Journal of International Management
11 (2005) 331–355

Investment mode strategy and expatriate strategy during times of economic crisis

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Accepted 23 September 2004
Available online 19 July 2005

Abstract

This study examines the main and interaction effects of investment mode strategy and expatriate strategy on subsidiary survival during times of economic crisis. We propose that the capitalization of multinational flexibility across multi-country networks enhances the survival of subsidiaries when the local markets collapse. Based on a longitudinal analysis that encompasses the characteristics and survival of Japanese subsidiaries in Asian countries, we find that greenfield wholly-owned subsidiaries are more likely to survive than greenfield joint ventures and acquired wholly-owned subsidiaries during times of economic crisis. The interaction effect between expatriate strategy and investment mode strategy suggests that the further distant the operational structures of subsidiaries are configured from the multinational networks, the more benefit the subsidiaries can extract from the greater utilization of expatriates. Consistently, we find that in an environment of economic crisis, the greater utilization of expatriates is more likely to enhance the survival likelihood of greenfield joint ventures and acquired wholly-owned subsidiaries than greenfield wholly-owned subsidiaries. While this positive interaction effect is significant in an economic crisis environment, it is not in an economically stable environment. The competing explanations of the dynamic capability logic of multinational flexibility and the real option logic of sunk cost are considered in this study.

Keywords: Investment mode strategy; Expatriate strategy; Multinational flexibility; Dynamic capability; Sunk cost; Real options; Economic crisis; Survival

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1075-4253/$ - see front matter
doi:10.1016/j.intman.2005.06.003

1. Introduction

This study has three equally-important and closely-related purposes. First, we examine the performance implications of investment mode strategy and expatriate strategy in an under-explored economic context (i.e. economic crisis). Previous research has emphasized that a firm should utilize an international contingency approach in order to decide on the optimal type of foreign investment mode (Stopford and Wells, 1972; Woodcock et al., 1994) or the optimal level of expatriate staffing in foreign subsidiaries (Adler and Ghadar, 1990; Taylor et al., 1996). While a growing number of studies have focused on the performance implications of investment mode strategy (Gomes-Casseres, 1987; Delacroix, 1993; Hennart et al., 1998; Brouthers, 2002) or expatriate strategy (Peterson et al., 1996; Gong, 2003), the contingent nature of the performance relationship has seldom been explored. In particular, the previous research has been limited with respect to the study of the performance relationships during times of economic crisis. Rather, most previous studies have assumed a relatively stable economic environment. Hence, this study investigates the performance implications of investment mode strategy and expatriate strategy in an under-explored economic crisis environment, and compares the survival of foreign subsidiaries with the generally-accepted conclusions of the extant literature that examined subsidiary survival in relatively stable environments.

Second, this study extends the contingency approach to examine an interaction effect between investment mode strategy and expatriate strategy. While researchers have investigated the performance implication of investment mode strategy or expatriate strategy separately, the interaction effect of the two strategies on subsidiary performance has seldom been investigated. This study examines how investment mode strategy and expatriate strategy, as parallel alternatives in implementing and exercising control on the operation of subsidiaries, complement and interact with each other to bring about higher subsidiary performance. Further, this study investigates a more complex interaction effect among investment mode strategy, expatriate strategy, and host-country economic environment on subsidiary performance. We propose that the positive interaction effect between investment mode and expatriate strategies is greater for foreign subsidiaries operating in an economic crisis environment than those in an economically stable environment.

Third, this study adopts a theoretical contingency approach in order to evaluate the most plausible theoretical rationale for the performance implications of investment mode strategy and expatriate strategy during times of economic crisis. The main theoretical perspective of this study is based on the dynamic capability logic of multinational flexibility. Our essential proposition is that the capitalization of multinational flexibility across the multi-country network enhances the survival of foreign subsidiaries when the local economic environment runs against the operation of the subsidiaries. However, alternative explanations are not overlooked in this study. We compare the predictions of the dynamic capability logic of multinational flexibility with those of the real option logic of sunk cost. By considering these three questions together, we attempt to provide a more complete picture of the performance implications of investment mode strategy and expatriate strategy.