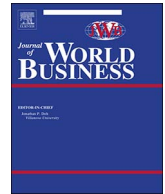




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Expatriates as influencers in global work arrangements: Their impact on foreign-sub subsidiary employees' ESOP participation

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ABSTRACT

Employee stock-ownership plans (ESOPs) offered by multinational enterprises (MNEs) present an attractive investment for employees. Puzzlingly, participation rates are often low, raising the question what drives ESOP participation on a global scale. Grounded in the knowledge-based view of expatriate research, we build on the notion of expatriates as implicit knowledge transferors within MNEs. We hypothesize a positive effect of expatriate ESOP participation on subsidiary-employee ESOP participation, which is even higher when a subsidiary-employee's distance toward the program and the firm is greater. Empirical results confirm our hypotheses suggesting that expatriates can be a mechanism to bridge the distance within MNEs.

1. Introduction

During the last few decades, employee stock-ownership plans (ESOPs) have become a relevant international human resource management (HRM) practice for multinational enterprises (MNEs). The European Federation of Employee Share Ownership (EFES) reports that 86% of European firms had some form of employee share plan in 2016 compared to 65% in 2006 (the survey covers 2.636 firms consisting of 25% of all European listed firms and majority-employee-owned non-listed firms) (EFES, 2016; see also Richter & Schrader, 2017 for further report details). Poutsma, Kalmi, and Pendleton (2006) confirm this notion in their survey among 209 publicly traded firms in four European countries; they reveal that over 60% of firms offer stock options to their employees. Moreover, prior empirical studies reveal that ESOPs can reduce employee turnover (e.g., Sengupta, Whitfield, & McNabb, 2007), can have positive effects on employee commitment (e.g., Jones & Kato, 1995; Rhodes & Steers, 1981), and can increase firm performance and productivity (e.g., O'Boyle, Patel, & Gonzalez-Mulé, 2016; Pendleton & Robinson, 2010; Sesil & Lin, 2011). These desirable effects of ESOPs are especially relevant for MNEs. Since employee fluctuation is high in MNEs and especially in their foreign subsidiaries (Zheng & Lamond, 2010), these firms are particularly interested in embedding employees within their subsidiaries to create a workforce that pulls together. However, the unfolding of these positive effects of ESOPs requires the participation of employees in such programs.

Generally, participation in ESOPs offers employees substantial benefits: On the one hand, the investment comes with financial benefits

such as dividends or additional free shares after a particular vesting period. On the other hand, the investment includes psychological benefits. Employees feel that the target of ownership belongs to them and they appreciate being a part of the whole. Paradoxically, former empirical studies show that participation rates are often low (Babenko & Sen, 2014; Engelhardt & Madrian, 2004; Jackson & Morgan, 2011) and there are still open questions regarding what influences an employee's decision to participate in an offered ESOP (Pendleton, 2010a). Taken together, this calls for a deeper understanding of the determinants of individual ESOP participation on a global scale.

We build on previous research about (1) expatriates (the term "expatriate" in our study refers to parent-country national expatriates; the exclusion of third-country national expatriates is in line with previous research (Ando & Paik, 2013; Belderbos & Heijltjes, 2005; Colakoglu & Caligiuri, 2008)) as knowledge transferors (e.g., Au & Fukuda, 2002; Bonache & Zarraga-Oberty, 2008; Chang, Gong, & Peng, 2012; Choi & Johanson, 2012; Harzing, Pudelko, & Reiche, 2016), and their influence on HRM practices (Ahlvik, Smale, & Sumelius, 2016; Björkman, Fey, & Park, 2007), and (2) the impact of distance (e.g., Ambos & Ambos, 2009; Kostova & Roth, 2002). Specifically, we raise the question regarding (1) how expatriates can influence foreign-sub subsidiary employee ESOP participation, and (2) what role thematic and institutional distance play within this context.

To understand employees ESOP participation, we follow the idea that employees base their investment decision on an evaluation of both, the financial value and the value of psychological ownership that result from the ESOP investment. An increase of this evaluation also means an

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increase in the likelihood of the employee's ESOP participation. Building on prior research that reveals the importance of peer effects regarding investment decisions (Duflo & Saez, 2002; Oehmichen, Wolff, & Zschoche, 2017), we assume that expatriates in an employee workgroup can influence both evaluation aspects: the financial value as well as the value of psychological ownership. Thus, we expect that expatriate ESOP participation will affect foreign-subsidary employee ESOP participation.

The empirical setting of this study is comprised of one large European MNE with subsidiaries worldwide that offers a global ESOP to almost all its employees. The examination of this European MNE presents us with a great opportunity to link to the “growing interest in the theme of financial participation of employees in Europe” (Poutsma & de Nijs, 2003: 863). In this study, we understand ESOPs as plans, where “workers can purchase, under favorable terms, common shares of the firm within a given time frame and at a given price, to be paid immediately or in installments” (Renaud, St-Onge, & Magnan, 2004: 121). In the studied MNE, the main idea behind the offered ESOP is that for every three shares held, participating employees will receive one additional matching share after a three-year vesting period. The ESOP and its communication is homogenous throughout the entire MNE, which allows for the assumption that subsidiary employees are familiar with the program.

Our key contributions are twofold. First, we adapt the knowledge-based view of expatriate research. Whereas previous research in this field has mainly focused on the transfer of explicit knowledge, which is often initiated by headquarters (e.g., Fang, Jiang, Makino, & Beamish, 2010; Minbaeva & Michailova, 2004; Rijsala & Suutari, 2004), we model the expatriate as a facilitator for channeling and adapting implicit knowledge – in our case the value of the ESOP. Through expatriate ESOP participation, subsidiary employees not only gain knowledge about the potential value, they also adapt this knowledge and participate in the ESOP themselves. By this, we aim to respond to (1) the request for a deeper understanding of the knowledge transfer within MNEs relating to individual behavior (Foss & Pedersen, 2004), and (2) expatriation literature that is “still nascent and requires higher order content” (Dabic, González-Loureiro, & Harvey, 2015: 316). Furthermore, we introduce moderating effects that shape the relationship between expatriates and subsidiary-employee ESOP participation and, thus, address the need to investigate contextual factors that might affect knowledge flows (Gonzalez & Chakraborty, 2014). Second, we add to the ESOP literature by providing evidence of additional ESOP participation determinants, which are of great relevance for the MNE context. To date, researchers have mainly focused on determinants of ESOP participation on individual (e.g., Babenko & Sen, 2014; Pendleton, 2010a), firm and program level (e.g., Caramelli & Carberry, 2014; Oehmichen et al., 2017). Hence, the influence of expatriates in the decision-making process of employees when it comes to ESOP participation has remained unconsidered. As our results indicate, the ESOP participation of expatriates affects the willingness of foreign-subsidary employees to participate in an offered ESOP. Thereby, we extend the ESOP participation literature by showing that expatriates can be a mechanism to foster the success of ESOP implementation.

2. Theory and hypotheses

ESOPs are plans that enable employees to hold shares in the firm in which they are working (Poutsma, de Nijs, & Poole, 2003). Usually, in these plans “a proportion of company shares is reserved for employees and offered at privileged terms” (Poutsma & de Nijs, 2003: 866). We will follow this definition in our study. Moreover, we focus on broad-based schemes, where most of the employees are eligible to participate and not just those employees from higher up in the hierarchy (Poutsma & de Nijs, 2003; Sesil, Kroumova, Blasi, & Kruse, 2002).

One major past research stream focuses on the potential outcomes of ESOPs (Kim & Patel, 2017; Ogbonnaya, Daniels, & Nielsen, 2017;

Schrader, 2016, 2017;). These studies reveal that ESOPs can indeed increase job satisfaction (Buchko, 1993), motivation (Kalmi, Pendleton, & Poutsma, 2005), commitment (Buchko, 1992; Jones & Kato 1995; Long, 1978; Rhodes & Steers, 1981), firm performance and/or productivity (Blasi, Conte, & Kruse, 1996; Jones & Kato, 1993; O'Boyle et al., 2016; Pendleton & Robinson, 2010; Sesil & Lin, 2011), company survival (Blasi, Kruse, & Weltmann, 2013), and can reduce workplace turnover (Blasi, Freeman, & Kruse, 2016; Buchko, 1992; Sengupta et al., 2007). These findings show that ESOPs can be an important HRM practice in MNEs as they can embed foreign employees in distant subsidiaries, which makes high participation rates desirable for firms. However, past studies show that high participation rates are not very common in reality (Babenko & Sen, 2014; Engelhardt & Madrian, 2004; Jackson & Morgan, 2011), although such programs can present an attractive investment opportunity for employees. Thus, researchers reflected upon the determinants that motivate employees to participate in ESOPs by examining individual-level characteristics such as age, gender, education, tenure, and income (Babenko & Sen 2014; Munnell, Sundén, & Taylor, 2001; Pendleton, 2010a, 2010b), as well as firm- and program-level attributes (Caramelli & Carberry, 2014; Klein, 1987; Klein & Hall, 1988; Oehmichen et al., 2017).

Specifically, previous research has shown that the observed behavior of the employee workgroup can affect employee evaluation of the financial value as well as the value of psychological ownership associated with an ESOP investment. Both evaluations finally influence employee investment decisions (Oehmichen et al., 2017). In this study, we want to look deeper into the composition of the employee workgroup members and its effect on the participation decision by looking at the influence of expatriates in foreign subsidiaries. We argue that expatriates can affect an employee's ESOP evaluation positively, which in turn influences an employee's willingness to participate.

Previous studies have highlighted the importance of expatriates in MNEs (Edström & Galbraith, 1977; Harzing, 2001a) and their role when it comes to managing headquarters' subsidiary relations (Chang et al., 2012; Harzing, 2001b; Kostova, Marano, & Tallman, 2016; Wang, Tong, & Koh, 2004; Wang, Tong, Chen, & Kim, 2009). According to the knowledge-based view MNEs are able to transfer and exploit knowledge across boundaries to achieve superior firm goals (Almeida, Song, & Grant, 2002; Grant, 1996). Research highlights that expatriates can be seen as carriers and transferors of knowledge (e.g., Fang et al., 2010; Harzing et al., 2016), who are expected to align the interests of subsidiaries with those of the headquarters (Edström & Galbraith, 1977). We conceptualize expatriates as implicit knowledge facilitators and assume that their ESOP participation positively influences foreign-subsidary ESOP participation. We expect this expatriate effect to be higher in subsidiaries that are more distant. Thus, they might be a possible mechanism to bridge the distance within MNEs in order to facilitate ESOP participation in foreign subsidiaries.

2.1. Expatriate ESOP participation

Peer effects can play an important role when it comes to participation and investment decisions (Duflo & Saez, 2002; Oehmichen et al., 2017). Therefore, to assess the financial value and the value of psychological ownership associated with an ESOP investment, we propose that employees refer to the behavior of their workgroup (here: participating expatriates). Commonly, expatriates have worked within the firm over a longer period and are considered as socialized before they leave to work abroad (Naumann, 1992; Tan & Mahoney, 2006). Therefore, they are expected to identify with the parent's global strategic goals (Kobrin, 1988) and to understand the corporate policy of the headquarters (Kuemmerle, 1997). For example, in our sample, expatriates work on average three years longer within our studied MNE.

General expatriation research highlighted the role of expatriates when looking at knowledge flows from headquarters to the subsidiary (i.e., corporate philosophy, policies, and procedures) (Downes &

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