The impact of the foreign subsidiary management and performance in the expatriate assignment in emerging markets

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INTRODUCTION

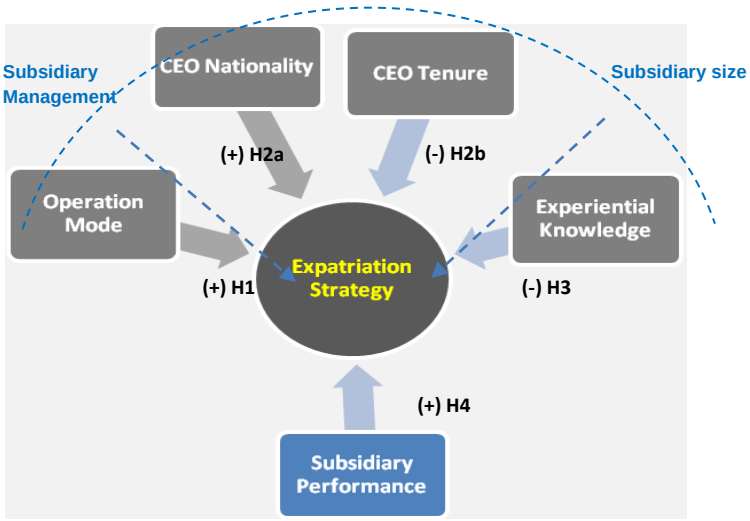
The MNE expansion in international market relates to the involvement of strategic-level people of the organization. Thus, it is essential to determine the staff assignment to the management activities of the new subsidiaries established in other countries. Although the literature has advanced in the theoretical aspect of the relationship between the MNE competitive strategy and their international human resources management (IHRM), few studies have attempted to test empirically how strategic imperatives affect foreign affiliate management decisions (Paik & Ando, 2011). This paper intends to fill this gap by contributing to the literature of expatriate with two aspects: investigating how international assignment influences the foreign subsidiary management and performance.

Human resources might influence substantially in the implementation of competitive strategies as well as subsidiary performance. MNEs need to understand the complexities of human resource policy in international markets. Considering the theoretical and empirical gaps and the relevance of the international strategy of expatriate, the study aimed to answer the research question: **what are the implications of expatriation assignment of MNEs in performance and management of its foreign subsidiaries?**

HYPOTHESES

The firm's decision to seek international presence and expand successfully to foreign markets requires the assistance of qualified personnel to operate the organization strategy. We intend to investigate how expatriate assignment relates with some factors in terms of operation mode, subsidiary CEO's nationality and time of management, experiential knowledge, and performance. Thus, Figure 1 presents the hypotheses framework relating the main variables with expatriation strategy.

Figure 1 – Framework of Hypotheses



H1: *There is a direct relationship between expatriate assignment and the operation mode in the host country through WOS to manage the foreign subsidiary in emerging markets.*

H2a: *There is a direct relationship between expatriation assignment and the CEO of parent country nationals to manage the foreign subsidiary in emerging markets.*

H2b: *There is an inverse relationship between expatriation assignment and CEO tenure to manage the foreign subsidiary in emerging markets.*

H3: *There is an inverse relationship between expatriation assignment and experiential knowledge in the host country of subsidiaries operating in emerging markets.*

H4: *There is a direct relationship between expatriation assignment and performance of foreign subsidiaries operating in emerging markets.*

METHODOLOGY

We applied a quantitative analysis using a sample of foreign subsidiaries of Japanese MNEs that assigned expatriates to Latin America. We used the 2006-2012 editions of *Kaigai Shinshutsu*

Kigyou Souran - Kuni Betsu (Japanese Overseas Investments - by Country) published by Toyo Keizai Inc. It is a database widely used in the IB literature (Xu et al., 2004; Paik & Ando, 2011). The decision to focus the analysis on Japanese sample is due to: (i) the importance of these MNEs in the international market; (ii) the experience of expatriation; (iii) data availability at the subsidiary level. These aspects make possible the empirical test of the expatriation assignment in a context of emerging markets. The initial sample comprises information of 1,153 Japanese subsidiaries located in 28 countries in Latin America. However, we have excluded the following cases: (i) subsidiaries operating in tax havens locations; (ii) subsidiaries that had incomplete data for all period of analysis (2006-2012). We only considered subsidiaries with complete data for our observation period (7 years).

EMPIRICAL RESULTS

Our findings (Table 3) show that aspects related to the subsidiary management such as CEO nationality and CEO tenure, in addition to the high level of subsidiary performance determine the designation of expatriates to Latin America. However, the operation mode and experiential knowledge do not influence the expatriation strategy.

Table 3: Fixed Effects Model with correction for Heteroskedasticity *(Dependent Variable = Expatriate assignment)*

Variables	Coefficient	Robust S.E.	*t*-value	P-value
Intercept	3.1393*	0.6878	4.56	0.000
Independent Variables				
Operation mode	-0.3197	0.2048	-1.56	0.121
CEO Nationality	0.8780*	0.3127	2.81	0.006
CEO Tenure	-0.2787**	0.1266	-2.20	0.030
Experiential knowledge	-0.0001	0.0207	-0.01	0.995
Performance	2.46×10^{-5}*	4.22×10^{-6}	5.83	0.000
Control variable				
Subsidiary size	0.0004**	0.0001	2.04	0.043
Additional Information				
Numb. observations = 749	**R^2 Within** = 0.031	**Heteroscedasticity test**	**Global Significance F Test**	
Numb. Groups= 107	**R^2 Between** = 0.15	Chi2(107) = 7.2×10^{15}	F(6,106) =15.99	
Numb. observ per group = 7	**R^2 Overall** = 0.14	P value = 0.000	P value = 0.000	

Notes: * Statistically significant at 1% level; ** Statistically significant at 5% level.

FINAL CONSIDERATIONS

These findings provide some important contributions. First, it suggests that the designation of staffs to operate a foreign unit is directly associated to the cultural similarity between the top management team members. Second, in situation where exists instability of the subsidiary management with frequent exchanges of CEO, expatriates plays an important role to help the new CEO to understand and conduct business in emerging markets. Third, although there is a perception that the subsidiary get more knowledge about the local market along the time, thus a need of less expatriates in the subsidiary, it is not necessarily true when analyzing foreign operation in emerging markets. Fourth, subsidiary performance relates to an increase of parent country nationals. More profitability means more control of that specific subsidiary with expatriates. Although this study provides interesting findings and contributions, there are some limitations. First, we have a huge reduction of the initial sample due to missing values. Future studies should consider the use of other databases. Second, the Japanese style management also might influence the empirical results. Further research should investigate other nationality of MNEs to confirm or not our findings. Finally, our study investigates the Latin America context. We call for studies to analyze other regions to verify the differences and similarities in the implementation of expatriation strategies.