



## Exploring the staff localization of Taiwanese MNC subsidiaries in China: Effects of size, operation time, location, and local-market focus



Chun-Sheng Joseph Li<sup>a</sup>, Po-Yen Lee<sup>b,\*</sup>, James J.H. Liou<sup>c,\*</sup>

<sup>a</sup> Department of International Business, National Taichung University of Education, 140 Min-Shen Rd., Taichung 40306, Taiwan

<sup>b</sup> Department of Creative Design and Management, National Taichung University of Education, 140 Min-Shen Rd., Taichung 40306, Taiwan

<sup>c</sup> Department of Industrial Engineering and Management, National Taipei University of Technology, No. 1, Section 3, Chung-Hsiao East Road, Taipei, Taiwan

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### ABSTRACT

In the literature, several initial endeavors to empirically examine staff-localization models have been described; however, the factors influencing staff localization have focused mostly on human resource management (HRM)-related issues. This study opens a promising new direction for research on localization by contending that the important elements affecting staff localization are not limited to HRM practices only. We analyzed this phenomenon from the perspectives of both organizational factors (firm size and subsidiary operation time) and strategic choice (location and local-market focus). For Taiwanese multinational corporation (MNC) subsidiaries in China, subsidiary size has a positive impact on staff localization. However, subsidiary operation time is not an important factor. The moderating role of subsidiary operation time on the size-staff localization link is not strong. In addition, MNC subsidiaries located in coastal provinces are inclined to hire more local managers. The relationship between local-market focus and staff localization will be U-shaped and curvilinear.

### 1. Introduction

In today's global business environment, numerous MNCs have utilized localization as an international business strategy. A crucial strategic decision for MNCs is determining how much to localize managers in their overseas subsidiaries (Law, Song, Wong, & Chen, 2009). This decision is thought to significantly affect local business activities because staff localization increases the ability of MNCs to integrate the advantages of the host country while reducing the operational risks (Gong, 2003; Wong & Law, 1999). Several scholars have defined staff localization as the degree to which expatriate managers are replaced by local managers in a company setting (Lam & Yeung, 2010; Law et al., 2009). Local managers are viewed as a valuable talent resource for obtaining access to local knowledge and markets and for developing strong local business relationships (Barney, 1991; Collings, 2014; Farndale, Pai, Sparrow, & Scullion, 2014; Wall, 1990). Moreover, foreign enterprises are likely to decrease their operating costs by replacing expensive expatriates with local managers. In the literature, several initial endeavors to develop and empirically examine staff-localization models have been described (Fryxell, Butler, & Choi, 2004; Law et al., 2009; Law, Wong, & Wang, 2004); however, the factors influencing staff localization have focused mostly on HRM-related issues.

These limited localization studies have focused primarily on how

HRM practices (e.g., selection, planning, training, parent company support and top management's commitment) affect the extent of staff localization. Selmer (2004) suggested that, for foreign firms in China, staff localization was negatively associated with the expatriates' unwillingness to localize. Nevertheless, the expatriates' perceived incompetence at localizing was not related to staff localization. Fryxell et al. (2004) explored staff localization programs in 67 MNC subsidiaries in China. The findings indicated that formal planning of such programs and efforts to upgrade selections positively influenced program success. Moreover, Law et al. (2004) reported three important elements that may result in successful localization of expatriate positions: (1) recognition of staff localization as a major goal, (2) comprehensive staff-localization planning efforts, and (3) factual human resources management practices. Law et al. (2009) examined 229 MNC subsidiaries in China and suggested that support from headquarters and the commitment of top management are two elements that lead to staff-localization success. In addition, staff-localization success is positively associated with the assessments of firm performance made by top management. However, in addition to HRM practices, we contend that, for MNC subsidiaries, the factors impacting staff localization need to be analyzed from the perspectives of both strategy and organizational characteristics in the host country. Previous studies have rarely examined the impacts of organizational factors and strategic choice on

\* Corresponding authors.

E-mail addresses: [s939605@gmail.com](mailto:s939605@gmail.com) (P.-Y. Lee), [jamesjhiou@gmail.com](mailto:jamesjhiou@gmail.com) (J.J.H. Liou).

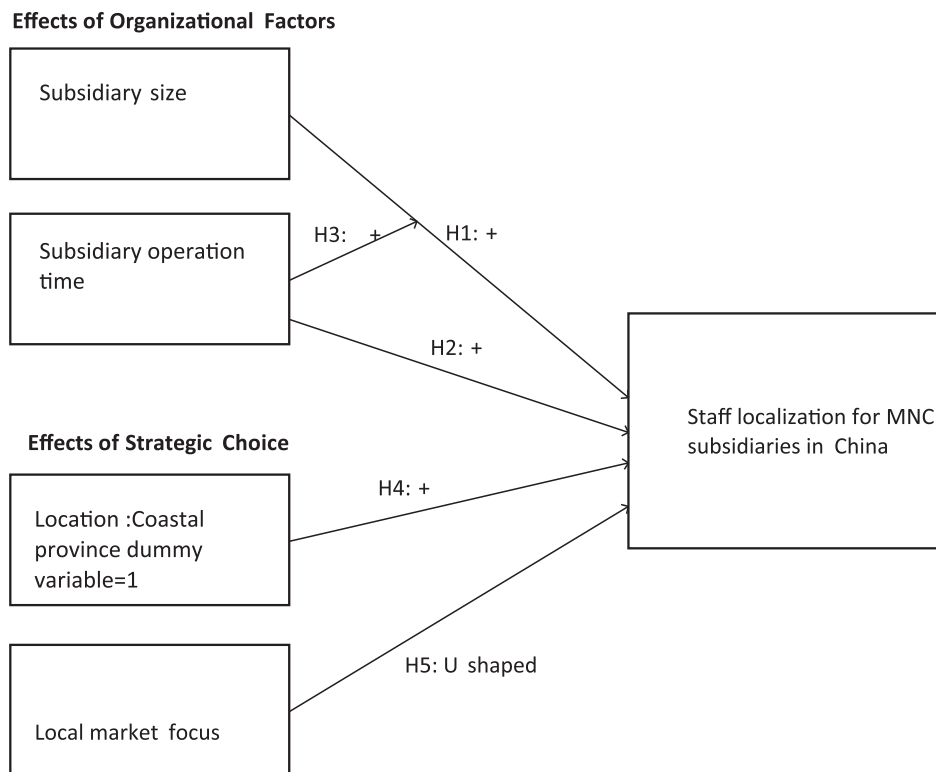


Figure 1 Conceptual framework

Fig. 1. Conceptual framework.

staff localization in MNC subsidiaries; thus, there is a significant gap in the localization research. This study analyzed the important phenomenon of staff localization from the perspectives of organizational factors (firm size and subsidiary operation time) and strategic choice (location and local-market focus).

As mentioned before, staff localization is a critical strategic decision for MNC subsidiaries (Law et al., 2009). Previous organizational research has asserted that an organization's attributes are able to affect its strategy, environment, and structure (Aldrich & Auster, 1986). Because of differences in organizational characteristics, managers in various organizations perceive the same surroundings in various ways (Hodgkinson & Johnson, 1994). Several scholars have reported that organizational factors influence managers' strategic decisions (Mintzberg, 1973), restraining or improving managerial discretion (Finkelstein & Hambrick, 1990). In particular, the firm size and firm age are significant factors that shape operational behaviors and decision-making (Jiang, Chua, Kotabe, & Murray, 2011; Park & Luo, 2001; Shinkle & Kriauciunas, 2010). In general, large firms have high bargaining power (Luo, 2000) and thus possess many advantages that are inaccessible to small firms (Peng & Heath, 1996). The length of operations, in contrast, is also an important determinant of legitimacy and strategic behaviors (Park & Luo, 2001).

Chen, Chen, and Ku (2004) explored 851 Taiwanese manufacturing MNC subsidiaries that were investing overseas. They analyzed the impact of the subsidiary's size on local networking and suggested that larger subsidiaries create stronger local networks than those created by smaller subsidiaries (Chen et al., 2004, p. 330). Moreover, it is likely that, for foreign subsidiaries in China, a long period of local operation will enhance the subsidiaries' ability to learn about the new market (Carlsson, Nordegren, & Sjöholm, 2005). Firm size and age are two important variables and have long been studied as organizational factors that affect the firms' behavior and performance (Calof, 1994; Dobrev & Carroll, 2003; Evans, 1987; Jiang et al., 2011; Park & Luo,

2001; Shinkle & Kriauciunas, 2010). However, there has been little analysis of how these two important organizational characteristics correlate with the degree of staff localization of MNC subsidiaries in the host country. Noticeably, institutions regulate operational activities via formal and informal restrictions and by deciding the rules of the game as a foundation for production, exchange, and distribution (North, 1990; Park & Luo, 2001). China has especially powerful institutions that exist in the country's long political tradition, in which the government always plays an important role in economic activities. In this study, our unique contributions in the current management literature are established at the organizational level of a firm and not at the institutional level.

The strategic choice perspective highlights the behavior that organizational members choose in order to adjust to external circumstances to explain organizational outcomes (Judge & Zeithaml, 1992). In other words, this perspective focuses attention on the strategic decisions of organizations for the clarification of organizational processes (Child, 1997). The existing literature states that for MNCs, the advantages of host location are major strategic aspects of international expansion (Dunning, 1980, 1988). Scholars have also suggested that location choices of foreign direct investment (FDI) can be viewed as strategies for gaining important resources that the MNC is lacking but which are obtainable in the area (Chen & Chen, 1998). The decision about staff localization is a key strategic element for MNC subsidiaries, particularly in geographical areas that have not been extensively studied (Delious & Beamish, 2005; Rugman & Verbeke, 2004, 2007). Locations within a large host nation (e.g., China) possess unique features that offer particular sources of competitive advantages for the investment activities of MNCs. Thus, decisions about location can affect the way organizational practices are performed (Strang, 2003), and agglomeration effects (Audretsch, 2003) are likely to influence staff localization for MNC subsidiaries in a large host nation.

The market focus of foreign subsidiaries also represents an

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