



Lessening the divide in foreign subsidiaries: The influence of localization on the organizational commitment and turnover intention of host country nationals



Azusa Hitotsuyanagi-Hansel^a, Fabian Jintae Froese^a, Yong Suhk Pak^{b,*}

^a Chair of Human Resources Management and Asian Business, University of Göttingen, Platz der Göttinger Sieben 5 (Blauer Turm), 37073 Göttingen, Germany

^b School of Business, Yonsei University, 50 Yonsei-ro, Seodaemun-gu, 120-749 Seoul, South Korea

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ABSTRACT

The retention of host country nationals (HCNs) has become a key challenge for many foreign subsidiaries of multinational enterprises. This study examines whether localization, the replacement of expatriates with HCNs, could serve as a counter-strategy to increase the organizational commitment and reduces the turnover intention among HCNs. Based on social identity theory, we have developed a model to explain the heterogeneous nature of this influence on HCNs depending on different individual-level characteristics, e.g., gender, educational level, organizational tenure, and managerial position. Survey results from 197 Chinese white-collar employees showed that localization increases organizational commitment, which in turn reduces their turnover intention. This tendency was the strongest among male and highly educated employees. Practical and theoretical implications are further discussed.

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1. Introduction

Host country nationals (HCNs) are known to play a pivotal role within foreign subsidiaries of multinational enterprises (MNEs) in competing in, and responding to local markets (Harzing, 2001), decreasing costs (Fryxell, Butler, & Choi, 2004; Harzing, 2001), and improving subsidiary performance (Law, Song, Wong, & Chen, 2009). Nevertheless, the low commitment and high turnover rates of HCNs (Froese & Xiao, 2012; Fryxell et al., 2004; Gamble & Huang, 2008; Walsh & Zhu, 2007; Wong & Law, 1999) denote the challenges of managing HCNs. However, research on the antecedents of organizational commitment and turnover intention, the two main predictors of employee turnover (Cotton & Tuttle, 1986; Griffeth, Hom, & Gaertner, 2000), among HCNs remains largely underdeveloped (Froese & Xiao, 2012; Toh & Denisi, 2003, 2007). Hence, understanding the processes relating to these work attitudes has substantial implications for retaining HCNs (Cotton & Tuttle, 1986;

Griffeth et al., 2000), and avoiding the consequential financial loss thereof (Allen, Bryant, & Vardaman, 2010; Cascio, 2006).

In this study, we explore the extent to which localization has beneficial influences on the organizational commitment and turnover intentions of HCNs. Localization is the replacement of expatriates with competent HCNs to take over the tasks that were originally performed by expatriates (Law et al., 2009; Potter, 1989). This process transfers decision making power from expatriates to HCNs, provides greater career advancement opportunities to HCNs, and minimizes status differentiation among expatriates and HCNs (Banai, 1992; Reiche, 2007). Past findings suggest that ensuring both participation in decision-making, and the vertical mobility of HCNs (Björkman & Lu, 1999; Gong & Chang, 2008; Legewie, 2002; Wong & Law, 1999) have profound implications on their working attitudes. Furthermore, Wong and Law (1999) suggest that such practices would be more effective in retaining HCNs in the long run than, e.g., increasing the amount of pay or providing better compensation packages. Given these findings, localization may perhaps improve the working attitudes of HCNs. To the best of our knowledge, however, the association between localization and HCNs' work attitudes has been barely researched.

* Corresponding author.

E-mail address: yspak@yonsei.ac.kr (Y.S. Pak).

Banai (1992), Reiche (2007), Wong and Law (1999), and Zheng and Lamond (2010) touch upon related issues, however, they have different foci. The conceptual study by Banai (1992) focuses on the cycle of how the ethnocentric beliefs of expatriates causes them to underestimate the performance and competency of HCNs, and subsequently decrease HCNs' commitment, loyalty, and motivation, which in return further reinforces expatriates' ethnocentric beliefs and staffing practices. The conceptual study by Reiche (2007) suggests a model of how certain organizational conditions determine the influence of various subsidiary staffing approaches on HCNs' perception of career prospects, organizational identification, and turnover. However, as Reiche (2007) also suggests, further consideration is necessary of the individual level conditions that may influence how HCNs perceive the staffing practices of their employer and their intention to stay. Based on their qualitative data, Wong and Law (1999) suggest a rather practical-oriented process model of how practitioners can smoothly localize foreign subsidiaries in combination with other human resource practices (e.g., the training of HCNs), in order to retain locals and encourage the repatriation of expatriates. Lastly, a quantitative study by Zheng and Lamond (2010) tests how different organizational variables, including the proportion of expatriates that fill managerial level positions in subsidiaries, influence the turnover of HCNs. The study found an inverse relationship between the proportion of expatriate managers in subsidiaries and the turnover of HCNs. As a possible explanation for such an observation, they propose that, perhaps, intergroup collision among HCNs and expatriates due to unequal power relations and opportunities may have encouraged turnover among the HCNs. These literature gaps, recommendations, and propositions, inspired us to pursue further empirical scrutiny with greater focus on individual-level conditions and the dynamics of the expatriate-HCN dyad in examining the influence of localization on work attitudes of HCNs.

In exploring the association between localization, organizational commitment, and turnover intention of HCNs, we apply social identity theory (SIT). We consider this theoretical framework to be especially applicable to our context for several reasons. First, SIT examines how identity-driven in- and out-group mentalities influence intergroup relations, and individual work outcomes (Hogg & Terry, 2000; Tajfel, 1982), e.g., organizational commitment and employee turnover (Ashforth, Harrison, & Corley, 2008; Riketta & van Dick, 2005; van Dick et al., 2004; van Knippenberg, van Dick, & Tavares, 2007). These group dynamics may result in favoritism and intergroup collision, where a cohort of employees enjoy power and success while degrading the advancement of another group (Ashforth et al., 2008; Ashforth & Mael, 1989; Hogg, Terry, & White, 1995; Tajfel, 1982). Given the reoccurring observations that HCNs and expatriates are involved in constant power struggles and inter-group conflicts (Legewie, 2002; Toh & Denisi, 2003), localization, which may lessen the divide, may enhance individual work attitudes. Second, given that group formulation is based on salient, distinctive personal characteristics, past studies indicate that social identities are particularly relevant in intercultural and diverse workplaces (Chattopadhyay, Tluchowska, & George, 2004; van Dijk & van Engen, 2013). Past studies suggest that SIT is particularly relevant in a foreign subsidiary setting where expatriates and HCNs work side-by-side, while expatriates enjoy greater status, power and career development opportunities than their HCN colleagues (Mahajan, 2011; Toh & Denisi, 2003, 2007). Third, SIT postulates that salient individual characteristics, e.g., gender, education, organizational tenure, and managerial position, define social identities and work attitudes (Ashforth & Mael, 1989; Hogg et al., 1995). Therefore, examining the possible conditional effects of individual level characteristics would increase our understanding of the extent to

which localization enhances organizational commitment among various subgroups of HCNs.

We specifically examine our model in the context of China. The significance of foreign companies in China is indisputable – the country has become the top destination of foreign direct investment in recent years (Su & Yao, 2015) and by 2014, foreign invested firms (including those from Macau, Taiwan, Hong Kong) employed approximately 30 million people in the urban area of mainland China (National Bureau of Statistics of China, 2014). However, many foreign firms in China are challenged by the high turnover rate of local employees, which is exacerbated by the scarce availability of local talent, frequent poaching of employees, low return on investment of training, and financial loss due to the replacement of employees (Gamble, 2000; Sheldon & Li, 2013; Wong, Wong, Hui, & Law, 2001; Zheng & Lamond, 2010). However, relatively little is known about the major antecedents of organizational commitment and turnover intention within the Chinese context (Newman, Thanacoody, & Hui, 2011; Zheng & Lamond, 2010). The association between localization and employee organizational commitment, as well as turnover intention in the Chinese context is yet to be explored. Thus, foreign subsidiaries in China provide an exciting context to investigate the influence of localization on HCNs' organizational commitment and turnover intentions.

Our research has the following contributions. First, our study focuses on the work attitudes of HCNs, an understudied but important population in the subsidiary management literature (Froese & Xiao, 2012; Toh & Denisi, 2003, 2007). Second, we extend prior, related research (Banai, 1992; Reiche, 2007; Wong & Law, 1999; Zheng & Lamond, 2010) by investigating the association between localization and work attitudes of HCNs. Third, based on SIT, we examine how localization has differential effects on HCNs depending on their social identification with diverse group identities. Accounting for these multiple subgroup identities may increase our understanding of the work attitudes of HCNs (Ashforth & Mael, 1989; Hogg & Terry, 2000). Fourth, by examining the research question in China, we highlight how critical localization may be for the success of foreign subsidiaries in a competitive, non-western market matched with scarce local talent (Gamble, 2000; Sheldon & Li, 2013; Walsh & Zhu, 2007; Wong et al., 2001). Lastly, we aim to provide practical implications on the extent to which localization is an effective strategy to manage local talent.

2. Social identity theory and hypotheses development

Social identity theory (SIT) explains the process of self-conceptualization and its attitudinal and behavioral outcomes in an intergroup context (Hogg & Terry, 2000). Tajfel first defined SIT as “the individual's knowledge that he belongs to certain social groups together with some emotional and value significance to him of this group membership” (Tajfel, 1972). ‘Social groups’ are defined by salient characteristics, whose significance emerges depending on their permeability and the given social context (Chattopadhyay et al., 2004; Hogg et al., 1995). Individuals cognitively recognize others with shared salient characteristics as an ‘in-group’, and the rest as an ‘out-group’ (Hogg et al., 1995). This group affiliation dictates how individuals behave within the group, and toward the out-group (Hogg et al., 1995). In-group membership reinforces its members' volition to internalize the group's norms and values, fostering internal cohesion (Tajfel, 1982). Furthermore, as humans have the basic need for self-enhancement and self-consistency, they are motivated to work toward strengthening and maintaining the identity and status of their own group (Hogg & Terry, 2000; Hogg et al., 1995). The presence of an out-group helps individuals to assess whether the

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