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Expatriate-deployment levels and subsidiary growth: A temporal analysis

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ABSTRACT

We investigated the relationship between expatriate-deployment levels and the growth of international subsidiaries over time. Latent-curve analysis revealed that higher subsidiary growth over the long term was achieved through both (a) a higher proportion of expatriates at subsidiary founding and (b) a slower reduction in the proportion of expatriates over time. These results suggest that the decision to reduce the proportion of expatriates due to cost considerations should be tempered with the potential long-term benefits of expatriates for improving subsidiary growth. Our results point to the importance of two factors that impact subsidiary changes over time: path dependence and dynamic adjustment costs.

1. Introduction

What enables or constrains the growth of an international subsidiary? While both internal and external factors can be considered as influencing subsidiary growth, Penrosian arguments (Lockett, Wiklund, Davidsson, & Girma, 2011; Penrose, 1959; Tan, 2003) point to the primacy of organizations' internal administrative capacities. This broad term, *administrative capacities*, refers to the skill sets and experiences of the executive personnel responsible for developing and deploying the organization's resources toward productive opportunities. Typically, these resources include the organization's "top managerial and technical talent" (Kor & Mahoney, 2004, p. 185). According to the central argument of the Penrosian perspective, these administrative capacities determine the extent of organizational growth because they provide the basis for evaluating the organization's existing resources and external opportunities (Lockett et al., 2011). Thus, the administrative capacities of an organizational entity act as both the "accelerator and the brake for the growth process" (Starbuck, 1965, p. 490). During the initial stages of developing international subsidiaries, these administrative capacities reside most prominently in expatriates, who fulfill important managerial and technical tasks of responsibility (Goerzen & Beamish, 2007; Tan & Mahoney, 2006). Over time, these administrative capacities undergo change as non-expatriates are integrated into the subsidiary. In this paper, we focus on the administrative capacities of expatriates in foreign subsidiaries to investigate their role in subsidiary growth.

Investigating changes in expatriate deployment and their relationship with subsidiary growth poses two challenges. First, there is limited theoretical development on the dynamic relationships between subsidiary-level variables, similar to the lack of such development in organization studies in general (Mitchell & James, 2001; Ployhart & Vandenberg, 2010). Second, the testing of such dynamic relationships between organizational variables has been constrained by a limited understanding of the methodological tools available (George & Jones, 2000; Ployhart, Weekley, & Ramsey, 2009). Recognizing these challenges, we developed theoretical arguments by drawing upon the Penrosian perspective and extended the concepts of path dependence and dynamic adjustment costs to examine the dynamic relationship between expatriate deployment and subsidiary growth. We then empirically investigated our hypotheses using latent-curve modeling that specifically tests for the impact of initial conditions and subsequent changes in expatriate deployment on subsidiary growth. Finally, we discuss our findings and suggest implications for future research and practice.

1.1. Expatriate-deployment literature

Expatriate-deployment studies can be categorized into two broad disciplinary areas. The first area approaches the issue from a micro perspective, primarily focusing on questions of importance mostly to researchers in organizational behavior, such as expatriate adjustment and the effectiveness of individual expatriates (Mendenhall & Oddou, 1985). The second area looks at the expatriate issue from a macro perspective, typically examining staffing levels, and investigates questions of interest to strategy and organization theory scholars, such as the use of expatriates for managing headquarter–subsidiary relationships (Belderbos & Heijltjes, 2005). The present study falls within the latter area

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and specifically focuses on the strategic question of international subsidiary growth.

Researchers in the area of expatriate deployment have investigated the role of expatriates, the level of expatriate deployment, and the conditions under which expatriates lead to improved performance (Bjorkman & Barner-Rasmussen, 2004; Gong, 2003). These studies however have typically considered the expatriate-deployment phenomenon in a static manner, mostly utilizing samples and cross-sectional analyses that limit the understanding of causality issues (Bowen & Wiersema, 1999). This limitation in the expatriate-deployment research is broadly in line with the limitation of most research on international subsidiaries.

Earlier scholars have called attention to the dynamic nature of expatriate-deployment strategies used by multinational enterprises (MNEs). Researchers have pointed to differing expatriate studies that MNEs could utilize to adapt effectively to the demands of the internal and external environments (Adler & Ghadar, 1990; Milliman, Von Glinow, & Nathan, 1991; Schuler, Dowling, & DeCieri, 1993). It has been suggested that MNEs tailor their expatriate-deployment strategies for a particular subsidiary in an effort to bring that subsidiary more in line with changing conditions (Chung & Beamish, 2005).

Some researchers have considered the dimension of time by considering the role of subsidiary age. Specifically, these researchers suggest that as the international subsidiary matures, the MNE is likely to relax its dominating presence by reducing the proportion of expatriates (Beamish & Inkpen, 1998; Boyacigiller, 1990; Gong, 2003). These studies do not utilize temporal analyses and, thereby, do not fully uncover the role of subsidiary variables that change over time, such as expatriate deployment and subsidiary sales.

Researchers in expatriate deployment recognize the limitations of extant expatriate studies and have suggested the need to develop more temporal models that explore long-term issues in expatriate deployment (Belderbos & Heijltjes, 2005; Goerzen & Beamish, 2007; Konopaske, Werner, & Neupert 2002; Widmier, Brouthers, & Beamish 2008). The current study addresses this gap in the international subsidiaries literature by taking a temporal approach to study the relationship between expatriate staffing levels and subsidiary growth over time.

2. Theory and hypotheses

To develop our theoretical arguments and hypotheses, we draw on the Penrosian perspective. This view of organizational growth (Penrose, 1959) has been used in international business research both to investigate the growth of international subsidiaries (Tan, 2009) and to understand the dynamic aspects of MNEs, such as the timing and scope of MNE entry and expansion (Hutzschenreuter, Voll, & Verbeke, 2011; Rugman & Verbeke, 2002; Tan & Mahoney, 2005). According to the Penrosean perspective, organizational growth may be enabled or constrained, depending on the availability of administrative capacities within the organization (Penrose, 1959). This perspective is inherently dynamic, and more recent scholars have elaborated on two key concepts that provide the basis for investigating organizational dynamics. The first concept involves the impact of initial choices in administrative capacities on the subsequent organizational path, referred to in the literature as *path dependence* (e.g., Sydow & Koch, 2009). The second concept involves the impact of changes in administrative capacities on organizational growth, and is referred to as *dynamic adjustment costs* (e.g., Tan & Mahoney, 2005).

We utilize this body of work to address our question on the growth of international subsidiaries. We focus on the administrative capacities of subsidiaries by examining the proportion of expatriates at founding and the changes in this proportion over time. Accordingly, we elaborate on the impact of expatriate deployment on subsidiary growth by applying the concepts of path dependence and dynamic adjustment costs. The role of these concepts in subsidiary growth has received limited attention. This is likely due to a general lack of theorizing on dynamic aspects and a lack of familiarity with longitudinal research designs in organizational research (Ployhart & Vandenberg, 2010). Investigating subsidiary growth using these concepts involves developing theory on the dynamic aspects of the organizational process (Sydow & Koch, 2009) and considering the conceptual implications of time (Ancona, Goodman, Lawrence, & Tushman, 2001; George & Jones, 2000).

In parallel to this general lack of dynamic research in organization studies, prior studies within the expatriate management literature have suggested investigating the dynamic aspects of expatriate deployment to understand their impact on the subsidiary (Belderbos & Heijltjes, 2005; Goerzen & Beamish, 2007; Konopaske et al., 2002). Our investigation of subsidiary growth with a focus on expatriate deployment thus extends the research on expatriate management toward a dynamic perspective (Gaur, Delios, & Singh, 2007; Gong, 2003). Examining the impact of expatriate deployment on subsidiary growth over the long term implies the delineation of two theoretically separate, though related, effects: the effect of expatriate deployment as a founding condition and the effect of change in expatriate deployment over time. Accordingly, we delineate the relationship between expatriates and subsidiary growth in the following manner. We first examine how subsidiary growth is impacted by expatriate deployment at the time of the subsidiary founding by employing the concept of path dependence to build our first hypothesis. We then focus on how subsidiary growth is impacted by the change in expatriate deployment by employing the concept of dynamic adjustment costs to develop our second hypothesis.

2.1. Path dependence

Path dependence refers to the situation wherein the path followed in any socio-economic, biological, or technical phenomenon has a sensitive dependence on initial conditions. These conditions can lock the path into a particular sequence of events. Minor differences in initial conditions can lead to major differences in outcomes (Liebowitz & Margolis, 1995; Sterman, 2000; Sydow & Koch, 2009). These initial conditions can consist of initial choices (Arthur, 1994) that act as a trigger to stimulate subsequent actions, sometimes with far-reaching consequences (Kauffman, 1993).

In line with these broad ideas on path dependence, organizational research suggests that the unfolding of organizational processes over time can be sensitive to initial conditions (Kenney & von Burg, 2001). In organizational analysis, the trigger events comprising initial conditions can involve a small or not so small choice, i.e., a decision or action that triggers further development leading to an organizational path (Sydow & Koch, 2009). In particular, the choices or decisions involving the composition of administrative personnel at organizational founding can provide the trigger for the path-building process through developing an organization's combination of resources and capabilities (Beckman & Burton, 2008; Castanias & Helfat, 2001; Helfat & Peteraf, 2003; Penrose, 1959). Research in this stream, focusing on the path-dependent nature of organizational development suggests that the founding organizational blueprints provided by organizational founders predict subsequent organizational outcomes (Baron, Burton, & Hannan, 1999; Beckman & Burton, 2008; Sydow & Koch, 2009).

Extending and applying these arguments to MNE subsidiaries requires carefully considering the implications of a major initial administrative choice involved at subsidiary founding: i.e., the proportion of expatriates deployed when a subsidiary is founded.