 37 (28%) of them employed only local managers, three (2%) had a combination of returnees and expatriates, 29 (22%) had both returnees and locals, 34 (26%) had expatriates and locals, and the remaining 27 (20%) subsidiaries had all three types of managers on the management team. There was no subsidiary that had a management team consisting of all expatriates. This reflected the need for local responsiveness for overseas operations and the high costs of expatriation. The most frequent combinations were locals and either expatriates or returnees, or locals and both expatriates and returnees, as these accounted for 68% of the sample; this suggests that returnees were often a substitute for expatriates. Other than the 28% that were all locals, the majority of the sample (72%) had a management team that could respond to both global integration and local responsiveness.

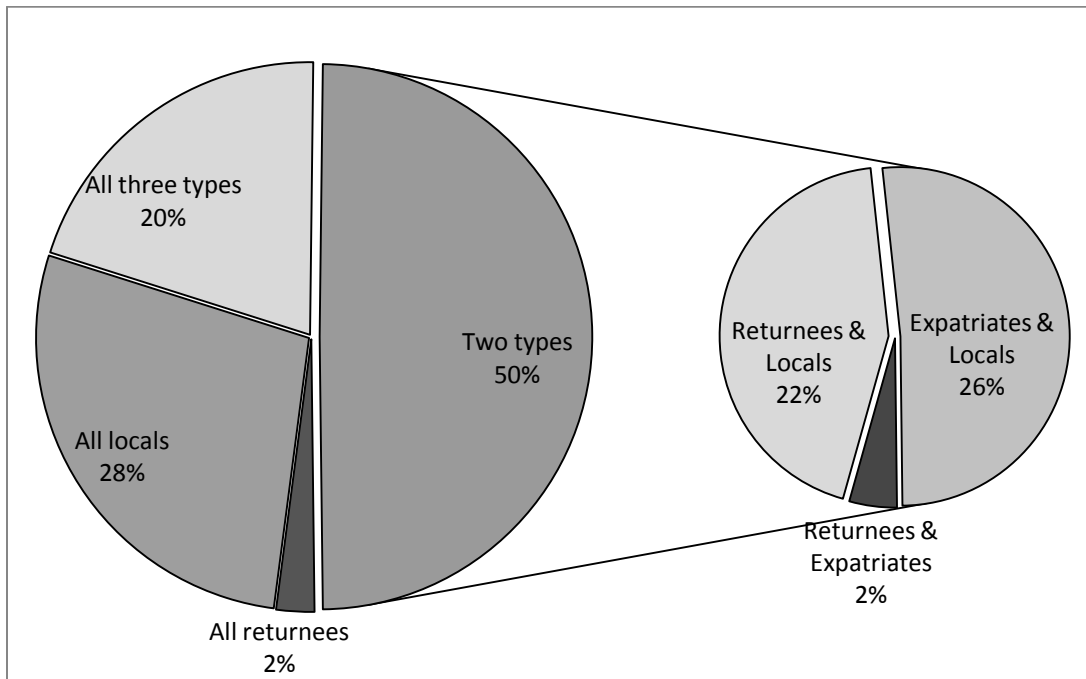


Figure 6.3 Combinations of Manager Types on Management Teams

6.1.4 Ownership Status

Table 6.1 shows the percentage of equity owned by the primary foreign parent.

Table 6.1 Percentage of Equity Owned by the Primary Foreign Parent Company

Foreign Equity Percentage	Frequency	Percent	Cumulative Percent
10	1	.8	.8
25	4	3.0	3.8
30	2	1.5	5.3
35	1	.8	6.0
40	11	8.3	14.3
49	2	1.5	15.8
50	21	15.8	31.6
51	2	1.5	33.1
52	1	.8	33.8
55	1	.8	34.6
56	1	.8	35.3
60	10	7.5	42.9
65	1	.8	43.6
70	7	5.3	48.9
74	1	.8	49.6
80	4	3.0	52.6
90	4	3.0	55.6
97	1	.8	56.4
98	1	.8	57.1
100	57	42.9	100.0
Total	133	100.0	

For the convenience of a descriptive analysis of the possible relationship between equity ownership and several other variables, we categorized them into four groups. The first group was minority ownership, which included the subsidiaries with a foreign parent equity level of less than 50%. There were 21 subsidiaries that fell into this group. The second group was equal ownership, which included those owning 50% of equity. This group had 21 subsidiaries. The third group was majority ownership, which referred to those with 51% to 80% equity. This group consisted of 28 subsidiaries. The last group

was wholly owned, which corresponded to more than 80% of equity, of which there were 63 subsidiaries. Figure 6.4 shows these four groups.

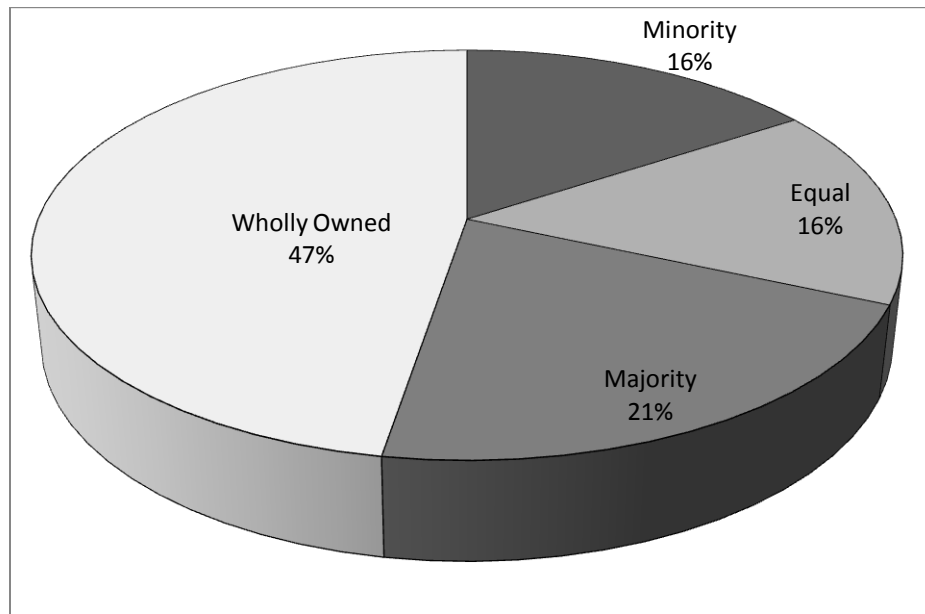


Figure 6.4 Foreign Ownership at Four Different Levels

Only one company had less than 20 percent equity owned by the foreign parent. It was classified as a JV using the 5%-95% criterion of JV but does not qualify to be a JV using the 20%-80% percent criterion. Eight companies had 80 to 95 percent equity owned by the foreign parent. They fell into different groups when we applied the two different criteria of joint venture in the literature. Table 6.2 displays the numbers of JVs and WOSs using these two criteria.

Table 6.2 No. of JVs and WOSs Applying the Two Criteria

Criteria	5%-95%		20%-80%	
	No. of Subsidiaries	Percentage	No. of Subsidiaries	Percentage
JVs	74	56%	65	50%
WOSs	59	44%	67	50%

6.1.5 Subsidiary Age

Subsidiary age ranged from one to 29 years with a mean of 10. The oldest subsidiary was established in 1979, when China started the “open door” policy. If we categorize a subsidiary aged 1-5 as “young,” 6-15 as “medium,” and greater than 15 as “old,” then there were 26 young subsidiaries (20%), 83 medium-aged subsidiaries (62%), and 24 old ones (18%).

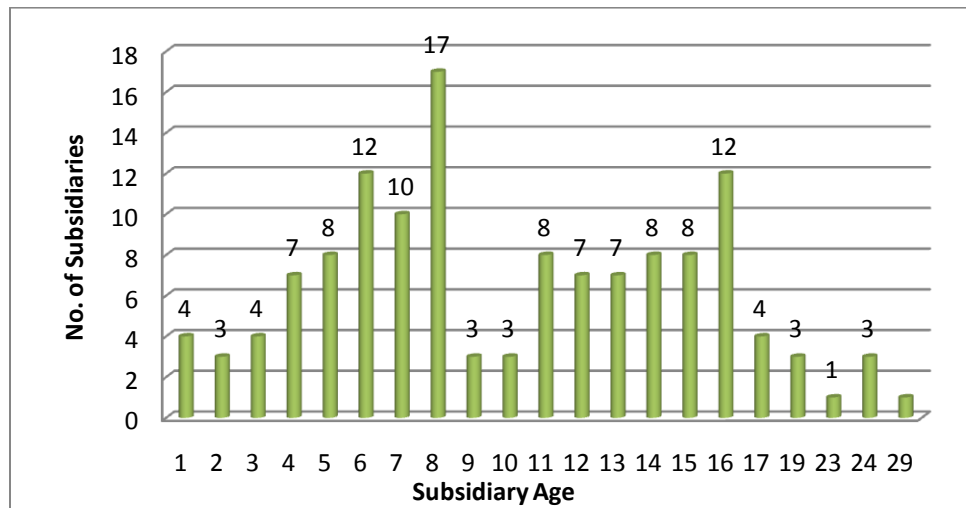


Figure 6.5 Subsidiary Age Distribution

6.1.6 Number of Returnees

Returnees were not commonly found amongst the management teams in multinational subsidiaries in China. Seventy-one (53%) subsidiaries did not have any returnees in the management team. Twenty-seven (20%) had one returnee manager, and 14 (11%) had two returnee managers. The remaining 21 subsidiaries (16%) had three to seven returnee managers (Figure 6.6).

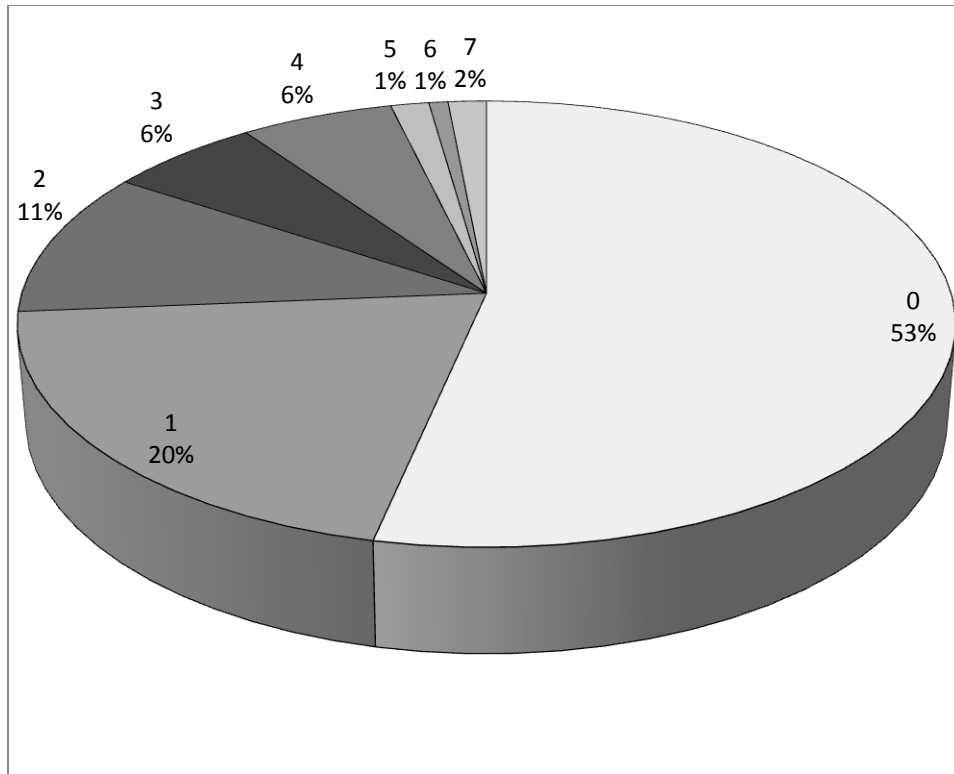


Figure 6.6 Number of Returnees on Management Team

The distribution of returnees was not equal among the subsidiaries with different home countries. Due to the small number of subsidiaries in most home countries, we examined this difference at the continental level. Among the subsidiaries headquartered in Asia, 32% (15 out of 47) had returnees on the management team. This percentage rose to 51% (22 out of 43) among the subsidiaries headquartered in Europe and 59% (24 out of 41) among those headquartered in North America. Such a difference may be attributed to two causes. Firstly, there is a smaller cultural distance between China and the other countries in Asia; consequently, it is relatively easier to manage a subsidiary in China without returnees – the “bridge” - for these MNEs. Secondly, the most popular destinations for overseas studies were Europe and North America, and returnees from these countries would prefer to work for MNEs headquartered in Europe and North

America. Only a small number of people went to Asian countries for overseas education. Therefore, it may be more difficult for MNEs from Asia to find returnees. Taking into consideration that the majority of the European countries have a higher culture distance with China than both Canada and the United States do, while the percentage of subsidiaries that had returnees in Europe was not higher than that of North America, we suspected that cultural distance may not be the major reason behind such a distribution of returnees, instead the destinations of overseas studies may be the reason.

The distribution of returnees also appeared to be different among subsidiaries at different ages. As subsidiary age increased, the likelihood of having returnees first decreased and then increased. The employment of expatriates had a similar trend (Beamish & Inkpen, 1998). The percentage of the young subsidiaries with returnees was 54% (14 out of 26). This decreased to 46% (38 out of 83) in the medium age group and increased to 63% (15 out of 24) in the old group.

There is a consistent increasing trend among the four levels of foreign ownership. Of the subsidiaries with minority ownership by the primary foreign parent, 29% had returnees. This increased to 33% among those with equal ownership and 39% among those with majority ownership. The percentage was as high as 60% among those subsidiaries that were wholly owned by the primary foreign parent firm. Therefore, returnees were more popular among subsidiaries with higher foreign ownership levels. This may be because the top executives at the companies with higher levels of foreign ownership were more likely to be expatriates. We hypothesized that expatriates were more likely to hire returnees. The literature showed that the higher the ownership level, the higher the resource commitment from the foreign parent firm as well as the strategic

dependence of the subsidiary. This in turn increased the likelihood that an expatriate was the top executive (Belderbos & Heijltjes, 2005). We compare the expatriate as the top executive across ownership levels in the next section.

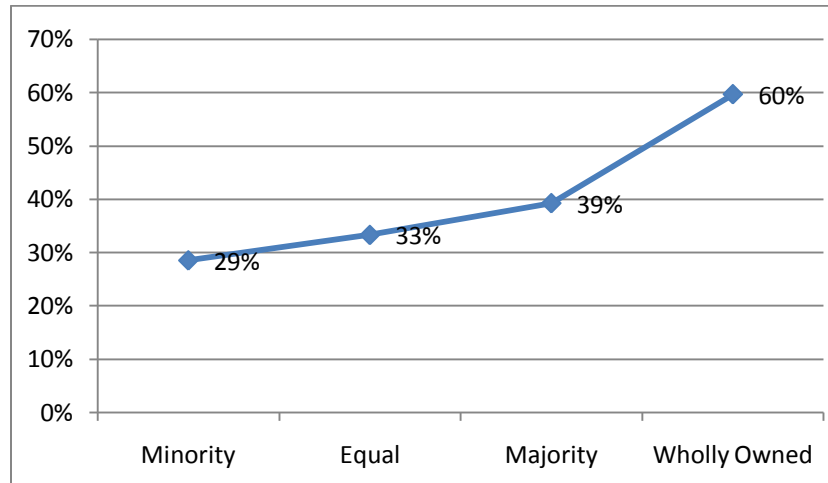


Figure 6.7 Percentage of Subsidiaries that Have Returnees across Equity Levels

6.1.7 Number of Expatriates

The distribution of expatriates among the management teams was similar to that of returnees. Sixty-nine subsidiaries (52%) did not have any expatriate managers. Twenty-seven (20%) had one expatriate manager and thirteen (10%) had two. The remaining 24 subsidiaries (18%) had three to 16 expatriate managers.

The distribution of expatriates across continents appeared to be similar to that of returnees. The percentage of subsidiaries headquartered in Asia, Europe, or North America that had expatriates on their management teams was 47%, 56%, and 44% respectively.

With respect to age groups, we found that the percentage of subsidiaries that had expatriates followed a similar pattern to the percentage of subsidiaries that had returnees. The percentage of subsidiaries that employed expatriates was 54% among the young ones,

45% among the medium-aged ones and 54% among the old ones. It appeared that as the subsidiary age increased, the likelihood of having expatriates first decreased and then increased.

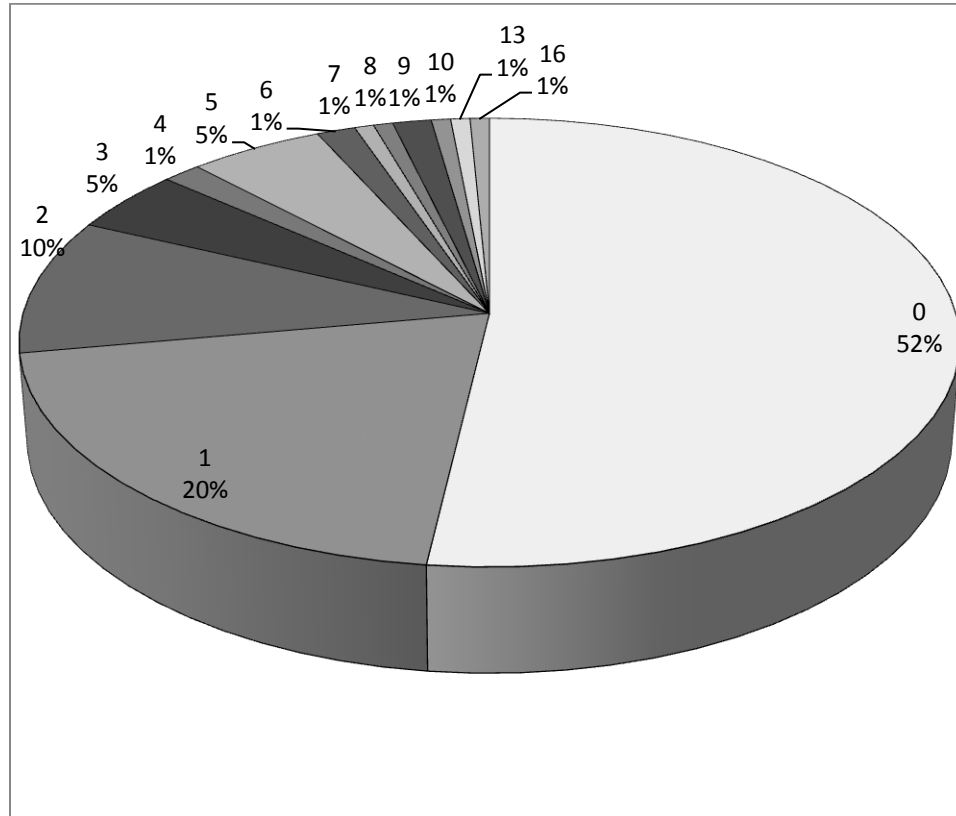


Figure 6.8 Number of Expatriates in Management Team

The percentage of subsidiaries that had expatriates on the management team also increased as the equity owned by the foreign parent firm increased. Only 14% of the subsidiaries that had minority ownership by the foreign parent firm had expatriates. This slightly increased to 19% among those that were equally owned. However, the percentage jumped up to 54% and 67% respectively among those that were majority and wholly owned by the foreign parent firm. This suggests that as the foreign parent invests more equity in the subsidiary, expatriates become an important tool to maintain control over

the subsidiary. This is consistent with resource dependence theory (Pfeffer & Salancik, 1978), which suggests that because subsidiaries with a higher level of foreign ownership are more dependent on the foreign parent for resources, the foreign parent could then have more influence on human resource decisions (Martinez & Ricks, 1989). As a result, expatriates were more likely to be sent to control overseas subsidiaries and to lower risk for the foreign parent's investment (Widmier, Brouthers, & Beamish, 2008).

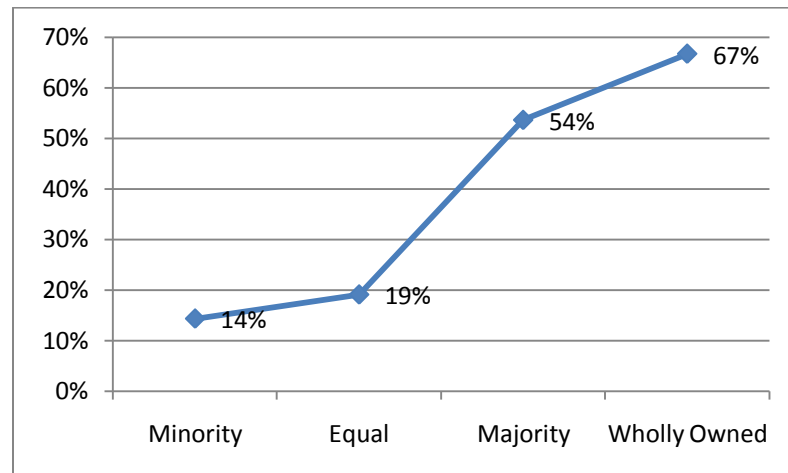


Figure 6.9 Percentage of Subsidiaries that Have Expatriates across Ownership Levels

6.1.8 Managers with International Experience

There were 84 subsidiaries (74%) that had managers with international experience. The number of managers with international experience on the management team varied between one and 27. The preference for international experience reflected the importance of cultural knowledge to MNE subsidiaries.

6.1.9 Subsidiary Performance

Figure 6.10 is a histogram of the average of the four items for subsidiary performance. The mean of subsidiary performance was 5.27. As a value of four indicates that the subsidiary was doing about as well as the major competitors, the graph showed that the majority of the respondents in our sample suggested that their subsidiaries performed better than their competitors. The frequency table shows that only 14 subsidiaries (11.3%) had performance scores of four or below. It seemed that the companies in our sample tended to perform well even though we had no intention to choose better performing companies.

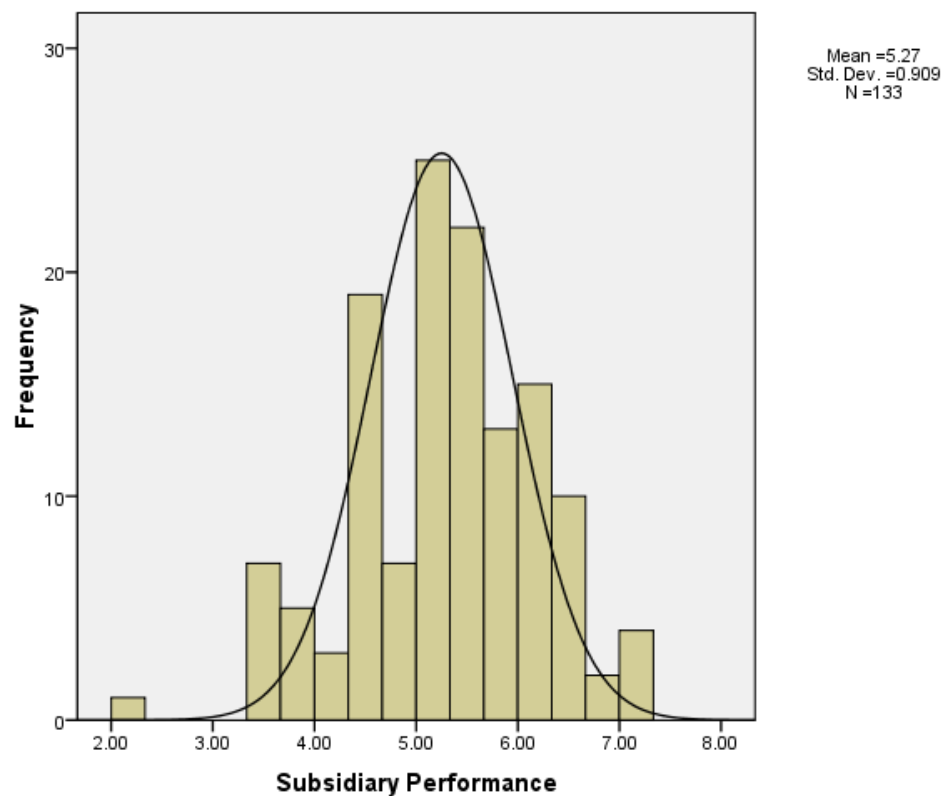


Figure 6.10 Histogram – Subsidiary Performance

6.2 RESPONDENTS

This section describes respondent profiles including their cultural background, language abilities, international experience and MNE work experience.

6.2.1 Top executives' cultural background

As shown in Figure 6.11, thirty-six (27%) of the respondents, who were top executives at the subsidiaries, were returnees. Fifty-one (38%) were locals who had no higher education overseas. Twenty-two respondents (17%) were Asian expatriates who grew up in Asia, and 24 (89%) were expatriates who grew up outside of Asia.

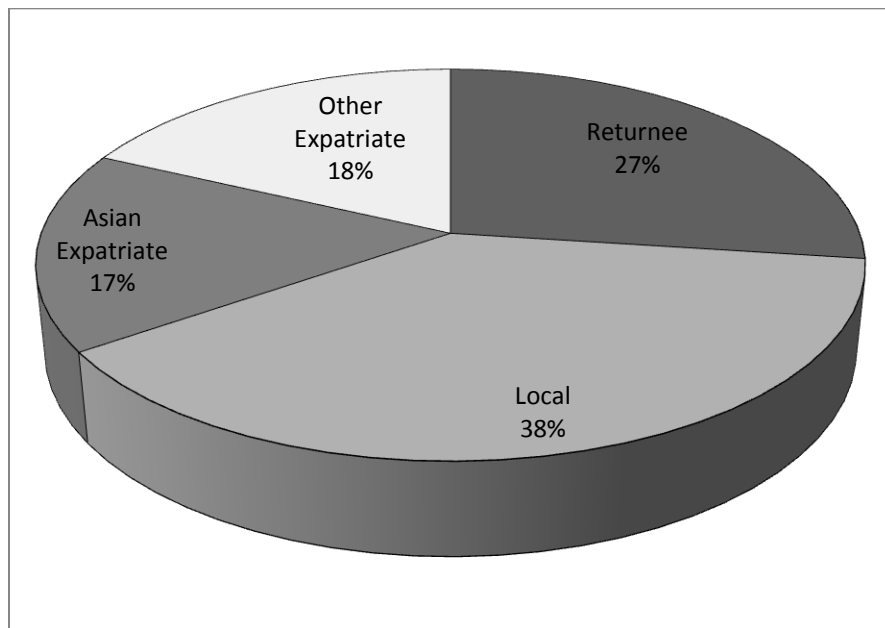


Figure 6.11 Top Executive Background

Figure 6.12 shows that the percentage of subsidiaries that had returnees as the top executives varied according to the equity level held by the primary foreign parent. It is 19% in the minority ownership group, 24% in the equal ownership group, 18% in the majority ownership group and 35% among the wholly owned group. In the case of

expatriate as the top executive, this percentage steadily increased, which was consistent with the literature, as mentioned earlier (Figure 6.13).

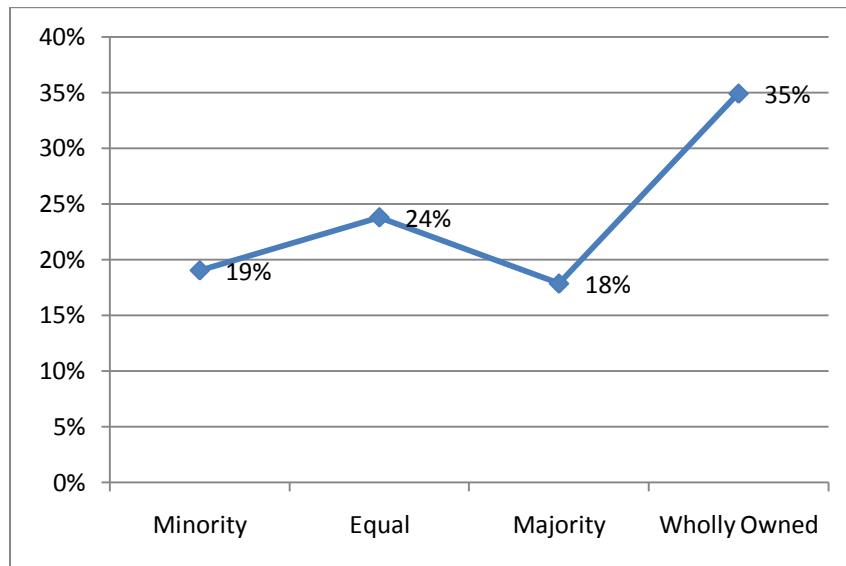


Figure 6.12 Percentage of Subsidiaries that Have Returnees as the Top Executive across Ownership Levels

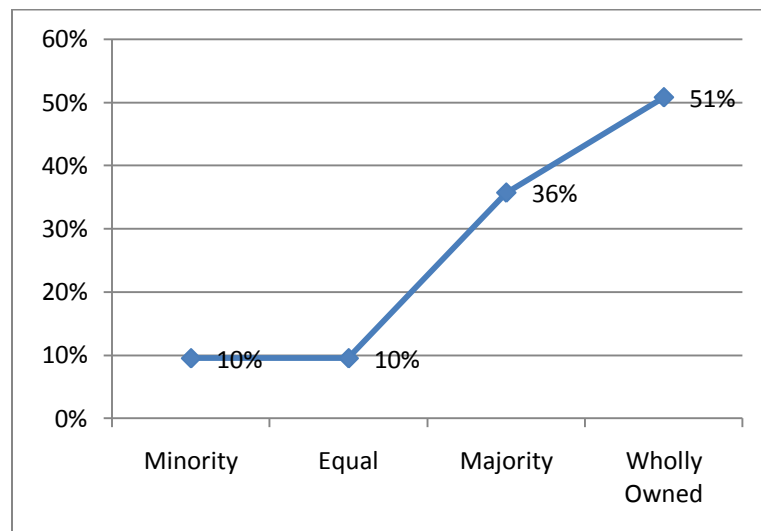


Figure 6.13 Percentage of Subsidiaries that Have Expatriates as the Top Executive across Ownership Levels

6.2.3 Top Executives' Language Abilities

Twelve (9%) of the top executives could only communicate (speak and write) in one language. Most of these executives were locals or Asian expatriates. Ninety-four (71%) of them were bilingual, 17 (13%) were trilingual and six (5%) could communicate in four languages. The remaining four (3%) executives could communicate in five and six different languages. The executives from Europe tended to be able to communicate in more languages than the executives from North America, Asia, and Oceania.

6.2.2 Top Executives' International Experience

Seventy-two (58%) of the respondents had worked in another country other than his/her own home country. The number of years spent working in other countries ranged from one to 50 years, while the number of countries that the respondents worked in ranged from one to ten.

6.2.4 Top Executives' Work Experience in Headquarters and Other Subsidiaries

The majority of the top executives were not transferred from headquarters or other subsidiaries. Ninety-one of them (68%) had never worked at headquarters and 120 (90%) had never worked at other subsidiaries. Among those who had MNE work experience, the work experience at headquarters ranged from 0.5 to 20 years, and the experience at other subsidiaries ranged from 2.5 to 23 years.

Eighty-four executives (63% of the sample) had never worked either at headquarters or at any other subsidiary; the majority of these executives were probably recruited in China. Among them, 49 (58%) were locals of which 48 did not have any

international experience, 20 (24%) were returnees, six (7%) were Asian expatriates and the remaining nine (11%) were expatriates from outside of Asia. Among the 49 executives who had MNE work experience, five had worked at both headquarters and other subsidiaries, 37 had worked only at headquarters, and seven had worked only at other subsidiaries. Of these 49 executives, two were locals (4%), 17 were returnees (35%), 14 were Asian expatriates (29%), and 16 were other expatriates (33%).

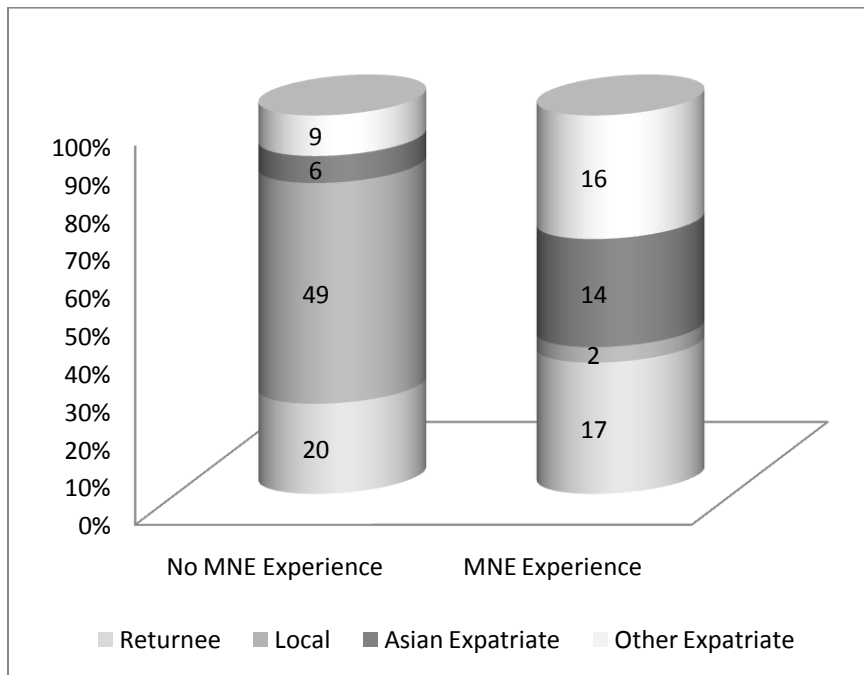


Figure 6.14 A Comparison of Top Executives Who Have MNE Work Experience and Those Who Do Not, across Background Types

According to Figure 6.14, expatriates were the most popular choice when MNEs sent a top executive from within the multinational to China. When they looked for a top executive in China (without MNE experience), local people were typically the number one choice. However, there were still 15 (11%) expatriates recruited externally. This indicates that MNEs value expatriates with Chinese experience.

Figure 6.15 shows that about half of the returnees had MNE experience, the vast majority of locals did not have MNE experience and about two-thirds of expatriates had MNE experience. Although the majority of managers were not transferred from other parts of the MNEs, this mainly applied to local managers; more than half of the returnees and the expatriates were transferred to the Chinese subsidiary from other parts within the MNEs.

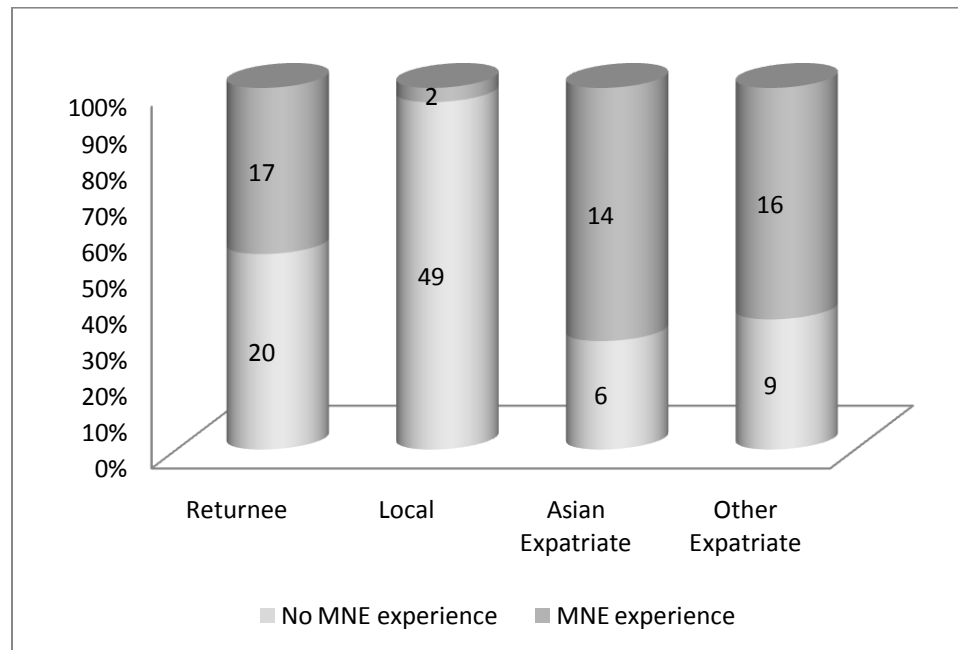


Figure 6.15 A Comparison of Top Executives Who Have MNE Work Experience and Those Who Do Not, across Background Types

When we examined the distribution of top executives across subsidiary age groups (Figure 6.16), we found that among the top executives that had MNE experience, a higher percentage of them were at younger subsidiaries. Two-thirds (56 out of 84) of the top executives who did not have MNE experience worked at medium-aged subsidiaries. This is consistent with the literature which found that younger subsidiaries need more learning (Downes & Thomas, 2000).

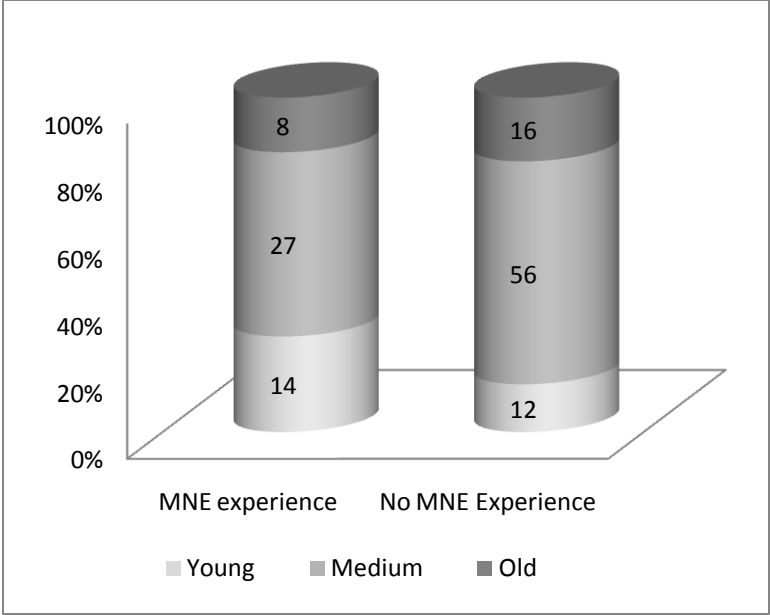


Figure 6.16 A Comparison of Top Executives Who Have MNE Work Experience and Those Who Do Not, across Subsidiary Age Groups

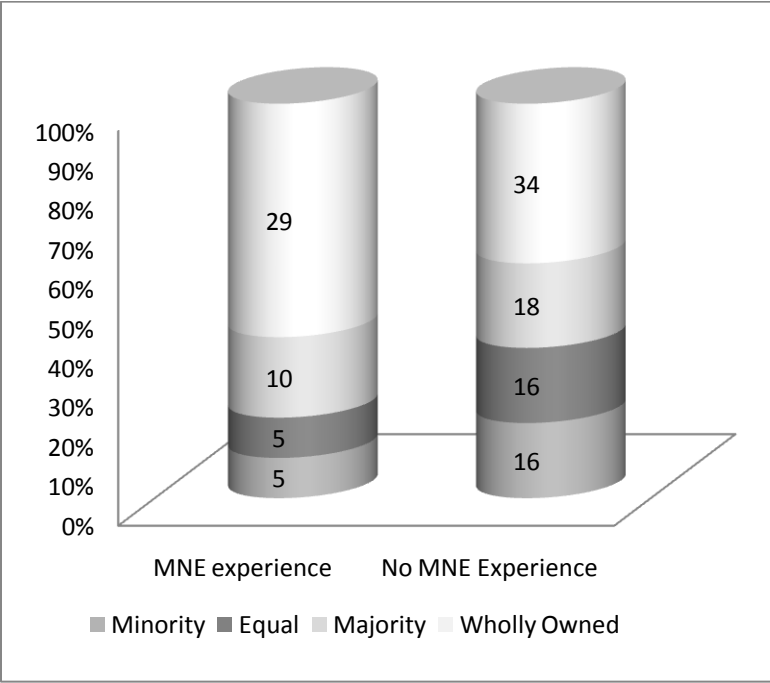


Figure 6.17 A Comparison of Top Executives Who Have MNE Work Experience and Those Who Do Not across Foreign Ownership Levels

In terms of equity ownership, the majority of the top executives who had MNE experience worked at majority or wholly owned subsidiaries (Figure 6.17). Most (76%) of the subsidiaries with minority ownership and equal ownership had top executives that had no MNE work experience. This may indicate that headquarters tend to trust a manager who had previously worked for the MNE, and send him/her to manage an overseas subsidiary.

CHAPTER 7 RESULTS

7.1 ANALYTICAL APPROACHES

The survey produces a cross-sectional dataset. All the variables are either continuous (ordinal variables with seven or more categories can be treated as continuous variables (Tabachnick & Fidell, 2007) or dichotomous. All the continuous variables are centered for the hypotheses involving interactions. For hypotheses concerning employment of returnees, which is a continuous variable (H1a, H2 and H3a), OLS regression is applied. Subsidiary age and its squared term are entered to test the inverted-U shape relationship (H3a).

For hypotheses with returnee as top executive (H1b and H3b) as the dependent variable, binary logistic regression is used. Again, subsidiary age and its squared term are included to test the inverted-U shape relationship (H3b). Logistic regression is used to predict a categorical variable from a set of predictor variables that are a mix of continuous and categorical variables and/or if they are not normally distributed. It makes no assumptions about the distributions of the predictor variables. When the dependent variable has two categories, binary logistic regression is used. It predicts the probability of falling into one category, a returnee as the top executive in our case, for a set of predictors. The model can be expressed as

$$\text{Logit}(p_i) = \ln\left(\frac{p_i}{1 - p_i}\right) = \beta_0 + \beta_1 x_{1,i} + \dots + \beta_k x_{k,i}$$

Where

Logit (p_i) is the logit function, which equals to the logarithm of the odds ratio.
 p_i is the probability of being a returnee top executive.
 β_0 is the intercept.

β_1, \dots, β_k are the coefficients.

To test the performance related hypotheses (H4a, H4b, H5a, H5b, H6a, and H6b), 2-stage least squares (2SLS) regression is applied. Some common factors, such as subsidiary age and employment of expatriates, have an impact on both the dependent variable (performance), and the independent variables (employment of returnees and returnee as top executive); therefore, their error terms are correlated. 2SLS is appropriate under this situation. Two interaction terms, an interaction of employment of returnees and geocentrism and the other of returnee as top executive and geocentrism, are included to test the moderation of geocentrism (H5a and H5b). An interaction of employment of returnees and socialization, and the other of returnee as top executive and socialization, are included to test the moderation of socialization (H6a and H6b). Returnee as the top executive is a dummy variable and does not need to be centered for the interactions.

Table 7.1 summarizes the analytical approaches for the hypotheses.

Table 7.1 A Summary of Analytical Approaches for the Hypotheses

DV	Analytical Approach	IV	Hypothesis	CVs
Employment of returnees	OLS regression	Ownership Status	H1a	Industry globalization, Managers with international experience, Expatriates, First investment
		Top executive background	H2	
		Subsidiary age	H3a	
Returnee as top executive	Logistic regression	Ownership Status	H1b	
		Subsidiary age	H3b	
Subsidiary performance	2SLS regression	Proportion of returnees	H4a	
		Returnee as top executive	H4b	
		Geocentrism	H5a & H5b	
		Socialization	H6a & H6b	

7.2 RESULTS

7.2.1 Employment of Returnees (H1a, H2 and H3a)

Table 7.2 displays the regression results for the hypotheses predicting the employment of returnees. The model is significant and explains 69 percent of the variance in the dependent variable. Applying the two different criteria of joint venture does not produce different results.

Table 7.2 Results – Employment of Returnees

Independent Variable	
Ownership	-.003
Top executive background	-.147 *
Subsidiary age	-.002
Subsidiary age squared	-.010
Industry globalization	.032
Managers with International Experience	.885 **
Employment of Expatriates	-.557 **
First Investment	.063
Subsidiary Size	-.091 +
R square	.692
N	132

+ significant at .1 level.

* significant at .05 level.

** significant at .01 level.

An R square of .69 is unusually high in management research. The beta of managers with international experience is also very high. The correlation table shows a highly significant correlation between managers with international experience and employment of returnees - the dependent variable, as well as with employment of expatriates - one of the control variables. Recalling that the measure of managers with

international experience includes all the returnees, and the expatriates and the locals who had international experience, together with the fact that the majority of expatriates had international experience and the majority of local managers did not, the value of managers with international experience would be well captured by these two variables: employment of returnees and employment of expatriates. Therefore, we dropped managers with international experience and re-ran the regression. Table 7.3 shows the results.

Table 7.3 Results – Employment of Returnees (Managers with International Experience Excluded)

Independent Variable	
Ownership	-.176 *
Top executive background	-.441 **
Subsidiary age	-.225 *
Subsidiary age squared	.185 *
Industry globalization	.058
Employment of Expatriates	-.320 **
First Investment	.118
Subsidiary size	-.123
R square	.286
N	132

+ significant at .1 level.

* significant at .05 level.

** significant at .01 level.

The R square drops to .29. For the same reason, we also dropped managers with international experience in other models.

Hypothesis 1a states that JVs hire more returnees than WOSs. The coefficient of the dummy variable ownership is negative and significant, which indicates that JVs hire fewer returnees than WOSs. Hypothesis 1a is therefore not supported. Hypothesis 2 states

that expatriate and returnee top executives are more likely to hire returnees than local top executives. The beta of top executive background is negative and significant. With local top executives coded as 1, this indicates that local top executives are less likely to hire returnees than top executives with other backgrounds, including returnees and expatriates; therefore, Hypothesis 2 is supported. Hypothesis 3a states that there is an inverted U-shape relationship between subsidiary age and employment of returnees. The beta for subsidiary age is negative and significant while that of the squared term of subsidiary age is positive and significant. These indicate a possible downward sloping U-shape relationship. As a result, Hypothesis 3a is not supported. However, there is a significant relationship between subsidiary age and employment of returnees. The shape of this relationship is different from what we hypothesized.

Among the control variables, employment of expatriates has a negative impact on employment of returnees; industry globalization, first investment, and subsidiary size do not have an impact on employment of returnees.

The relationship between subsidiary age within two standard deviations above and below the mean and employment of returnees is depicted in Figure 7.1. It takes a downward sloping U-shape. As subsidiary age increases, employment of returnees first decreases and then increases again.

We obtained similar results when the 5-95% equity ownership was considered as a JV.

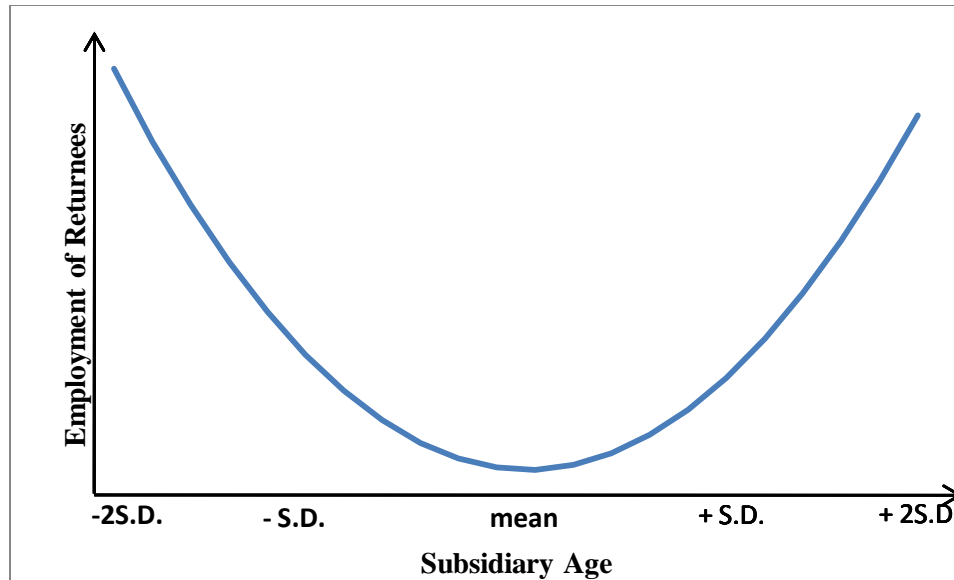


Figure 7.1 Subsidiary Age and Employment of Returnees

7.2.2 Returnee as the Top Executive (H1b and H3b)

Table 7.4 shows the regression results for the hypotheses with returnee as top executive as the dependent variable (H1b and H3b). The model is significant and explains 25 percent of the variance in the dependent variable. The overall percentage predicted correctly is 77% with a cut value of 0.5 (Table 7.5).

H1b states that JVs are more likely to have returnees as top executives than WOSs. The beta for ownership is positive and highly significant, which means JVs are more likely to have a returnees as the top executive than WOSs. H1b is supported. H3b states that subsidiary age and the likelihood to have a returnee as the top executive takes an inverted U-shape relationship. The beta for subsidiary age is negative and significant and the beta of its squared term is not significant, which indicates a negative relationship between subsidiary age and the likelihood of having a returnee as the top executive. Therefore, H3B is not supported.

Table 7.4 Results – Returnee as Top Executive

Independent Variable	
Ownership status	1.827 **
Subsidiary age	-.168 *
Subsidiary age squared	-.010
Industry globalization	-.045
Employment of expatriates	-6.970 **
First Investment	-.486
Subsidiary size	1.604 *
Nagelkerke R Square	.374
N	132

* significant at .05 level.

** significant at .01 level.

Table 7.5 Classification Table – Returnee as Top Executive

Observed	Predicted		
	Not a returnee	Returnee	Percentage Correct
Not a returnee	86	10	89.6
Returnee	15	20	57.1
Overall Percentage	80.9		

The cut value is .500

Among the control variables, industry globalization and first investment do not have an impact on the likelihood of a returnee being the top executive. Similar to the results for employment of returnees, employment of expatriates has a negative impact on the likelihood of a returnee becoming the top executive.

Applying different criteria for JV/WOS again produced similar results.

7.2.3 Subsidiary Performance (H4a, H4b, H5a, H5b, H6a, and H6b)

2SLS regression requires each endogenous variable to be continuous; therefore, the predicted probability of returnee as top executive is entered in the regressions to replace the original dummy variable. Employment of returnees and returnee as top executive are the two predictors in the 2SLS regressions. Ownership status, first investment, subsidiary age, employment of expatriates, and top executive background are entered as the instrumental variables, because they have an impact on both employment of returnees and subsidiary performance. Cultural distance, subsidiary size, and geocentrism are entered as predictor and instrumental variables since they only affect subsidiary performance.

Table 7.6 Predictor and Instrumental Variables in the 2SLS Regressions

Type of Variable	Variables
Predictor	Employment of returnees Returnee as top executive (Predicted)
Instrumental	Ownership First investment Subsidiary age Employment of expatriates Top executive background
Predictor and instrumental	Cultural distance Subsidiary size Geocentrism

Hypothesis 4a states that employment of returnees has an upward sloping inverted U-shape relationship with subsidiary performance. Hypothesis 4b states that subsidiaries with returnee as the top executive perform better than those with expatriate or local as the top executive. Table 7.7 shows the result of 2SLS regression for these two hypotheses.

2SLS only reports the betas of the predictor variables and the predictor and instrumental variables. Those of the instrumental variables cannot be reported because instrumental variables are entered in the first stage to obtain the predicted values of the predictor variables and do not regress on the dependent variable directly. The model is not significant, and the R square is low at 2%. None of the variables are significant. Consequently, Hypothesis 4a and 4b are not supported.

Table 7.7 Results – Subsidiary Performance 1

Independent Variable	
Employment of returnees	-.622
Employment of returnees squared	.652
Returnee as top executive	-.031
Cultural distance	.097
Subsidiary size	.075
Geocentrism	.166

Hypothesis 5a and Hypothesis 5b state that socialization and geocentrism moderate the relationship between employment of returnees and subsidiary performance. Hypothesis 6a and Hypothesis 6b state that socialization and geocentrism moderate the relationship between returnee as top executive and subsidiary performance. We were unable to test Hypothesis 5a because less than half of the cases have values for the moderator, socialization of returnees. The results for the other three hypotheses are in Table 7.8. The model is not significant and the R square is 5%. None of the betas are significant and as a result, none of these hypotheses are supported.

Using factor scores instead of an average of the items for the two constructs, including performance and socialization, does not make a difference in the results.

Table 7.8 Results – Subsidiary Performance 2

Independent Variable	
Employment of returnees	-.085
Employment of returnees squared	-.007
Returnee as top executive	-.066
Socialization of top executive	.207
Geocentrism	-.021
Returnee as top executive * Socialization	.016
Returnee as top executive * Geocentrism	-.107
Employment of returnees * Geocentrism	-.042
Employment of returnees squared * Geocentrism	.122
Cultural distance	.205
Subsidiary size	.038

7.3 Robustness of the Results

Since part of the survey was outsourced, there may be some bias caused by the differences in the survey that we conducted and that done by the research service agency. Therefore, we also ran all the regressions adding a dummy variable controlling for data source. The results were all the same except that Hypothesis 2, which states that expatriate and returnee top executives were more likely to hire returnees than local top executives, was not supported anymore. This is probably because this dummy variable controls not only possible differences in survey methods, but also the differences in respondent characteristics. Because the contractor used the Chinese version of the questionnaire, the top executives they contacted were people who could understand Chinese. The majority of them were locals. A closer examination showed that the correlation between this dummy and top executive background was 0.57 and highly significant. We further added an interaction term of the dummy variable and top

executive background; the results remained the same and the interaction term was not significant in all the regressions, which indicated that there was no significant difference between the slopes of the line between the dummy variable and top executive background. Therefore, having data from two different sources did not affect the results in our study. Because of this relationship between this dummy variable and top executive background, we reported the results without data source controlled.

Since 71 subsidiaries did not have any returnees, we also used negative binomial regression with number of returnees as the dependent variable to test the hypothesis related to employment of returnees. The results were similar. We also used the factor scores and each single item for the two multiple-item constructs: socialization of returnees and socialization of top executive, the results did not change.

For the hypothesis related to subsidiary performance, we also tried linear regressions; the results were also the same.

CHAPTER 8 A COMPARISON OF THE SUBSIDIARIES WITH RETURNEES AND THOSE WITHOUT

In our sample, 71 subsidiaries did not have any returnees and 62 subsidiaries had at least one returnee. This offers a good opportunity to do a comparison between these two groups. In this chapter, we describe the characteristics of these two groups of subsidiaries and discuss the similarities and differences.

8.1 COMPANY PROFILE

8.1.1 Home Country Distribution

Due to the small number of subsidiaries from each home country, we could not analyze the differences between the subsidiaries that had returnees and those that did not in terms of each individual country (Figure 8.1). However, when the subsidiaries were aggregated at the continent level, we found that those headquartered in Asia were less likely to have returnees: 66% of these subsidiaries did not have any returnees. On the other hand, 51% of the subsidiaries headquartered in Europe and 59% of those headquartered in North America had returnees (Figure 8.2). This is not surprising, given that the majority of returnees studied in North America and Europe and preferred to work for companies from these continents.

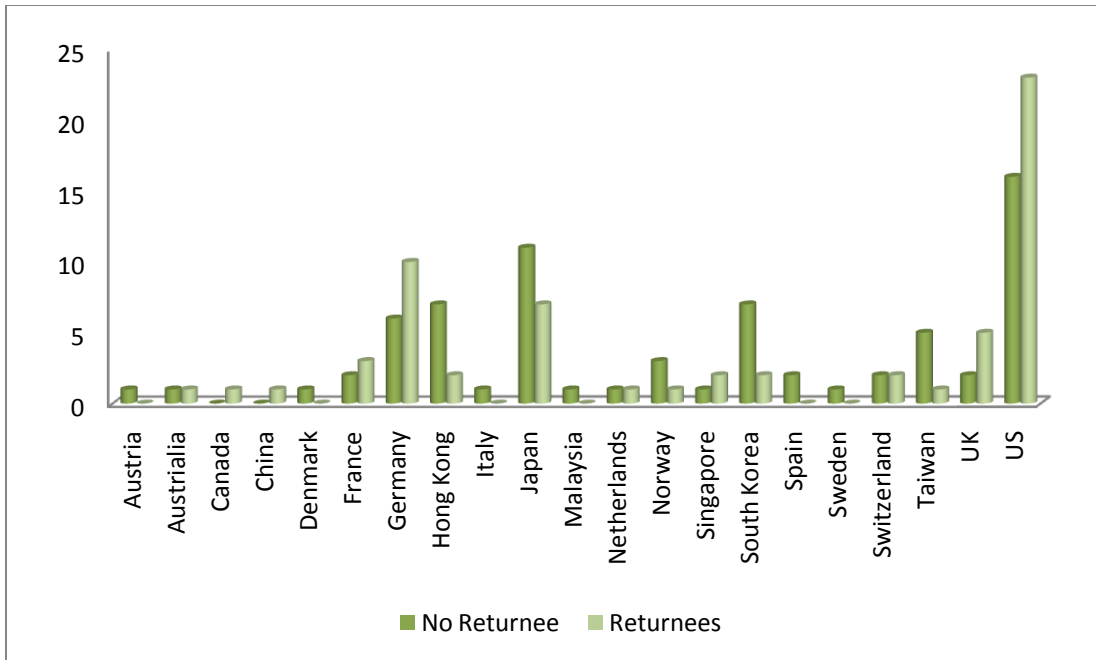


Figure 8.1 Home Country Distribution by Country

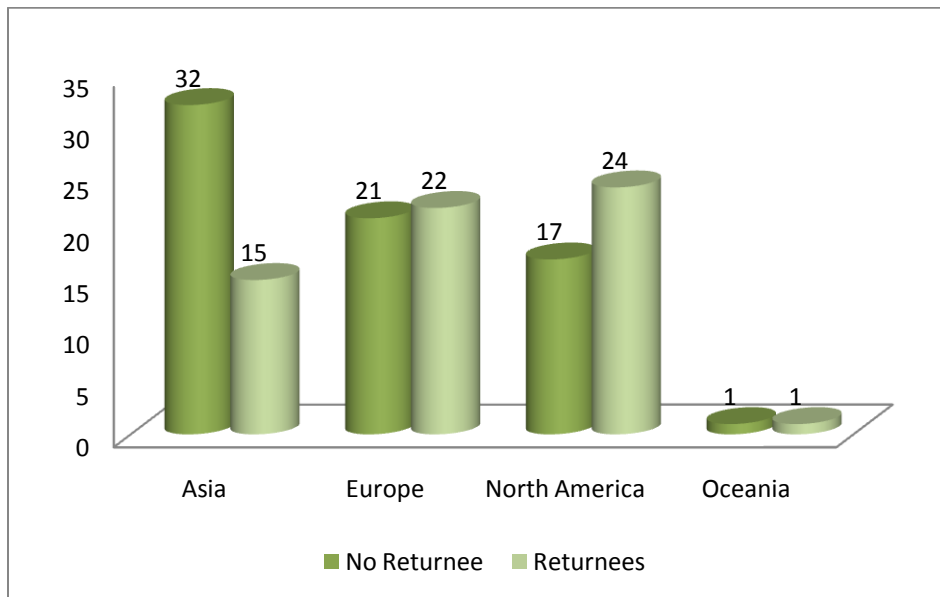


Figure 8.2 Home Country Distribution by Continent

8.1.2 Greenfield or Acquisition

Returnees were more likely to work at the subsidiaries that were established in China as greenfield operations (Figure 8.3). Forty-nine (82%) of the subsidiaries with returnees were established through greenfield; this percentage was only 59% in the group without returnees. One reason may be that acquisitions tend to take over part of or the whole management teams from local acquired companies. These management teams tend to be composed of local people.

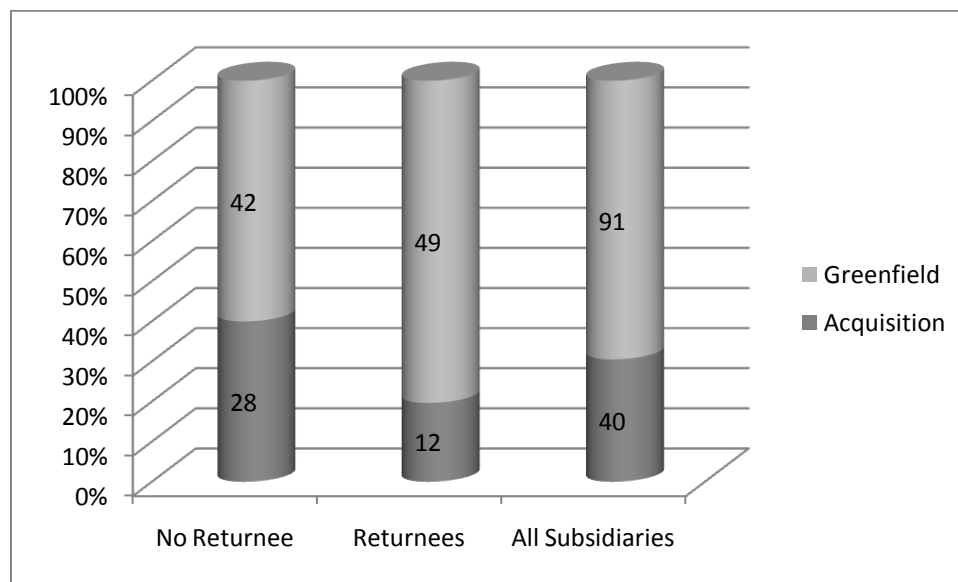


Figure 8.3 Greenfield or Acquisition

8.1.3 Number of Facilities

Figure 8.4 shows that the group without returnees had a higher percentage (56% versus 47%) of subsidiaries that had all three facilities: R&D, manufacturing, and marketing and sales. On the other hand, the group with returnees had a higher percentage of subsidiaries that were involved in one facility (31% versus 21%) or two facilities (23% versus 20%). This indicates that returnees are more likely to work at companies that

provide specialized products/services than at traditional manufacturing companies. Returnees gain expertise in areas such as accounting, finance, and marketing from overseas education, specialized companies may offer them better opportunities to apply their knowledge.

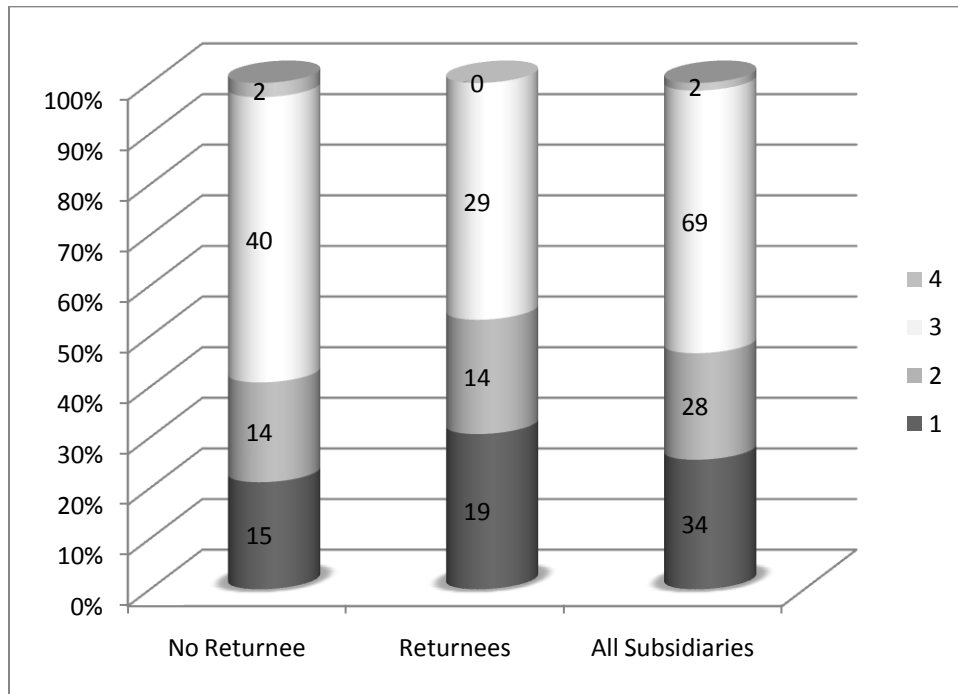


Figure 8.4 Number of Facilities

8.1.4 Number of Employees

The average number of employees in the subsidiaries with returnees was 209 and those without was 275 (Table 8.1). The group with returnees had a smaller size. This may be because more subsidiaries in the group with returnees provided specialized products/services, as shown in Figure 8.4.

Table 8.1 Number of Employees

	N	Minimum	Maximum	Mean	Std. Deviation
No Returnee	71	20	2000	275	397
Returnees	62	20	1000	209	232
Total	133	20	2000	244	331

8.1.5 Combinations in Management Teams

Among the 62 subsidiaries that had returnees, the majority either had a combination of returnees and locals in their management teams (47%) or had all three types of managers (43%). It was rare to have only returnees (5%) or a combination of returnees and expatriates (5%) in management teams.

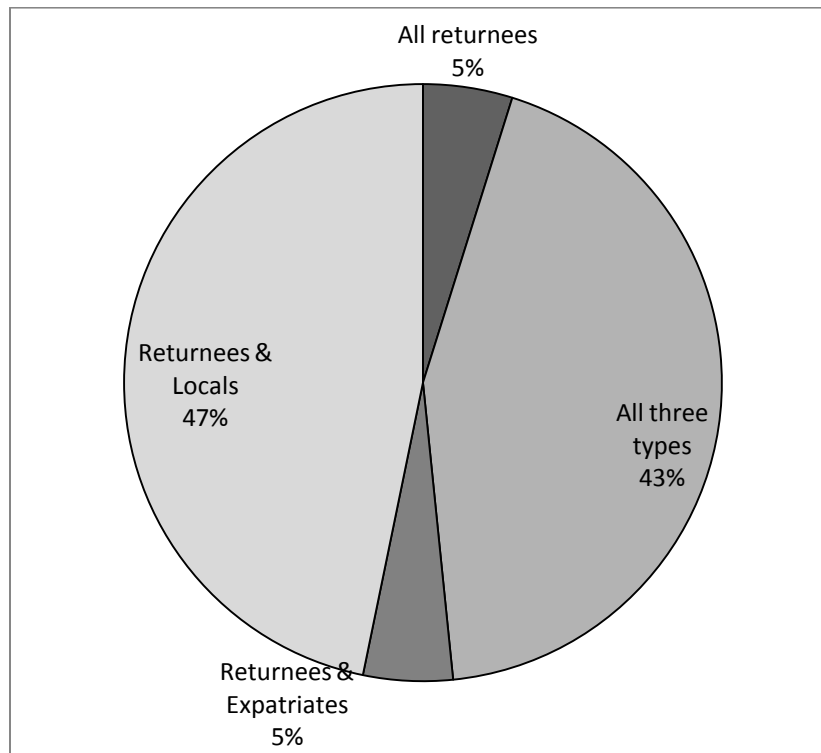


Figure 8.5 Combinations of Manager Types on Management Teams among the Subsidiaries with Returnees

Among those subsidiaries without returnees, more than half (52%) only had local managers; the other 48% had both local and expatriate managers. None of them only had expatriates. One reason for this may be the importance of local knowledge in MNE subsidiaries in China.

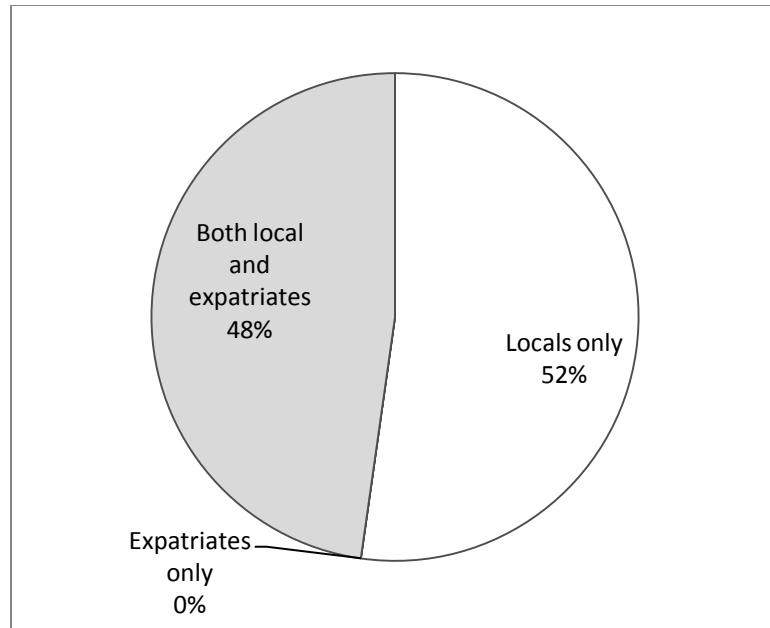


Figure 8.6 Combinations of Manager Types on Management Teams among the Subsidiaries without Returnees

8.1.6 Ownership Status

Table 8.2 shows that the majority of the subsidiaries with returnees were wholly owned subsidiaries and the majority of those without returnees were joint ventures, using both definitions of JV. Therefore, WOSs are more likely to hire returnees than JVs, consistent with our regression results in the previous chapter.

Table 8.2 JV and WOS

	20%-80% Criterion				5%-95% Criterion			
	No Returnees		Returnees		No Returnees		Returnees	
	N	%	N	%	N	%	N	%
WOS	25	35%	42	68%	23	32%	36	58%
JV	46	65%	19	32%	48	68%	26	42%

Across the four foreign equity levels (Figure 8.7), the subsidiaries with returnees had a considerably higher percentage that were wholly owned (61%) than the other group (35%) and a much lower percentage of minority ownership (10% versus 21%).

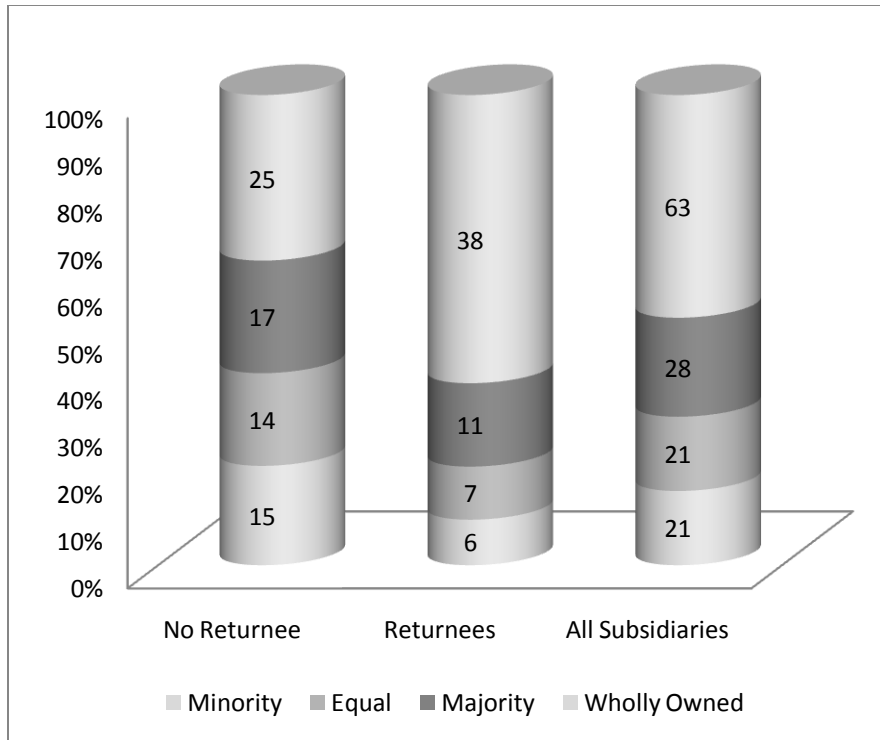


Figure 8.7 Foreign Ownership at Four Different Levels

8.1.7 Subsidiary Age

The average subsidiary age between the two groups did not differ very much: 9.5 for subsidiaries with returnees and 10.9 for those without (Table 8.3). However, the group with returnees had a higher percentage of young subsidiaries (23%, 14 subsidiaries), compared with 17% (12 subsidiaries) in the other group (Figure 8.8). This is consistent with our finding that returnees are more needed when the subsidiary is young.

Table 8.3 Subsidiary Age

	N	Minimum	Maximum	Mean	Std. Deviation
No Returnee	71	3	24	10.9	5.2
Returnees	62	1	29	9.5	5.7
Total	133	1	29	10.2	5.5

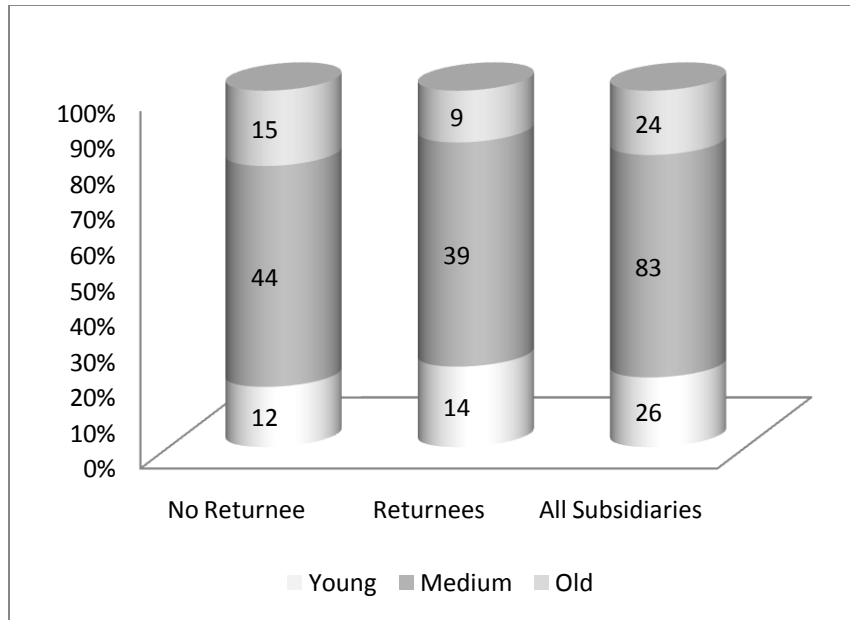


Figure 8.8 Subsidiary Age Distribution

8.1.8 Geocentrism

The subsidiaries with returnees had higher geocentrism, as measured by the interaction term of global integration and localization, than those without (Table 8.4). This suggests that subsidiaries which value both integration and localization hire more returnees.

Table 8.4 Geocentrism

	N	Minimum	Maximum	Mean	Std. Deviation
No Returnee	71	0	5700	887	944
Returnee	62	0	10000	1327	2050
Total	133	0	10000	1092	1569

8.1.9 Number of Expatriates

The group without returnees had 37 subsidiaries (52%) that did not have any expatriates. The group with returnees had 32 subsidiaries (52%). Even though in the previous chapter we found that employment of returnees was negatively correlated with

employment of expatriates, it seemed that the existence of returnees did not eliminate expatriates from management teams. As one manager we interviewed suggested, expatriates are valuable in China with their special perspectives and experiences, which should be complemented by returnees' dual cultural knowledge and communication capabilities.

Table 8.5 Number of Expatriates in Management Team

No. of Expatriates	No Returnee	Returnees
0	37	32
1	17	10
2	6	7
3	3	3
4	0	2
5	5	2
6	0	2
7	1	0
8	0	1
9	1	1
10	0	1
13	1	0
16	0	1
Total	71	62

The group with returnees had six subsidiaries with minority ownership and seven with equal ownership. If these two small groups were excluded, Figure 8.9 shows that the percentage of subsidiaries that had expatriates increased as the level of equity owned by the parent firm increased. However, the percentage of subsidiaries that had expatriates was higher in the group without returnee than the group with returnees. Moreover, the latitude of this change was much bigger in the group without returnees: only 21% of the subsidiaries had expatriates at the minority and equal ownership level, but the percentage jumped to 76% in the wholly owned subsidiaries. In the group with returnees, this

percentage increased from 14% to 61%. This suggests that without returnees, a parent firm has to rely more on expatriates to maintain control over subsidiaries in China as their stake in the subsidiaries increases.

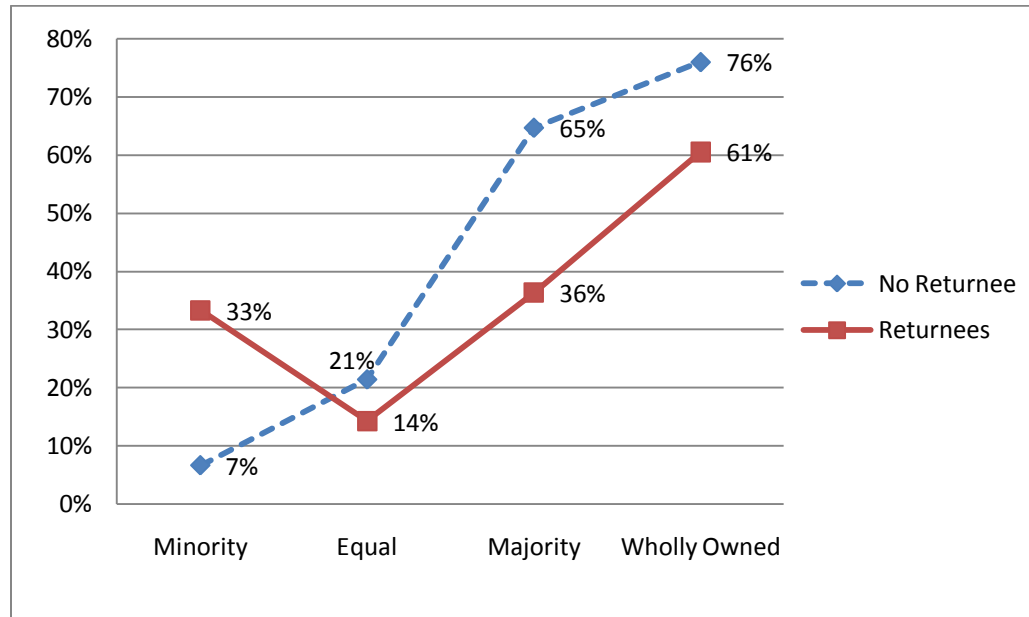


Figure 8.9 Percentage of Subsidiaries that Have Expatriates across Ownership Levels

8.1.9 Managers with International Experience

In our study, all the returnees were considered to have international experience. When we examined the local managers, there were 103 subsidiaries that did not have any local managers who had international experience. Among these subsidiaries, there were 63 (61%) subsidiaries without returnees and 40 (39%) subsidiaries with returnees. On the other hand, 24 subsidiaries had local managers with international experience including eight (33%) of them without returnees and 16 (67%) with returnees. It seems that subsidiaries with local managers with international experience are more likely to have returnees. As we have argued, this may be because people with multiple cultural experiences work together better.

Fifty-one percent of the local managers had international experience at these 24 subsidiaries. The remaining six subsidiaries had no local manager, but all six had returnees (Table 8.6). This suggests that local knowledge is a necessity in MNE subsidiaries in China.

Table 8.6 Local Managers with and without International Experience

	No Returnee	Returnees	Total
Locals without international experience	63	40	103
Locals with international experience	8	16	24
No Locals	0	6	6

Expatriates at twenty-three subsidiaries had no international experience; seven of them (30%) belonged to the group with returnees. Another 41 had international experience with 23 of them (56%) belonging to the group with returnees. This again confirms that people with multiple cultural experiences tend to work together.

The average percentage of the expatriates that had international experience at the 41 subsidiaries was 73%, which was much higher than that of local managers. Consistent with practices in other countries, MNEs provide limited opportunities for locals to gain international experience.

Among the 69 subsidiaries that had no expatriates, there were 27 (39%) without returnees and 32 (61%) with returnees (Table 8.7). This suggests that subsidiaries without

Table 8.7 Expatriates with and without International Experience

	No Returnee	Returnees	Total
Expatriates without international experience	16	7	23
Expatriates with international experience	18	23	41
No expatriates	37	32	69

expatriates are less likely to have returnees, which is consistent with what Table 8.6 suggests.

8.1.10 Subsidiary Performance

The mean of subsidiary performance did not differ between the two groups. It was 5.26 for the group without returnees and 5.27 for the group with returnees (Table 8.8). However, the distribution of subsidiary performance was significantly different between the two groups. The histogram (Figure 8.10) for the two groups shows that the tails of the normal curve were flatter in the group with returnees. Kurtosis was -0.50 in the group without returnees, which was not significantly different from zero. In the group with returnees, the kurtosis was 1.86, which was significantly different from zero. Subsidiary performance in the group with returnees varied more, and in the group without returnees was more clustered at the middle level. In other words, subsidiaries without returnees were more likely to have similar performance with competitors and those with returnees were more likely to perform either better or worse than competitors.

Even though returnees are closer to “balanced individuals,” there are various situations where some subsidiaries with returnees perform poorly. One situation may be that the subsidiary had terribly poor performance in the history and decided to hire returnees to help. Even though returnees improved performance, the subsidiary may still perform worse than competitors at the time of our survey. Unfortunately, our study did not measure how much subsidiary performance changed before and after a subsidiary hired returnees. Another situation may be that some returnees hurt performance. One reason this occurs may be that some returnees could not adapt to the Chinese environment well,

as suggested by some managers we interviewed. Another reason, probably the major one, is that some returnees are not actually capable managers. Overseas education does not equate with managerial capabilities, as several of the managers that we interviewed pointed out. When an MNE subsidiary hires returnees without strong capabilities, subsidiary performance may be harmed.

Table 8.8 Subsidiary Performance

	N	Minimum	Maximum	Mean	Std. Deviation	Kurtosis	Skewness
No Returnee	71	3.50	7.00	5.26	0.93	-0.50	-0.14
Returnees	62	2.00	6.75	5.27	0.89	1.86	-0.93
Total	133	2.00	7.00	5.27	0.91	0.42	-0.47

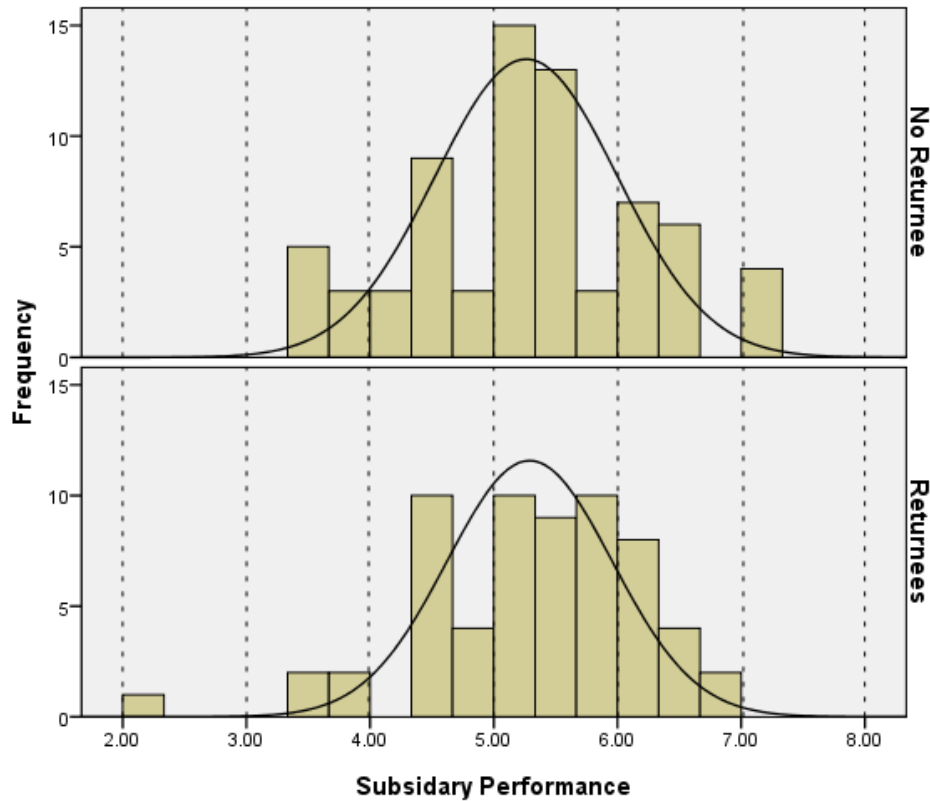


Figure 8.10 Histogram – Subsidiary Performance

8.2 RESPONDENTS

This section compares respondent profiles in the two groups including their cultural background, language abilities, international experience and MNE work experience.

8.2.1 Top executives' Cultural Background

Table 8.9 shows that in the group without returnees, 61% of the subsidiaries had a local as the top executive. However, among the subsidiaries with returnees, this percentage was only 13%; but 58% had a returnee as the top executive. This is consistent with the finding that local top executives are less likely to employ returnees. In the group with returnees, more than half had a returnee as the top executive.

Table 8.9 Top Executives' Cultural Background

	No Returnee		Returnees		All Subsidiaries	
Returnee	N.A.		36	58%	36	27%
Local	43	61%	8	13%	51	38%
Asian Expatriate	16	23%	6	10%	22	17%
Other Expatriate	12	17%	12	19%	24	18%
Total	71		62		133	

8.2.2 Top Executives' Language Capabilities

Table 8.10 shows that the percentage of top executives who could communicate in multiple languages was higher among the subsidiaries with returnees (95%) than those without returnees (87%).

Table 8.10 Top Executives' Language Capabilities

	No Returnee		Returnees		All Subsidiaries	
1	9	13%	3	5%	12	9%
2	49	69%	45	73%	94	71%
3 or more	13	18%	14	22%	27	20%
Total	71		62		133	

8.2.3 Top Executives' International Experience

According to Table 8.11, the percentage of subsidiaries whose top executive had international experience was much higher among the group with returnees (81%) than the group without returnees (39%). This may be because 61% of the top executives were locals among the subsidiaries without returnees.

Table 8.11 Top Executives' International Experience

	No Returnee		Returnees		All Subsidiaries	
No	9	13%	3	5%	12	9%
Yes	49	69%	45	73%	94	71%
Total	71		62		133	

8.2.4 Top Executives' Work Experience in Headquarters and Other Subsidiaries

Table 8.12 shows that the percentage of top executives that had ever worked at either headquarters or other subsidiaries was also higher in the group with returnees (40%) than those in the group without returnees (35%).

Table 8.12 Top Executives Who Have MNE Work Experience

	No Returnee		Returnees		All Subsidiaries	
No	46	65%	37	60%	83	62%
Yes	25	35%	25	40%	50	38%
Total	71		62		133	

The small sample size in each group did not allow us to run any regressions to see whether any hypothesized relationship in this study differed between the two groups.

We summarize the differences between the subsidiaries with returnees and those without in Table 8.13.

Table 8.13 Differences between Subsidiaries with Returnees and Those without

	Subsidiaries with Returnees	Subsidiaries without Returnees
Home country	More likely to be in Europe and North America	More likely to be in Asia
No. of Facilities present in the subsidiary	Fewer	More
Combinations in management team	A combination of all three types or a combination of returnees and locals	Locals only or a combination of locals and expatriates
Ownership	More likely to be WOS	More likely to be JV
Subsidiary age	More young subsidiaries	Fewer young subsidiaries
Geocentrism	Higher	Lower
Likelihood of having expatriates	Increases as the level of ownership increases	Increases more dramatically as the level of ownership increases
Managers with international experience	More likely to be present	Less likely to be present
Top executive	More likely to be a returnee	Very likely a local
	More likely to have international experience	Less likely to have international experience
	More likely to have MNE experience	Less likely to have MNE experience

CHAPTER 9 DISCUSSION AND CONCLUSIONS

This study examined the use of returnees in multinational subsidiaries in China and the antecedents and consequences of their employment. In the first stage, executives from multinational subsidiaries in China were interviewed in order to understand the unique characteristics of returnees and their special contributions. In the second stage, hypotheses were developed from the organizational learning perspective, and a survey was conducted to test the hypotheses.

9.1 KEY FINDINGS

In this section, we summarize the major findings from the interviews with top executives from multinational subsidiaries in China and the major findings from the data we collected from the survey.

9.1.1 Findings from the Interviews

From the first stage of the study, interviews, we learned that returnees are special because they understand multiple cultures, possess good cross-cultural communication skills, and hold a global perspective. The managers we interviewed suggested that while their purpose in going overseas may well be education, MNEs probably value the cultural knowledge that they have gained from overseas experience as much as the university degree they earned. These executives' appreciation of returnees' cultural knowledge also highlights the importance of cultural knowledge among MNE staff. This strongly suggests that it is appropriate to categorize staff based on cultural knowledge. However,

the nationality criterion used in the literature fails to reveal a manager's cultural knowledge; and thus it does not provide a sufficiently clear understanding of MNEs' overseas staffing strategies. All considered, cultural knowledge is a better criterion to categorize staff in MNEs.

Using cultural knowledge as the criterion, we are able to relate different types of managers with the two conflicting strategic goals that MNEs face: global efficiency and local responsiveness. Managers with knowledge of multiple cultures are likely to be able to respond to both strategic goals and reach a balance between the two better than those with knowledge of only one culture. An ideal manager for an overseas subsidiary, or a "balanced individual," is probably someone who has significant experience both in the home country and in the host country. This experience produces knowledge of both cultures. Managers with this knowledge could effectively respond to both global efficiency and local responsiveness. Returnees certainly have host country experience, and many of them also have home country experience. In our study, returnees' Chinese cultural background enables them to meet the challenges of local responsiveness, and their overseas experience responds to the needs of global efficiency. Their cultural knowledge may well be the reason why they can substitute for expatriates in MNE subsidiaries in China.

We also learned from the interviews that returnees are the "bridge" between expatriates and locals, between headquarters and the subsidiary, and between the subsidiary and the Chinese environment. They are the "cultural brokers" who can explain to headquarters and expatriates what is going on in the subsidiary and explain to local staff headquarters' policies and strategies. This "bridge" smoothes out the learning in

subsidiaries, subsidiary management becomes more effective, headquarters' control over the subsidiary is improved, and the MNE can develop local networks and business more efficiently. Returnees are also able to help headquarters develop better strategies in China and implement the strategies effectively.

In the second stage, data from the survey allowed us to test the hypotheses and generate additional findings.

9.1.2 Findings Related to the Hypotheses

There are several major findings from the second stage. We discuss each hypothesis in turn.

First, WOSs hire more returnees than JVs, which is counter to H1a. However, JVs are more likely to have a returnee as top executive than WOSs, which supports H1b. These two findings together suggest that factors affecting employment of the top management team differ from those affecting employment of the top executive. When recruiting management team members, even though JVs may need the “bridge” more, the fact that management teams in JVs usually include people from the Chinese partners, which may be part of the agreement among the partners in many JVs. This leaves fewer positions available in the management teams for returnees to fill. This is further supported by our finding that local top executives are less likely to hire returnees. On the other hand, within WOSs, foreign parent firms have more freedom to hire the talent they like. Headquarters are more likely to choose returnees than locals when they try not to send expatriates overseas. As we found in the previous chapter, 58% of the subsidiaries with returnees were WOSs.

Top executive recruitment may be a result of negotiations among the partners in JVs. Therefore, having someone that is acceptable to both foreign and Chinese partners is important. An expatriate may be rejected by Chinese partners and a local may be rejected by the foreign partners. A returnee becomes the only choice that is acceptable to both partners.

We also found that expatriate and returnee top executives tend to hire more returnees than local executives. This is consistent with H2a and supports the learning perspective.

There is, however, a downward sloping U-shape relationship between subsidiary age and employment of returnees. This finding, while contrary to H3a, which hypothesized an inverted U-shape relationship, may still be consistent with the organizational learning perspective. It shows that employment of returnees decreases as subsidiary age increases. It is similar to the relationship between subsidiary age and employment of expatriates from the literature. The negative significant relationship between employment of expatriates and that of returnees (Table 7.2) indicates that returnees may substitute for expatriates in multinational subsidiaries in China. This is consistent with what the descriptive data suggest.

When a subsidiary is young, returnees are needed more. At this stage, knowledge from the parent firm is important. Returnees may be able to transfer knowledge from the parent firm to the subsidiary because of the education they received overseas, and especially the work experience they had at headquarters. An examination of our survey data shows that 55% (five out of nine) of the top executive returnees working at young subsidiaries have MNE experience. This percentage of the returnees that have MNE

experience in our sample is 45% (16 out of 36). They also have the advantage of knowing the local environment better than expatriates. Considering both their educational background and their local knowledge, they may be a good staffing choice for MNEs when they set up new subsidiaries in China. Even though the literature found that headquarters tend to send expatriates to subsidiaries at the early stage, our study suggests that when returnees are available, MNEs may choose returnees instead of expatriates at this stage. For MNEs with an ethnocentric staffing approach, returnees with MNE experience can be a good choice: headquarters may trust a returnee who has served the company for a long period of time and holds the home country nationality more than an HCN who is new to the company.

When a subsidiary becomes older, builds its own knowledge base, and subsequently has a reduced need for expatriates, the downward sloping U-shape relationship between subsidiary age and employment of returnees suggests that returnees are not in high demand. The slightly increasing trend at a later stage in Figure 7.1 suggests that locals do not replace returnees or expatriates when a subsidiary becomes even older. Due to the talent shortage in China, local people who can become as competent as returnees after training and socialization in MNEs may still be rare even if they have worked at the subsidiary for a long time. A lack of competent locals may also be because few locals are given enough opportunities to obtain training and socialization. Local managers are normally not as involved in training and socialization activities as returnee or expatriate managers. A third possible reason may be that business training and socialization programs cannot generate sufficient cultural intelligence for the locals. Many MNEs provide expatriates with cultural training programs. However, adapting to

the host country culture is still the biggest hurdle for them to succeed in overseas assignments. Following the same logic, it may also be very difficult for MNEs to help locals learn the home country culture. Therefore, when the need to transfer knowledge to and from headquarters increases in older subsidiaries, locals may still be insufficiently capable, and subsequently, employment of returnees increases again.

The relationship between subsidiary age and returnee as top executive is negative, counter to the inverted U-shape relationship that was hypothesized in H3b. The older a subsidiary becomes, the less likely it is to have a returnee as the top executive. This is consistent with what was hypothesized for subsidiaries at young and medium ages. However, when a subsidiary becomes older, the possibility of a returnee being top executive does not increase. This may be because a top executive has considerable power and authority, and serves a control purpose more than a knowledge transfer purpose. Many foreign parents in JVs insist that their people fill this position to better achieve subsidiary control. Knowledge transfer may be achieved by any management team member. Therefore, knowledge transfer may not affect top executive recruitment at this stage. As the subsidiary further matures, control may rely more on socialization and established policies and systems than on personnel. As a result, the need for a returnee to be the top executive in order to exert parent control decreases.

The different relationships between subsidiary age and employment of returnees and between subsidiary age and returnee as top executive again suggest that recruitment of the top executive position and that of management team members are affected by different factors. One of these factors may be different staffing strategy purposes.

The hypotheses about the relationship between employment of returnees and subsidiary performance are not supported. One reason for this may be that we were not able to obtain a sample that represented the population well. As the descriptives showed, companies in our sample tended to report that they perform better than their competitors. Another reason may be that the measure of geocentrism in our study is new even though we created this measure based on the literature.

9.1.3 Additional Findings

Besides the findings related to the hypotheses, we have several major findings. First, we found that returnees substitute for expatriates, which is strongly supported by both the regression results and descriptive data.

Second, descriptive data consistently suggest that people with international experience or knowledge of multiple cultures tend to work together, and local knowledge is essential in management teams. Both indicate the importance of management team composition. Combining the right people is critical for good team work. Having the appropriate knowledge base in management teams may be the basis for MNE subsidiaries to survive in China.

Third, employment of expatriates has a negative impact on both employment of returnees and the probability of a returnee as top executive. We ran two regressions with employment of expatriates and expatriate as top executive as the dependent variables.

The results show that JVs employ fewer expatriates than WOSs. Local top executives are less likely to hire expatriates than returnee and expatriate top executives. These results are similar to what we found with regard to returnees. Employment of

expatriates has a positive impact on the probability of an expatriate as top executive. This is interesting given that we found that a subsidiary with more expatriates is less likely to have a returnee. An expatriate may be more appropriate to lead a team with more expatriates because of their similar backgrounds. It is also possible that the headquarters of these subsidiaries are high on global efficiency and control. A management team with more expatriates and an expatriate top executive is the proper staffing approach to serve such a strategy orientation.

While the literature suggested a U-shape relationship between subsidiary age and employment of expatriates (Downes & Thomas, 2000), this relationship is not supported in our study: the betas of subsidiary age and its squared term are in the expected directions but not significant. This may further support the finding that returnees substitute for expatriates: after employment of returnees is taken into consideration, the relationship between subsidiary age and employment of expatriates disappears.

Table 9.1 Results – Employment of Expatriates

Independent Variable	
Ownership status	-.191 *
Top executive background	-.407 **
Subsidiary age	-.120
Subsidiary age squared	.120
Industry globalization	-.065
Employment of returnees	-.328 **
First Investment	-.046
Subsidiary size	.062
R Square	.267

+ significant at .1 level.

* significant at .05 level.

** significant at .01 level.

Table 9.2 Results – Expatriate as the Top Executive

Independent Variables	
Ownership Status	.597
Subsidiary age	.096
Subsidiary age squared	-.001
Industry globalization	-.220
Employment of expatriates	9.487 **
First investment	.117
Subsidiary size	-.230
Nagelkerke R Square	.570

** significant at .01 level.

Table 9.3 Classification Table – Expatriate as Top Executive

Observed	Predicted		
	Not an Expatriate	Expatriate	Percentage Correct
Not an Expatriate	77	9	89.5
Expatriate	16	29	64.4
Overall Percentage	80.9		

The cut value is .500

Since returnees and expatriates substitute for each other, the relationships related to locals should be the opposite of those that we found relating to returnees and expatriates. Table 9.4 displays the regression results with employment of locals as the dependent variable. All the results are expected given the findings from employment of returnees and that of expatriates. The beta of ownership is positive and significant, which suggests that JVs hire more locals than WOSs. This is consistent with the results that JVs hire fewer returnees and expatriates than WOSs. Local top executives hire more locals than returnee and expatriate top executives, which is consistent with the finding that local

top executives hire fewer returnees and expatriates. Subsidiary age has an inverted U-shape relationship with employment of locals. This is possible given that there is a downward sloping U-shape relationship between subsidiary age and employment of returnees and a negative relationship between subsidiary age and employment of expatriates. Employment of expatriates has a negative impact on employment of locals. A negative relationship between employment of returnees and employment of locals are also found when we ran another regression.

Table 9.5 shows the logistic regression results related to local as top executive. JVs are less likely than WOSs to have a local as the top executive. This supports that a returnee top executive is better able to bridge the foreign and local parent firms than a local top executive. As expected, both employment of returnees and that of expatriates have a negative impact on the likelihood of a local being the top executive. This supports H2, which states that local top executives hire fewer returnees than returnee and expatriate top executives. Subsidiary size has a negative impact.

Table 9.4 Results – Employment of Locals

Independent Variable	
Ownership status	.134 *
Top executive background	.337 **
Subsidiary age	.172 *
Subsidiary age squared	-.142 *
Industry globalization	-.044
Employment of expatriates	-.470 **
First Investment	-.090
Subsidiary size	.094
R Square	.583

* significant at .05 level.

** significant at .01 level.

Table 9.5 Results – Local as the Top Executive

Independent Variables	
Ownership Status	-1.349 *
Subsidiary age	-.001
Subsidiary age squared	.004
Industry globalization	.239
Employment of expatriates	-6.907 **
Employment of returnees	-9.985 **
First investment	-.092
Subsidiary size	-1.360 *
Nagelkerke R Square	.628

* significant at .05 level.

** significant at .01 level.

Table 9.6 Classification Table – Local as Top Executive

Observed	Predicted		
	Not an Local	Local	Percentage Correct
Not an Local	67	13	83.8
Local	10	41	80.4
Overall Percentage	82.4		

9.1.4 Differences between the Subsidiaries with Returnees and Those without

There are several differences between these two groups that are worth noting. Subsidiaries headquartered in Europe and North America are more likely to have returnees than those headquartered in Asia. Due to the relatively high cultural distance between these countries and China, these companies probably need the “bridge” more in order to effectively manage their subsidiaries in China. Returnees have the proper cultural knowledge required by these companies with their overseas educational background. Even though the majority of Chinese talent prefers to work for American

and European companies, returnees are more competitive than locals in getting into these companies.

The group with returnees proportionately had more subsidiaries at higher levels of foreign ownership. One reason may be, as we mentioned earlier, the parent firm gains more freedom in talent recruitment as the level of foreign ownership increases, thus returnees are more likely to be employed with their desired cultural knowledge.

The group with returnees tended to focus on a limited number of activities along the value chain. They were more likely to be companies that provided specialized products and services and favored returnees because of the special knowledge they gained from overseas education.

The group with returnees also proportionately had more subsidiaries that were young. This is also consistent with our findings. A young subsidiary needs much knowledge from its parent firm; returnees are better able to apply knowledge from the parent firm to the Chinese context than either locals or expatriates. Parent firms also need to exert tighter control when a subsidiary is young; returnees are able to communicate well with the parent firm and help maintain this control.

The group with returnees also had a higher level of geocentrism. This is consistent with our argument that returnees are closer to the “balanced individuals” and can help MNE subsidiaries better achieve geocentrism.

The difference in employment of expatriates between the two groups reinforces the role of returnees in MNE subsidiaries in China. As the level of foreign ownership increased, the percentage of subsidiaries with expatriates increased more dramatically in the group without returnees than in the group with returnees. Therefore, when a parent

firm needs to enhance control over the subsidiaries as its level of ownership increases, it does not always need to send more expatriates once there are returnees in the subsidiaries. This again suggests that returnees substitute for expatriates in MNE subsidiaries in China.

The group with returnees had more managers with international experience. As explained earlier, people with similar backgrounds work together better. Returnees and managers with international experience both have knowledge of multiple cultures and can communicate with each other well.

There are also several interesting findings with regard to the top executives in our sample. In the group with returnees, 58% of the subsidiaries had a returnee as the top executive. Being offered the top position in a subsidiary shows that returnees are capable of managing subsidiaries in China for MNEs. This demonstrates the importance of cultural knowledge in the management of multinational subsidiaries. On the other hand, 61% of the subsidiaries in the group without returnees had a local as the top executive. This suggests that local culture knowledge may be more important than home country culture knowledge in China. The group with returnees had proportionately more top executives with international experience.

9.2 RESEARCH CONTRIBUTIONS

The study extends and advances MNE staffing research. We focus on a new group of people, returnees, who have been ignored in the MNE staffing literature. The interviews and the theoretical model in this study contribute to the literature a new understanding of returnees and the antecedents and the consequences of their employment in multinational subsidiaries in China. By collecting data using a survey, we

were able to provide some empirical evidence regarding the hypotheses that we developed.

This study suggests a new criterion for MNE staffing. The interviews support our argument that categorizing multinational staff based on nationality is inadequate, and that a more appropriate criterion is cultural knowledge. The executives interviewed indicated that the unique characteristic of returnees is that they understand multiple cultures, which legitimates an MNE staffing typology based on cultural knowledge. Differentiating staff based on their cultural knowledge may enable us to relate different types of managers to MNEs' two strategic goals of global integration and local responsiveness, which in turn can help us better understand and analyze MNE staffing strategies and challenges. From here, we may be on our way to a more practical and productive research approach in the SIHRM field.

This study contributes to the organizational learning perspective by revealing the role of the cultural knowledge dimension in MNEs' learning. Organizational learning in the context of MNE staffing is complicated by the great geographic distance between national borders and their different cultures. Some knowledge may be culturally specific, and its acquisition, dissemination and application rely on the managers with the appropriate cultural background profile. With their combination of knowledge of host country culture and overseas culture, returnees could be the right group of people to maximize MNEs' learning in China. Improved bi-directional learning between the headquarters and the subsidiary facilitates the balance between global efficiency and local responsiveness.

By focusing on the subsidiary level, this study helped us gain a better understanding on MNE staffing. The right person for a particular position can be different depending on the location. Previous studies at the parent firm level with a focus on expatriates have aggregated the location-specific nature of talent, and have focused our attention on the number of expatriates rather than on the competency of managers.

An empirical setting in China allows us to make important contributions in international business. China is one of the top recipients of foreign direct investment. Studying MNE staffing strategies in China could improve our knowledge in this area substantially and also help a large number of MNEs develop appropriate staffing approaches. Returnees are a unique staffing choice in China and some other developing countries. This study reveals that staffing strategies available in developing countries are different from those in developed countries.

We also contribute to the MNE staffing research by collecting real data as most studies in this area have been conceptual. While theories can always help us make predictions, it is important to find out whether these predictions are consistent with the reality, which in turn, can help us develop better theories.

9.3 MANAGERIAL IMPLICATIONS

This study has important managerial implications. By studying returnees as a unique group of staff rather than as a subset of HCNs or expatriates, we are able to make suggestions for MNEs regarding effective staffing strategies in Chinese subsidiaries as well as human resource management policies.

Notably, we establish a new approach to identify talent pools for overseas subsidiaries. When looking for managers for overseas operations, managers should ask the question, “What is this person’s cultural background?” instead of the question, “Where is this person from?” People who understand multiple cultures, such as returnees, can be a good staffing choice for MNEs in order to attain their strategic goals in China. MNEs that employ returnees may reach a higher degree of local responsiveness without losing control over Chinese subsidiaries.

The findings from the survey data have implications for MNE staffing strategies in China. The results suggest that returnees can substitute for expatriates. Therefore, instead of sending expatriates, MNEs can recruit returnees to manage their subsidiaries in China. This staffing choice not only alleviates the tremendous costs and high failure rates related to expatriate assignments, but may also better address the needs of global efficiency and local responsiveness simultaneously.

From this study, managers also can develop effective HR policies and management development programs. Returnees that have MNE work experience are probably the best talent for MNE subsidiaries. MNEs should identify returnees early on at schools in Western countries, bring them to work at headquarters for several years, and then send them to the subsidiaries in their home countries.

This study also highlights the importance of management team composition. People who share common backgrounds, such as international experience, work together better. This means that it is important to recruit the right persons in order to construct a good team, and it also means that MNEs should develop programs from the perspective of team composition other than individual development. For example, if most managers

on a team do not have international experience, headquarters may need to send some of them to headquarters or other subsidiaries to gain such experience. As a result, the management team may perform better.

9.4 LIMITATIONS

There are several limitations to our study. Firstly, we only consider overseas education as the approach to gain foreign cultural knowledge. Individuals may learn about other cultures and languages by working overseas too. Chinese employees who have not worked or studied overseas may still learn about the MNEs' home country culture through socialization at headquarters. Similarly, people who come from other countries to study and work in China understand Chinese culture to a certain extent, as do expatriates who have worked in China for a long time. Future research should pay attention to various groups who understand multiple cultures because they are also likely to be close to "balanced individuals".

Secondly, this is a one-country study. Research should also be conducted with regard to returnees in other countries such as India and Eastern European countries. However, focusing on China may allow us to gain a better understanding of the kind of talent that the MNE subsidiaries in that country need.

Thirdly, the survey has a single respondent. This may have limited our ability to test the hypotheses related to subsidiary performance. However, having a single respondent is a weakness in most international research (Minbaeva, Pedersen, Björkman, Fey, & Park, 2003), because obtaining multiple respondents is difficult, especially when

different respondents for one firm are in different countries. Furthermore, we did check common method bias before testing hypotheses.

Fourthly, returnee is a special group of people understanding multiple cultures. Within this group, there may be considerable variance such as the type of education received overseas – business versus non-business, amount of time in China after overseas experience, age, and gender. All these factors may affect their individual performance and subsequently affect subsidiary performance. We were unable to include these factors with a level of analysis at the subsidiary level.

In the end, we did not consider the effect of parent firm factors such as corporate strategy. This may require respondents from the parent firm and faces the difficulties involved in having multiple respondents. Also, having more variables would increase the length of the questionnaires and potentially lower the response rate. We have to make a trade off in the number of variables for the response rate in some circumstances.

9.5 FUTURE RESEARCH

Future research may extend similar studies to more countries. Other developing countries in Eastern Europe and Asia such as Slovakia and India also have a substantial number of returnees. In the developing world, people who have international experience also understand multiple cultures better and are a good staffing choice for MNEs. There are large numbers of immigrants in developed countries such as Canada. In the era of the “global village,” more people travel internationally. Therefore, people with multiple cultural backgrounds are not a small population. Their employment in multinationals,

regardless of the country, may advance our understanding of MNE staffing. We think this is an embryonic but urgent area in the MNE staffing literature.

Our study suggests that there are different factors affecting the recruitment of the top executive and that of top management team members. This can be an interesting area for future research. The reasons that a returnee is recruited as a top executive may be quite different from those that he/she is in a management team. Headquarters may be much more involved in the former than in the latter. As a result, a parent firm effect should be considered in such a study.

A relevant research effort can be the relationship between overseas staffing choices, especially the top executive position, and headquarters' purpose of learning and control. How do different staffing purposes (learning, control, or both) affect staffing choices? How do staffing strategies differ in different situations such as JV versus WOS? For the purpose of control, are different staffing strategies used with different control mechanisms? A parent firm perspective and a qualitative research approach may be necessary to answer these questions.

The composition of management teams with returnees is also a potential area for future research. Our study found that returnees and expatriates are replacing each other. Which management team composition leads to better performance: all expatriates, all returnees, a combination of returnees and expatriates, or a combination of returnee, expatriates and locals? And what ratio of each type of manager would be superior? What are the factors that affect the relationship between management team composition and subsidiary performance?

The relationship between returnees and subsidiary performance warrants more research effort. Future research may consider different performance measures or archival data. On the other hand, studies at the individual level considering various characteristics of returnees such as education type, overseas experience, and experience in China may help us better understand this relationship.

Returnees, with their capability to bridge with the Western world, may be especially attractive to MNEs from their host countries. How MNEs from emerging markets employ returnees and how they contribute to these MNEs warrant future research effort.

We were unable to conduct regression analysis for various subgroups such as the group with returnees and that without returnees due to small sample size. However, there are many interesting findings from the subgroup analysis. Future research could collect more data and conduct more rigorous analysis to further validate the insights gained.

We also call for more studies of MNE staffing at the subsidiary level and more empirical studies in the MNE staffing area. The purpose of an overseas assignment is to lead a subsidiary to success. A staffing choice, while it may be made at headquarters, must take into account the external and internal environment of the specific subsidiary to achieve the strategic goals. MNEs not only need to reach global efficiency, but also local responsiveness. The latter requires a staffing strategy that understands local environments and local talent. A parent firm level study is not able to include subsidiary-specific characteristics and thus impedes our understanding of successful staffing strategies. We argue that subsidiary level is a more appropriate level of analysis for MNE staffing.

Methodologically, future research may consider how to conduct surveys more effectively in China. Many developing countries do not have as well established archival data as developed countries. Surveys and other field work must be done to collect data. While outsourcing is a viable solution to pursue in order to collect data from China, self-collection and other approaches are worth exploration in the future.

Staffing with returnees in MNE subsidiaries is a complicated phenomenon and our study is only a start. Substantial research is needed to improve our understanding of this topic. This needs both qualitative and quantitative studies at the subsidiary level as well as at the parent firm level. We also need to involve both scholars and practitioners.

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Appendix I: Cover Letter and Questionnaire

Dear Mr. /MS. <NAME>,

My name is Huanglin Wang and I am a PhD Candidate at the Ivey School of Business at the University of Western Ontario.

I am writing to ask for your help with my dissertation. This study aims to understand issues related to the employment of different kinds of managers and how they contribute to the multinational enterprises in mainland China. This will help multinational enterprises deploy the right people for the right positions in China.

My study requires data from the *top executives* of multinational subsidiaries in China. As a <title>, you can help my study by filling out the enclosed questionnaire. This should take approximately 20 minutes. If you prefer to answer the questions online, the questionnaire is available at <http://www.ivey.ca/checkbox/Survey.aspx?surveyid=3409>, or <http://www.ivey.ca/checkbox/Survey.aspx?s=8a326ead0f4f4f04a5623ba322269f87>. Your username is _____ and password is _____.

I will send you a summary of the survey results upon completion of my study as a thank you for your participation.

There are no known risks to your involvement in this study. Please note that **your responses are strictly confidential**, and that your participation is completely voluntary. You may refuse to participate or refuse to answer any of the questions. However, your participation is highly appreciated. When the results of the study are published, your name or the name of your company will not be used. If for some reason you prefer not to respond, please let me know by replying this message so that I won't contact you again in the future.

Should you have any questions or concerns about this study, please contact me, or Professor Jean-Louis Schaan. If you have any questions about the conduct of this study or your rights as a research participant, you may contact the Office of Research Ethics, the University of Western Ontario.

In case this does not pertain to you, I apologize for the inconvenience and would appreciate if you could forward this letter to the appropriate person.

My thesis completion is dependent on your response. I look forward to hearing from you, and wish to thank you for your time and participation.

Yours sincerely,
Ms. Huanglin Wang
1151 Richmond Street N., Ivey ON45
London ON, N6A 3K7, Canada

In this questionnaire, the term subsidiary refers to a branch, office, company, Ltd, or other names that may be applied to a multinational affiliation.

Subsidiary Name

SECTION I

The following questions are about the MULTINATIONAL ENTERPRISE, which includes headquarters and all its subsidiaries, with the highest level of equity in your subsidiary.

1. The country where global headquarters of this multinational enterprise are located _____
2. Is this subsidiary the first investment in China for this multinational enterprise? (Please check one) Yes
 No

SECTION II

The following questions are about this SUBSIDIARY in China, NOT about the multinational enterprise or headquarters.

1. This subsidiary was established in Year _____
2. This subsidiary is a Sino-foreign JV
 Wholly owned subsidiary
 Other, please specify _____
3. This subsidiary was established through Greenfield entry (created a totally new venture)
 Acquisition (took over an existing venture)
4. This subsidiary has the following facilities. (Please check all that apply.) Research and development
 Manufacturing
 Marketing and sales
 Other (Please specify) _____
5. The main industry this subsidiary competes in is _____

Question 6-11: On a scale from 1 as “strongly disagree” to 7 as “strongly agree”, please indicate how much you agree with the following statements according to the situations in the last two years. (Please put “X” in front of the corresponding number.)

	Strongly Disagree				Neutral			Strongly Agree
	↓				↓			↓
6. In this main industry, the companies compete with each other on a truly global basis instead of on a country-by-country basis.	1	2	3	4	5	6	7	
7. This subsidiary must change its marketing practices frequently to keep up with the market and competitors.	1	2	3	4	5	6	7	
8. The rate at which products/services are getting obsolete in the main industry is high.	1	2	3	4	5	6	7	
9. Actions of competitors are difficult to predict.	1	2	3	4	5	6	7	
10. Demand and consumer tastes are difficult to predict.	1	2	3	4	5	6	7	
11. The production/service technology changes often and in major ways.	1	2	3	4	5	6	7	

Question 12-18: Please provide your best **ESTIMATE** for the following items.

- | | |
|--|------------|
| 12. At the end of the last fiscal year, the number of employees in this subsidiary was | _____ |
| 13. At the end of the last fiscal year, the percentage of equity owned by the primary foreign parent firm in this subsidiary was | _____
% |
| 14. In the last two years, the percentage of company products/services sold by this subsidiary that were developed (totally or partially) by headquarters or other subsidiaries was | _____
% |
| 15. In the last two years, the percentage of marketing for company products/services sold by this subsidiary that was adopted (totally or partially) from headquarters or other subsidiaries was | _____
% |
| 16. In the last two years, the percentage of company products/services sold by this subsidiary that were especially developed or substantially modified for the mainland China market was | _____
% |
| 17. In the last two years, the percentage of marketing for company products/services sold by this subsidiary that was especially developed for or consciously adapted to the mainland China market was | _____
% |
| 18. In the last two years, the percentage of yearly output (in terms of value, including parts/semi-manufactured articles) of this subsidiary that was sold or delivered to the mainland China market | _____
% |

Question 19-22: On a scale from 1 as “much worse” to 7 as “much better”, please indicate how you would evaluate the subsidiary performance **comparing with the COMPETITORS in the primary industry** in the last two years in the following four dimensions. (Please put “X” in front of the corresponding number.)

	Much Worse ↓				About the Same ↓			Much Better ↓
19. Operating efficiency	1	2	3	4	5	6	7	
20. Quality	1	2	3	4	5	6	7	
21. Service	1	2	3	4	5	6	7	
22. Profitability	1	2	3	4	5	6	7	

SECTION III

*The following questions are about the managers who report **DIRECTLY** to you.*

Question 1-4: We categorize **MANAGERS** into four groups as described below. Please indicate how many managers who report **DIRECTLY** to you fall into each group. (Please put 0 if there is no one in a specific group.)

- | | | | |
|----|--|--|----------------|
| 1. | Returnee managers | Grew up in Mainland China (excluding Hong Kong, Taiwan and Macao) and had higher education overseas | _____ |
| 2. | Local managers | Grew up in Mainland China (excluding Hong Kong, Taiwan and Macao) and had NO higher education overseas | _____ |
| 3. | Asian expatriate managers | Grew up in Asia outside of Mainland China (including Hong Kong, Taiwan and Macao) | _____ |
| 4. | Non-Asian expatriate managers | Grew up outside of Asia | _____ |
| 5. | Among the local managers that report directly to you, how many ever stayed overseas (including Hong Kong, Taiwan and Macao) for one year or more? (Please put 0 if there is no one.) | | _____ |
| 6. | Among the expatriate managers (including Asian and Non-Asian) that report directly to you, how many ever stayed in a foreign country/region for one year or more other than their home countries/regions? (Please treat Hong Kong, Taiwan and Macao as regions, and put 0 if there is no one.) | | _____ |
| 7. | Among all these managers that report directly to you, how many ever worked at headquarters or other subsidiaries of this multinational enterprise for one year or more? (Please put 0 if there is no one.) | | _____
_____ |
| 8. | Among ALL these managers that report directly to you, how many can communicate (speak and write) in both Mandarin and the language used for cross-border communications in the multinational enterprise? (Please put 0 if there is no one.) | | _____ |

Question 9-20: On a scale from 1 as “never” to 7 as “very frequently”, please indicate how frequently the returnee and local managers in this subsidiary participate in the following activities. (Please put “X” in front of the corresponding number.)

Returnee managers who report directly to you

(Please skip these questions if there is no returnee manager.)

	Never ↓			Moderate ↓			Very Frequently ↓
	1	2	3	4	5	6	7
9. Training programs for managers who come from headquarters and/or other subsidiaries							
10. Global or regional meetings with managers from headquarters and/or other subsidiaries							
11. Job rotations to headquarters and/or other subsidiaries							
12. Communication interactions with expatriates assigned to this subsidiary							
13. Personal contact with other managers in headquarters and/or other subsidiaries							
14. Committees, teams and task forces with managers from headquarters and/or other subsidiaries							

Local managers who report directly to you

(Please skip these questions if there is no local manager.)

15. Training programs for managers who come from headquarters and/or other subsidiaries							
16. Global or regional meetings with managers from headquarters and/or other subsidiaries							
17. Job rotations to headquarters and/or other subsidiaries							
18. Communication interactions with expatriates assigned to this subsidiary							
19. Personal contact with other managers in headquarters and/or other subsidiaries							
20. Committees, teams and task forces with managers from headquarters and/or other subsidiaries							

SECTION IV

The following questions are about YOU. We are interested in the general profile of the executives in multinational subsidiaries in China. This information will be aggregated with that from other companies and will never be used to identify you with your responses.

Question 1-6: On a scale from 1 as “never” to 7 as “very frequently”, please indicate how frequently you participate in the following activities by circling the corresponding number. (Please put “X” in front of the corresponding number.)

	Never ↓		Moderate ↓		Very Frequently ↓		
1. Training programs for managers who come from headquarters and/or other subsidiaries	1	2	3	4	5	6	7
2. Global or regional meetings with managers from headquarters and/or other subsidiaries	1	2	3	4	5	6	7
3. Job rotations to headquarters and/or other subsidiaries	1	2	3	4	5	6	7
4. Communication interactions with expatriates assigned to this subsidiary	1	2	3	4	5	6	7
5. Personal contact with other managers in headquarters and/or other subsidiaries	1	2	3	4	5	6	7
6. Committees, teams and task forces with managers from headquarters and/or other subsidiaries	1	2	3	4	5	6	7
7. You grew up in (Please check one)							
<input type="checkbox"/> Mainland China (excluding Hong Kong, Taiwan and Macao) and had higher education overseas							
<input type="checkbox"/> Mainland China (excluding Hong Kong, Taiwan and Macao) and had NO higher education overseas							
<input type="checkbox"/> Asia outside of mainland China (including Hong Kong, Taiwan and Macao)							
<input type="checkbox"/> Other place, please specify _____							
8. The language(s) that you can speak and write (Please check all that apply)							
<input type="checkbox"/> Mandarin							
<input type="checkbox"/> English							
<input type="checkbox"/> Other, please specify _____							
9. Other than your home country/region, how many years have you stayed in foreign countries/regions? (Please treat Hong Kong, Taiwan and Macao as regions. If you have never stayed in a foreign country/region for one year or more, please put 0 and skip the next question.)	_____						
	years						

10. Other than your home country/region, how many **foreign** countries/regions have you stayed in for one year or more? (Please treat Hong Kong, Taiwan and Macao as regions, and put 0 if you have never stayed in a foreign country/region for one year or more.) _____
11. How many years have you worked at **global headquarters** of this multinational enterprise? (Please put 0 if you have never worked at global headquarters.) _____ years
12. How many years have you worked at **other subsidiaries** of this multinational enterprise? (Please put 0 if you never worked at any other subsidiaries.) _____ years
13. How many years have you worked in this subsidiary? _____ years
14. Your title is _____

Thank you very much for completing this questionnaire!

If your name does not match the one in the Email message/cover letter, please provide your contact information below so that we can send you a survey report.

Name: _____

Email address: _____

If you have any comments/suggestions about this questionnaire, please share with us below.

CURRICULUM VITAE

Name: Huanglin Wang

Post-secondary Degrees: Zhengzhou College of Aviation Industry Management
China
1991-1995 BSc.

Shanghai University of Finance and Economics
China
1995-1998 MA (Business Economics)

Richard Ivey School at the University of Western Ontario
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2004 – 2010 Ph.D., Business Administration

Work experience: 2009 – 2010: Assistant Professor of Management, Utica College
2003 – 2004: Research Assistant, Johnson Consulting Firm
2001 – 2002: Service Manager, Shanghai Volkswagen Call Center,
95info
2000 – 2001: Account Manager, MCSB Systems (Beijing) Limited
1998 – 1999: Analyst, Shanghai Sparkling Drinking Water Co., Ltd.