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Executive Staffing Practice Patterns in Foreign MNC Affiliates Based in Japan

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Abstract

Our empirical study provides insights of executive staffing practice patterns in foreign MNC affiliates based in Japan. Using a sample of 3,241 foreign companies in Japan, our results show that affiliate size and a high ownership ratio are associated with more parent country nationals (PCN) in top management positions and board membership. However, contrary to the past research in other countries, affiliate age was not related to the likelihood of sending a PCN. Next, two cultural variables of the parent countries, Uncertainty Avoidance and Power Distance, were found to be associated with the likelihood that MNC send PCN to the executive positions of their affiliates. Furthermore, in the two big centers in Japan (Kanto and Kansai) there are more PCN top managers and PCN board members than in the rest of Japan. Finally, we found that while Asian countries are the most likely to send PCN as top managers and board members, English-speaking countries are the least, with European countries found somewhere in between.

Keywords: PCN (Parent country nationals), foreign-owned MNC based in Japan, ownership, size,

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Introduction

For multinational companies (MNC), recruiting and selecting executives to manage their overseas affiliates are critical processes for the success of their affiliate operations. Researchers in international human resource management (IHRM) have examined staffing practices concerning the question whether MNC should send their own expatriates management from outside to their subsidiaries or find local executives within the host country (Belderbos & Heijltjes, 2005; Gong, 2003; Harzing, 1999; Tang and Maloney, 2006; Thompson & Keating, 2004). Our study focuses on the context of Japan and investigates executive staffing practice patterns in foreign MNC affiliates based in Japan. In our understanding, parent companies have the choice of sending their "own" PCN to the Japan-based MNC affiliate or they can rely on Japanese nationals, called host country nationals (HCN). Third country nationals (TCN) were not a focus in our study as there are only a small number of such cases in Japan (Bebenroth, Pascha, 2006).

Our study contributes to the literature in several ways. First, whereas the majority of existing research investigates similar research questions with a multi-country design, our study focuses on one country under carefully controlled conditions. This single country research design or "many-to-one" research design has advantages such as the capability for controlling many variables and the capability to investigate the specific country factors that influence the executive staffing practices of MNC affiliates. Thus, our single country research in Japan and existing multi-country research will work in a complementary manner to provide a deeper understanding of this field. Second, our focus on Japan as a research site has unique characteristics that are worth examining. To our knowledge, only a couple of similar studies (i.e., single country design) have been conducted using the contexts of the United States (Gong, 2002) and Ireland

(Thompson & Keating, 2004), both of which are mainly based on Western influences. It is suggested that expatriates who are sent to Japan have more difficulties than for instance expatriates sent to Ireland because of cultural differences and language problems. Therefore, our study provides a deeper understanding and useful insights on the executive staffing practices of MNC in the Japanese context. Third, from the theoretical standpoint, our study attempts to reexamine what was theorized and tested in other research contexts, either by multinational design or single country design, to replicate and extend the previous research findings on executive staffing practices of MNC affiliates. In addition, we also develop and test these original hypotheses against a Japan-specific context, which provides an additional contribution to the existing literature. Finally, while the majority of the past research on this topic focused only on the staffing of top managers of affiliates, we take steps to also examine the staffing of board members of MNC affiliates, seen as executive staffing. This is because both top managers and board members ostensibly exert great influence over decision making and the operations of affiliates. This methodological consideration also strengthens the validity and meaningfulness of our research findings into executive staffing at MNC affiliates.

In the following chapters, we discuss the literature and theories on affiliate staffing and the Japanese context. Then, we present our hypothesis, results and close with a discussion.

Literature and Theories on Affiliate Staffing in MNC

Several theoretical frameworks have been developed to explain the executive staffing patterns of MNC affiliates. One of the classic frameworks is the typology developed by Perlmutter (1969), in which *ethnocentric*, *polycentric*, and *geocentric* staffing policies are identified. Where an MNC adopts an ethnocentric policy, all top-level managerial positions in

both affiliates and headquarters are filled by PCN. Under polycentric staffing policies, HCN are employed in managerial positions in affiliates. MNC that adopt geocentric staffing policies employ workers of all nationalities throughout the entire global organization.

Another classic framework is the one proposed by Edstroem and Galbraith (1977). They theorize several reasons why MNC headquarters should send expatriates to a subsidiary located in another country. They put forward three motives: to *fill positions*, to allow *management development*, and to foster *organizational development*. To fill positions suggests that there is no in-country national available, because of a lack of technical expertise in the host country. Management development suggests that a MNC would still prefer to send an expatriate even if qualified host country managers are available in the country where the subsidiary is located. Even if there is no pressing need to develop managers, organizational development occurs when the MNC headquarters sends expatriates abroad to coordinate and/or control the business activities of the overseas affiliates.

In addition to Edstroem and Galbraith's (1977) three motives, Harzing (2001) proposed several motivations for MNC to find HCN rather than sending expatriates for the top positions of their overseas affiliates which include familiarity of local market and business practice, high cost of expatriate, and adjustment problems for expatriate managers. She conducted the first large-scale international study based on the data concerning 2689 managing directors from more than 200 MNC from 11 parent countries, whose affiliates are located in 48 countries and operate in 23 industries. The results of her study indicate that there are large differences between European countries' headquarters in how they send staff abroad. However, she did not include US companies in her study and although she covers 48 countries, only a few companies are taken

into account per country. We attempt to explore this issue having a limited number of factors and a stricter controlled sample.

Like Gong (2003), we apply agency theory, which was developed in the field of economics, to this research question. Agency theory assumes that divergent interests exists between principals and agents and this theory deals with the issue of designing the optimal control mechanism that makes agents behave in the principles' interests (Jensen and Meckling, 1976). The headquarter-subsidiary relationship in an MNC is considered to have this principle-agent structure (Roth & O'Donnell, 1996). Based on this framework, Gong (2003) theorized and tested the effects of cultural distance to the expatriate PCN-oriented staffing mode at the workforce level. He found that as years of operation increased, the need for expatriate PCN in culturally distant affiliates decreased (page 4-5). For our study it is also important to consider that local Japanese managers are less costly than a PCN. However, a PCN could outweigh the higher costs associated with their position through higher performance levels (Bebenroth and Pascha, 2006).

Two empirical studies have been conducted using the single country or "many-to-one" research design. Gong (2002) investigated the staffing modes of foreign MNC operating in the United States. He found that cultural distance was positively related to the expatriate PCN-oriented staffing mode at the workforce level. Furthermore, he found that as years of operation increased, the need for expatriate PCN in culturally distant affiliates decreased. Another study was done by Thompson & Keating (2004) focusing on Ireland. They divided the factors that influence executive staffing of MNC affiliates into (1) MNC country of origin factors, (2) industry factors, (3) subsidiary factors, and (4) MNC-specific factors, and empirically demonstrated that whether foreign-owned MNCs send PCN to their subsidiaries to Ireland differ

according to these factors. In their hypothesis about the size of the subsidiary, they come to the conclusion that the prevalence of a PCN decreases when the subsidiary gets bigger. Their study was based on (only) 238 subsidiaries headquartered in the US and in Western Europe. PCN issues are different in our research, as e.g. the distance for investors to Japan is bigger than that in Thompson & Keating's research. Therefore, we want to prove the opposite for our sample.

In sum, different theoretical perspectives have been proposed to explain MNCs' staffing decisions for their affiliates in other countries. But the number of empirical studies is still limited, remaining the validity of major findings in questions. Our study attempts to fill this gap between the theories and empirical research by focusing on the Japanese context, and by examining not only cases of PCNs as top managers but also PCNs on the board of directors.

The Japanese Domestic Context

As discussed earlier, Japan's domestic context has many distinctive cultural and institutional characteristics of managing people, which affiliates of foreign MNC have to consider. Traditionally, the Japanese human resource management system was based on the so called "three pillars", namely long-term employment, a seniority-based wage system and enterprise based unions (Sano, 1995). This system was based partly on cultural roots and was mostly developed in post-war Japan (Gordon, 2001; Mackerras, 1992: 373-376). Derivations from cultural roots, however, are still visible in expressions like *mura shakai* (village society) or *shudan shugi* (group-orientation). There is evidence, that it was considered difficult in the past to find appropriate senior Japanese managers at the Japanese labor market (Pascha, 2005).

Recently however, through the long economic recession in the 1990s and increasing global competition, significant pressure has been brought to bear on Japanese organizations to

modify their policies and strategies in regard to becoming more open and more flexible in the HRM market (Benson & Debroux, 1998; Takeuchi, 2005). Therefore, Japanese managers have become more flexible in changing their jobs than they were before the 1990s (Pascha, 2005). For foreign MNC operating in Japan, this transformation increases the chances of finding competent and experienced managers to fill executive positions within their affiliates.

Hypothesis

In this study, we examine whether executives in Japan-based foreign affiliates are Japanese (HCN) or non-Japanese expatriates (PCN or TCN). Differences between PCN and TCN are not focused on in our study because third country nationals (TCN) only play a minor role in the number of non-Japanese managers at companies based in Japan. It is more important in our study to compare HCN to PCN, that is, to examine whether the executive position is filled by a Japanese local or by a non-Japanese. Therefore, we use the term PCN, which inevitably includes a small number of TCN. In addition, as we primarily investigate executive staffing, we examine not only the staffing practices among top management but also the staffing composition of board members among MNC affiliates. In developing our hypotheses, we integrate the theoretical assumptions reviewed earlier, including Edstroem and Galbraith's (1977) and Harzings's (2001) frameworks, and an economic theory related to the management of organizations, namely agency theory (Jensen and Meckling 1976). Within our research framework we investigate in the following factors relating to MNC affiliates.

Affiliate factors

Affiliate factors significantly influence the executive staffing mode. First, the size of the affiliate would be related to the tendency of MNC to send expatriates to fill executive positions. Therefore, it becomes advisable to send a PCN to the Japanese affiliate when the volume of the investment increases to a certain critical point. Therefore, the bigger the affiliates and the higher the investment suggests that the MNC should be more interested in controlling the affiliate by sending a PCN to it (Boyacigiller, 1990; Hamill, 1989). Agency theory also suggests that an MNC would gain greater control of their larger affiliates by sending their expatriate managers, in order to avoid the risks associated with a large investment. In addition, according to Edstroem and Galbraith (1977), organizational development becomes increasingly important when the size of the affiliate increases. In such a situation, a MNC may want to coordinate and/or control the business activities of the larger overseas affiliate. In general, expatriates can serve in many ways. Even if many of them do not understand the Japanese language, they might be of value for the company as a kind of "Ambassador" in the affiliate. Surprisingly, Thompson & Keating (2004) tested this proposition in the context of Ireland, but they found the opposite in that the probability of finding a PCN as top manager was on average lower in larger affiliates. However, consistent with the abovementioned theories we argue that it is reasonable to predict that PCN are more prevalent in larger affiliates than in smaller affiliates in the Japanese local context.

> *Hypothesis 1.1 The size of the affiliates is positively related to the likelihood of staffing a PCN as a top manager. The proportion of PCN board members increases with the size of the affiliates.*

Ownership ratio can be seen as another important factor that influences the approaches toward executive staffing in foreign MNC affiliates. In regard to Edstroem and Galbraith (1977),

a higher ownership ratio leads to an organizational development motive for sending expatriates to an affiliate. The higher the ownership share by the MNC in the affiliate, the higher the financial risk becomes for the MNC. As an expatriate sent to Japan is assumed to be more expensive than a Japanese top manager and, therefore, will be more likely sent when the share of ownership is high enough to warrant this posting. In this regard, a PCN who is sent to Japan with an expatriate package receives extra benefits, like free housing, a free car etc., thus making them more expensive than even experienced top Japanese managers. In other words, if a MNC only has a low level of ownership share in their affiliate, it is supposedly less important to take on the high risk and the high costs associated with sending a PCN to this affiliate. Therefore, we can assume that not only will the top manager most likely be a PCN, but PCN board members will also increase and become more prevalent as the ownership itself increases.

> *Hypothesis 1.2 The ownership share is positively related to the likelihood of staffing a PCN as a top manager. The proportion of PCN board members increases with the ownership share.*

It is argued in the literature, that MNC have traditionally staffed their foreign affiliates, at least at the establishment of operations, with expatriates (Ronen, 1986, 508). Agency theory suggests that MNC need to have greater control over their affiliates by sending their trusted expatriates in the initial phase of investment in order to avoid the potential risks of an uncertain environment. In this sense, PCN appear to be more familiar with the parent company's management techniques, methods and especially important for Japan, they are better at equipping the entity and building up the relationship with the headquarters. In this regard, in the situation where principles and agents trust each other, principles need less control over agents. Thus, the older the affiliate the less expatriates will be sent to the affiliate. Gong (2003) argues that the longer a subsidiary operation stays in a country, the trust between the subsidiaries and the

headquarter increases. In the Irish context, Thompson & Keating (2004) also tested this proposition and obtained partial support from their data. We argue that it is also reasonable to predict this will be the same in our Japanese case.

> *Hypothesis 1.3 The age of the affiliates is negatively related to the likelihood of a PCN as a top manager. The proportion of PCN board members decreases with the age.*

Industry and firm specific factors

Industry-specific characteristics are also included into our research. Industry related factors have been investigated for other countries conceptually (Hamill, 1989) and also empirically (Thompson and Keating, 2004; Harzing, 1999). For Japan, there should be industry specific differences visible. In regard to *organizational development*, industries should differ in their human resource-structure. Thus, a multinational firm is likely to rely more on the HCN when there is a greater need to obtain local knowledge (Wernerfelt, 1984). For example, there is high foreign investment in some industries such as investment banking. We find support in the arguments of Edstroem and Galbraith's (1977) in respect to all three areas, to fill positions, for management development and also for organizational development. For international operating banking affiliates, it might be very difficult to recruit appropriate Japanese staff in Japan. Another idea is underlying in training high potential investment bank managers internationally for sending them to other countries, like to Japan. To some extend, also a control factor might influence the choice of sending expatriates to Japan based banking affiliates. All these theoretical explanations should be especially accountable for our banking sample.

Through some pre-tests, we found very high mean values for PCNs in the banking industry (not reported here). Therefore, in spite of issues like stringent banking regulations, and thus in accordance with our own experience, the Japanese banking industry (at least in our sample with many investment bank operations) is much more international than for example the

manufacturing industries. From the agency's viewpoint, it should be easier to achieve a smooth alignment (especially for investment banks), when there is a high prevalence of PCN employees within the Japan-based affiliate of the MNC bank. Therefore, our hypothesis is:

> *Hypothesis 1.4 In banking industries, there is a higher likelihood of staffing a PCN as a top manager. The proportion of PCN as board members also increases in the banking industry.*

In regard to business contacts generated by the affiliate with other countries, some researchers suggest that host country-oriented affiliates usually have less necessity to receive PCN employees as they are unable to help in the local business market which has less import/export business (Belderbos and Heijltjes 2005). According to the agency theory, the choice for an assignment of a PCN is a trade-off between the cost of monitoring the behaviour of the PCN to the risk of having an unknown HCN. Therefore, in local-oriented affiliates, the need to have a PCN should be relatively low. According to the aforementioned *management development* motive by Edstroem and Galbraith (1977), PCN numbers should increase in line with international business, such as export /import activities of the Japanese subsidiary. We investigated this question in regard to export and import activities of the affiliates, to investigate whether the presence of a PCN in export /import oriented affiliates are more likely to prevail or not.

> *Hypothesis 1.5 The degree of the affiliates' import and export activities is positively related to the likelihood of staffing a PCN as top manager. The proportion of PCN board members increases for more import and export active affiliates.*

National culture of parent countries

The characteristics of country-of-origin or parent countries where the MNC is based is also seen as significantly influencing the executive staffing mode of MNC overseas affiliates. The international business research literature has extensively used Hofstede's work on national

character measurement (Hofstede, 1980, 1991, 2001). In Hofstede's empirical investigation spanning sixty-six countries and 88,000 subjects, he developed indices for defining national culture using four criteria: Power Distance (autocratic versus democratic management style), Uncertainty Avoidance Index (tolerance of uncertainty), Individuality (individualism versus collectivism), and Masculinity versus Femininity (degree of masculine assertiveness).

In this study, we focus on the Power Distance (PD) and Uncertainty Avoidance (UA) dimensions within Hofstede's framework. We choose these two dimensions because Power Distance would be related to the power relationship between headquarters and affiliates, and Uncertainty Avoidance would be related to the degree to which headquarters accept uncertainty regarding the operations by their affiliates. Other dimensions within the Hofstede framework were less relevant to the headquarters-affiliates relationship and thus were not examined in our study.

Power distance may affect staffing mode choices through its effect on interpersonal trust. Hofstede (1989) posits that a smaller power distance leads to the feasibility of control systems based on trust in affiliates, in higher power distance countries, such trust is missing. The level of interpersonal trust in high power distance cultures is likely to be restricted to the superior-subordinate dyad. Power distance corresponds to a need for a centralized management system. The more centralized decision-making style in higher power distance cultures may increase the utilization of expatriates in executive positions in overseas affiliates. Results however, from previous empirical research have not clearly supported this proposition. Gong's (2002) studies on the United States only support this proposition at the workforce level. In the Irish context, results from Thompson and Keating's (2004) study did not support this proposition. According to the

agency theory, a higher Power Distance should be associated with a higher prevalence of PCN in Japan. Thus, it is worthwhile to test this proposition for the Japanese context:

> *Hypothesis 2.1 The degree of Power Distance (PD) in MNC parent countries is positively related to the likelihood of staffing a PCN as a top manager. The proportion of PCN board members increases with a higher degree of Power Distance.*

Control in organizations is related to concerns about uncertainty. Therefore, in countries where uncertainty avoidance is high, ambiguity is not tolerated and MNC from these countries will desire to have maximum control of their foreign operations in order to minimize uncertainty and risk. Expatriates from MNC may better meet the demand for organizational control. Agency theory also predicts that MNCs from those countries with high Uncertainty Avoidance would not tolerate their affiliates' behavior contradicting with the interests of their respective headquarters.

Notably, results from previous empirical research examining this proposition were mixed. Whereas Gong's (2002) data supported his proposition, Thompson and Keating's (2004) data in Ireland did not significantly support this proposition although their result was premised in a hypothetical context. Therefore, we test this proposition in the Japanese context.

> *Hypothesis 2.2 The degree of Uncertainty Avoidance (UA) in MNC parent countries is positively related to the likelihood of staffing a PCN as a top manager. The proportion of PCN board members increases with a higher degree of Uncertainty Avoidance.*

Local factors

In Japan there are intra-country variations in terms of internationalisation of the environment. Chiefly, the two most populated areas of Japan, the Kanto and Kansai areas are more internationalised than rural areas. The Kanto area includes Tokyo, the capital and metropolitan city of Japan. A large number of headquarters of leading companies are located in this area. The Kansai area includes Osaka, the second largest city of Japan, Kobe, a very international city and Kyoto, one of the Japan's oldest capital cities. In similar fashion to Tokyo

and Yokohama in Kanto, a lot of foreign businesses are located in Kyoto, Osaka, and Kobe in the Kansai area. Consequently, in these big cities, like Tokyo or Osaka, there are more Japanese business people who can speak English in contrast to local areas where only very few foreigners reside and even fewer foreign-owned businesses are present. Therefore, language barriers and communication problems between PCN and local Japanese are less serious in the Kanto and Kansai areas and the environment for business and private life is ostensibly easier for foreigners in these areas.

According to agency theory therefore, PCNs would be better sent to rural areas. These locations pose greater agency problems for the headquarters and a PCN could fill this gap. On the other hand, the same theory could explain to have the PCN in the bigger cities as this would enable better communication between the PCN and local Japanese employees within the MNC affiliate. Possible PCN failure rates due to the adjustment problems of expatriate managers may thus be less likely in these areas compared to local areas in Japan, which also reduces the cost of sending expatriates to Japan for the MNC. Thus, we predict that in the Kanto and Kansai areas they are more internationalized than in other areas, and therefore, expatriate managers are more prevalent in foreign MNC affiliates in these areas.

> *Hypothesis 2.3 In heavily populated areas, such as Kanto and Kansai, there is an increased likelihood of staffing a PCN as a top manager. The proportion of PCN board members increases when the affiliates are located in Kanto or Kansai.*

Method

The Gaishikei-kigyo soran 2003 digital database was used to gather data on executive staffing practices of foreign applicants at the top management level, including top managers—the CEO, and the board members. We used the full range of 3,241 foreign companies based in Japan (including 55 publicly listed foreign companies).

Dependant variables

The dependant variables consist of our PCN managers. The nationalities of the managers were classified by the managers' names as either non-Japanese or Japanese, which is often used in similar studies (e.g., Gong, 2003; Harzing, 2001; Thompson & Keating, 2004). Previous research using a smaller sample of 121 Japan-based German affiliates obtained promising results (Bebenroth and Pascha, 2006). As for the reliability of this classification method, Harzing (2001) reported an error rate of less than 3% (Thompson & Keating, 2004). Also Gong (2003) reported an agreement rate of 97%, showing the high reliability of this classification method. Especially for our case due to the relative ease of differentiating Japanese names from Western and other Asian names, we assumed to be safe in these assumptions.

Independent and control variables

Our independent variables consist of affiliate size, ownership share, affiliate age, affiliate related import-export activities, Power Distance and Uncertainty Avoidance and the area factors. The size of the affiliates is measured by the number of employees (e.g. see Harzing, 1999, 2001) and also by capital. We obtained the cultural index of Power Distance and Uncertainty Avoidance for several countries edited by Hofstede from the Website: http://www.geert-hofstede.com.

Dummy variables were used to measure e.g. industry-specific factors, the Area east dummy and the Area west dummy. The industry dummy takes the value 1 if the affiliate belongs to the banking industry, otherwise it takes the value 0. In regard to the Area east dummy, it takes the value 1 if the affiliate is located in the Kanto area, otherwise it takes the value 0, the same counts for the dummy variable Area west. Our control variable is the capital size in logarithm of the affiliate.

Statistical model

In the statistical analyses we worked with two different models. For our research on top managers we took binary data, HCN versus expatriates, and used a logit regression model. This model relates to the probability of having an expatriate to a set of explanatory variables X.

$$\text{Prob (PCN=1)} = \text{Exp } (\alpha+\beta_i X_i) / (1+\text{exp } (\alpha+\beta_i X_i)) \quad (1)$$

In our investigation of the PCN board members ratio we used the following OLS multi regression model:

$$\text{PCN board members ratio} = \alpha + \beta_i X_i + \varepsilon \quad (2)$$

Where, in both formula (1) and (2), X_i stands for our explanation variables like the number of affiliate employees, affiliate capital. Because the size of MNC employees, affiliate employees, affiliate capital is too large to conduct any regressions, we were forced to transform the data into logarithm.

Results

The means, standard deviations, and correlation matrix for the variables in this study are presented in Table 1.

Please insert Table 1 about here

As can be seen from the table, the probability of a PCN to be appointed as a top manager in a Japan-based foreign affiliate is 31%. On foreign affiliate boards in Japan, PCNs on average make up 35% of the board. The ownership ratio is very high, on average almost 82%.

The logit regression results show the likelihood of having a PCN as top manager in Japan at an MNC affiliate; these results are illustrated in table 2.

Please insert Table 2 about here

Overall, the empirical model performs well with a pseudo-R^2 of 9.6-12.7%. Our first hypothesis, that a PCN as top manager will be more prevalent in larger affiliates, is partly confirmed, just measured by the size of capital but not in the number of employees (like other studies that relied on, e.g. Harzing, 1999, 2001). Measured by capital, PCN assignment as a top manager was significant ($p < .01$). Next, for the second hypothesis, the ownership share showed a significant positive result ($p < .01$) and supports our hypothesis pertaining to the PCN as being the top manager. That means there is a clearly visible increase of PCN as top managers in line with a higher degree of ownership share. In our third hypothesis regarding a relationship between the age of the affiliate and a PCN as the top manager, we were not able to find any significance. Our fourth hypothesis centred on the banking industry, and did not show any significance regarding banks and the appointment of a PCN as top manager.

When investigating the import/export ratio of the subsidiary and the prevalence of a PCN as top manager and PCN board members, our research produced some interesting results. PCN as top managers were highly significant in the import relationship ($p < .05$). Consistent with the literature (Belderbos and Heijltjes, 2005), import related affiliates tend to rely more frequently on a PCN as its top manager. For our hypotheses regarding culture, we received support for a positive and significant correlation between a PCN as top manager to the Power Distance Index and in relation to the Uncertainty Avoidance Index ($p < .01$ for both). This means that countries with a high power distance and high uncertainty avoidance send statistically significantly more PCN to take up positions as top managers and PCN board members to their respective affiliates.

Culturally specific factors in Japan are also supported by our results. The statistical significance ($p < .05$) supports our hypothesis that there are more PCN top manager and PCN board members in these two populated regions than in rural areas in Japan (Table 2, model 5+6 and appendix 1).

Next, the results from our OLS multiple regressions are presented in Table 3.

Please insert Table 3 about here

The explanation power with a pseudo-R^2 for our OLS multiple regression model is 10-17.9%. Not only measured by capital, the ratio of PCN board members were also significant for the number of employees. Next, the ownership share showed a significant positive result ($p < .01$) and supports our hypothesis pertaining that there is a higher ratio of PCN board members which are sent to the affiliate when there is a higher ownership share.

In contrast to the findings for PCN acting as top managers, the age of the affiliate was marginally significant ($p < .10$ in table 3, model 1, 2, 4, 5). Our fourth hypothesis for the ratio of PCN as board members also showed marginal significance ($p < .10$) suggesting that the banking industry relies – at least based on the PCN board members ratio – more heavily on PCN in their boardrooms than as top managers. Regarding the import activities of the affiliate, we found the same results as for our examination of a PCN in the top manager position i.e., if the affiliate has a high-level of import activity, it will more likely have a higher PCN board member ratio. Next, the Power Distance Index and also the Uncertainty Avoidance Index were positive and significant ($p < .01$ for both). We can also say for our PCN board member ratio that the higher the Power Distance and the Uncertainty Avoidance, the higher the PCN board member ratio of the Japan-based foreign affiliate (table 3, model 4+6). Regarding cities and local areas, and the ration of PCN board members ratio, we found similar results as for a PCN as top manager (p

< .05), thus supporting the notion that PCN board member ratios are higher in affiliates based in bigger cities than in local areas in Japan (table 3, model 5+6 and appendix 1).

In our post hoc analysis, we examined certain country specific elements. Interestingly, US companies had the fewest number of PCN as top managers and the smallest number of PCN board members as a ratio for all countries with affiliates in Japan, which was only 22% (the Ratio was even lower with only 27% on average). In contrast, Korea had the highest likelihood of a PCN as a top manager and the most PCN board members in their MNC affiliates in Japan, with 81% having a PCN as the top manager and 82% for board members (see Appendix 2). Then, we placed all foreign MNC affiliates into three groups, from English speaking countries, European and Asian (La Porta et al. 1999). It was clear that MNC from English speaking countries have on average the lowest prevalence of PCN as top managers and the lowest PCN board members ratio. PCN acting as top managers from English speaking countries are only sent in about 24% of cases, while the PCN board members ratio was only 28%. Asian MNC counted for the highest rate of PCN as top managers and had the highest ratio of PCN board members – a PCN as the top manager was found in 68% of cases while the ratio of PCN board members was found to be at 69%. European firms were found somewhere in the middle with 38% of top managers as PCN and 40% PCN board members (Appendix 3). Finally, our analysis of variance (ANOVA) showed that the differences between our three country of origin groups are significant at a 1% level what counts for all four variables (see Appendix 4).

Concluding Discussion

This research examined the staffing practice patterns of MNC in Japan using a single country research design under carefully controlled conditions. Several important findings were obtained from our data of 3,241 foreign companies. First, our results suggest that overall,

affiliate size and ownership ratio are associated with more parent country nationals (PCN) in top management positions and board membership in their respective affiliates in Japan. Notably, our results contrast with those put forward by Keating and Thompson. These results are consistent with the notion that a large investment is naturally accompanied by PCN sent from the head office. With respect to the ownership ratio, it is meaningful to consider the fact that Japan is a very expensive country. This suggests that, in cases where a PCN is transferred to Japan, the headquarters of the MNC might have been influenced by an *organizational development* motive. That is, MNC headquarters might send PCN for control reasons to their Japan-based affiliates. In contrast to other countries in Asia where it is less expensive to live, there might also be the motive of *managing development*. In relatively inexpensive countries expatriates can undergo professional development for an international career, but this example may not apply to Japan.

Next, contrary to previous research conducted in other Western countries where MNCs find it relatively easy to operate, affiliate age was not related to the likelihood of sending a PCN. That is, we did not obtain support for the argument that younger affiliates have a higher likelihood of having a PCN as a top manager. We obtained only a marginally significant result that affiliate age was related to the ratio of PCN board members. Future research should further explore the relationship between affiliate age and affiliate executive staffing practices.

In terms of industry factors, we examined two hypotheses. In the banking industry, we could not obtain any significance for PCN in top management, although we found marginal significance for a higher ratio of PCN board members. In the area of import/export, our results support Edstroem and Galbraith's first motive, to *fill positions.* The reason is not clear but it might be because of the cultural distance, meaning that there is no suitably trained local staff available. Also the second motive, *management development* could be applicable at stronger

import-based affiliates, as the affiliate will benefit in cases where managers from the MNC are trained at the affiliate.

With regard to cultural aspects of parent countries, countries with high Power Distance and high Uncertainty Avoidance have a higher likelihood of sending a PCN as a top manager and having a higher ratio of PCN board members in their affiliates in Japan. Also in our other hypothesis concerning cultural-specific aspects in Japan, we found that there was a statistically significant higher chance in finding a PCN as a top manager and a higher ratio of PCN board members in the two big areas in Japan, namely the Kanto and Kansai regions.

Finally, our post hoc analyses showed that US affiliates in Japan have the fewest and Asian countries the most PCN, with Korea topping the Asian countries. European countries are positioned somewhere between the two. Three factors may explain these results. First, although Japan is a country with relatively few foreigners, many Japanese study English as a second language and are familiar with the English-speaking countries such as the US. Therefore, even in the absence of PCN, the communication between MNC headquarters and affiliates with Japanese top managers may be relatively smooth. This may be one reason why MNC from English-speaking countries are less likely to send their PCN to fill executive positions in their Japanese affiliates. Second, the geographic distance between the host countries and Japan could be related to the results. Asian countries are geographically closer to Japan, so that travel cost and time to Japan is relatively low. Therefore, it is easier and less costly to send a PCN to Japan as a top manager or as a board member to their affiliates. Third, Perlmutter's (1969) framework could be applied to explain some parts of our findings. Historically, the degree of internationalization and sophistication in terms of global strategy are probably lower in Asian MNCs when compared

with US and European MNCs. Therefore, many Asian MNCs are more likely to utilize ethnocentric policies in their affiliate staffing, resulting in more PCN executives.

Although our study is the first comprehensive research on the issue of staffing practice patterns in foreign MNC affiliates based in Japan, we have also some limitations. First, because the nature of data, we couldn't separate between PCN and TCN. A small number of TCN might have been included in our data labeled as PCN. Also, we use data only for one year and the analyses were cross-sectional. Therefore, testing of the casualty among key variables was limited. Future research could use data for multiple years and focus on the long-term development of affiliate staffing practices. Another limitation of our study might pertain to the anecdotal evidence in Japan that it is not the first person at the top of the hierarchy but others in senior management who hold the real power in a firm. This could be an interesting scenario, especially if there was only one foreign president and he could not understand the Japanese language or the local culture (this stands even in cities like Tokyo). In this respect, we could not obtain information pertaining to who actually held the positions of real authority. Finally, as one of the referees pointed out, in regard to the banking area, we have a focus on investment banking in our sample, as most of the Japan based foreign banks might use their comparative advantage in this kind of field. In spite of these limitations however, this research provides valuable insights into the behavior underpinning executive staffing in Japan, while also usefully contributing to further understanding the theory and practice of affiliate staffing decisions by MNCs today.

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Table 1 Descriptive analysis and correlations

Variable	Mean	S.D.	N	1	2	3	4	5	6	7
1 PCN=1 (%)	31.00	0.46	3241							
2 PCN Ratio (%)	35.00	0.42	3241	0.87***						
3 Aff Size (LN)	3.68	1.69	3023	-.03	-.30					
4 MNC Size (LN)	9.78	1.95	1223	0.01	-.12***	0.29***				
5 Ownership (%)	81.95	25.83	2903	0.29***	0.31***	-.13***	-.10***			
6 Age of Aff.	18.38	14.78	3225	-.01	0.00	0.32***	0.12***	-.13***		
7 PDI	43.03	12.61	3225	0.18***	0.18***	-.12***	-.02	0.15	-.02	
8 UAI	52.47	16.08	3226	0.13***	0.13***	-.05***	0.01	0.04**	-.03	0.35***

Table 2 Logistic regression model for likelihood of PCN as top manager

	PCN	Logit Analyses										
Variables	Model 1		Model 2		Model 3		Model 4		Model 5		Model 6	
Affil. empl. size(LN)	−0.05	2.10	−0.05	2.22	0.07	0.82	−0.01	0.03	−0.05	1.76	0.00	0.01
Ownership	0.03	196.25***	0.03	197.38***	0.04	40.69***	0.03	196.93***	0.03	182.92***	0.03	184.67***
Age of affil.	0.00	0.65	0.00	0.44	0.00	0.08	0.00	0.79	0.00	0.54	0.00	0.48
Affil. cap. size(LN)	0.07	6.67***	0.08	8.06***	0.05	0.40	0.06	4.26**	0.07	6.60***	0.07	5.33**
Industry dummy			−0.39	1.81							−0.37	1.59
Import					0.01	4.40**						
Export					0.00	0.26						
PDI							0.03	51.39***			0.03	49.57***
UAI							0.01	7.22***			0.01	7.77***
Area of east									0.68	5.92**	0.68	5.75**
Area of west									0.79	6.09**	0.76	5.63**
Frequency	2696.00		2696.00		620.00		2682.00		2696.00		2684.00	
Explanation power	R^2=.096(Cox&Snell) R^2=.137(Nagelkerke) Wald=456.486,p=.000		R^2=.096(Cox&Snell) R^2=.138(Nagelkerke) Wald=456.486,p=.000		R^2=.122(Cox&Snell) R^2=.174(Nagelkerke) Wald=93.472,p=.000		R^2=.124(Cox&Snell) R^2=.177(Nagelkerke) Wald=452.336,p=.000		R^2=.098(Cox&Snell) R^2=.141(Nagelkerke) Wald=456.486,p=.000		R^2=.127(Cox&Snell) R^2=.181(Nagelkerke) Wald=452.336,p=.000	

Table 3 Multiple regression models for PCN board members

PCN board members	Multiple regression analyses											
Variables	Model 1		Model 2		Model 3		Model 4		Model 5		Model 6	
Constant	−0.14	4.09***	−0.15	4.26***	0.06	0.82	−0.42	9.28***	−0.20	4.63***	−0.48	9.20***
Affil. empl. size(LN)	−0.01	1.97**	−0.01	2.03**	−0.02	2.25**	−0.01	0.96	−0.01	1.76*	0.00	0.84
Ownership	0.01	17.40***	0.01	17.48***	0.00	7.65***	0.00	17.45***	0.00	16.74***	0.00	16.85***
Age of affil.	0.00	1.82*	0.00	1.67*	0.00	0.36	0.00	1.88*	0.00	1.69*	0.00	1.61
Affil. cap. size(LN)	0.02	3.32***	0.02	3.62***	0.01	0.97	0.01	2.89**	0.02	3.29**	0.02	3.16**
Industry dummy			−0.08	1.65*							−0.07	1.60
Import					0.00	5.00***						
Export					0.00	1.91*						
PDI							0.00	7.61***			0.00	7.44***
UAI							0.00	2.69**			0.00	2.79***
Area of east									0.07	2.04**	0.06	1.98**
Area of west									0.11	2.68**	0.10	2.56**
Frequency	2695		2696		619		2683		2695		2683	
Explanation power	$R^{2'}$=.10, F=76.708, p=.000		$R^{2'}$=.102, F=61.948, p=.000		$R^{2'}$=.179, F=23.435, p=.000		$R^{2'}$=.130, F=67.975, p=.000		$R^{2'}$=.103, F=52.434, p=.000		$R^{2'}$=.132, F=46.405, p=.000	

Appendix **1-4**

Appendix 1 Area difference in Japan

ANOVA

LSD

Dependent	(I) Kanto＝1、Kansai＝2、Other＝3	(J) Kanto＝1、Kansai＝2、Other＝3	Difference of Mean(I-J)	SE	Significance	95% Confidence Interval	
						Min.	Max.
PCN	1	2	3.78E-02	3.07E-02	.219	-2.25E-02	9.80E-02
		3	.22*	3.72E-02	.000	.15	.30
	2	1	-3.78E-02	3.07E-02	.219	-9.80E-02	2.25E-02
		3	.19*	4.66E-02	.000	9.40E-02	.28
	3	1	-.22*	3.72E-02	.000	-.30	-.15
		2	-.19*	4.66E-02	.000	-.28	-9.40E-02
Ratio	1	2	8.72E-03	2.78E-02	.754	-4.59E-02	6.33E-02
		3	.21*	3.37E-02	.000	.14	.28
	2	1	-8.72E-03	2.78E-02	.754	-6.33E-02	4.59E-02
		3	.20*	4.23E-02	.000	.12	.28
	3	1	-.21*	3.37E-02	.000	-.28	-.14
		2	-.20*	4.23E-02	.000	-.28	-.12

*. Statistically significant at .05

PCN= PCN top manager
Ratio= PCN board members

Appendix 2 Cultural specific characteristic

Country	**Frequency**	**PDI**	**UAI**	**PCN top manager**	**PCN board members**
USA	1514	40	46	22%	27%
UK	243	35	35	28%	32%
Italy	59	50	75	46%	45%
Australia	28	36	51	39%	43%
Holland	76	38	53	30%	31%
Canada	47	39	48	38%	36%
Swiss	172	34	58	36%	38%
Sweden	57	31	29	46%	40%
German	337	35	65	31%	36%
France	231	68	86	48%	48%
Korea	83	60	85	81%	82%
Hong Kong	60	68	29	28%	33%
Taiwan	47	58	69	51%	52%
China	54	80	30	70%	69%
Denmark	30	18	23	33%	37%
Singapore	18	74	8	50%	50%
Finland	27	33	59	44%	48%
Other	158	49	66	35%	35%
Total	3241	43	52	31%	35%

Appendix 3 Correlation of PCN top manager and PCN board members to Country of origin

Country Origin Group	Frequency	PDI	UAI	PCN	Board members
1 English speaking	1892	40.16	44.17	24%	28%
2 Continent. Euro	989	42.86	64.85	38%	40%
3 Asian	202	66.13	59.71	68%	69%
Total	3083	42.73	51.82	31%	34%

Here, the English speaking group consists of: USA, UK, Australia, and Canada. The European group consists of: Italy, Holland, Swiss, Sweden, Germany, France, Denmark, and Finland. Asian Group consists of: Korea, Hong Kong, Taiwan, and China.

Appendix 4 Differences among country of origin

ANOVA

LSD

Dependent	(I) Country Origin	(J) Country Origin	Difference of Mean (I−J)	SE	Siginificance	95% Confidence Interval	
						Min.	Max.
PDI	1	2	−2.70*	.38	.000	−3.44	−1.96
		3	−25.97*	.71	.000	−27.36	−24.57
	2	1	2.70*	.38	.000	1.96	3.44
		3	−23.27*	.74	.000	−24.73	−21.81
	3	1	25.97*	.71	.000	24.57	27.36
		2	23.27*	.74	.000	21.81	24.73
UAI	1	2	−20.68*	.47	.000	−21.61	−19.75
		3	−15.54*	.89	.000	−17.29	−13.79
	2	1	20.68*	.47	.000	19.75	21.61
		3	5.14*	.93	.000	3.31	6.96
	3	1	15.54*	.89	.000	13.79	17.29
		2	−5.14*	.93	.000	−6.96	−3.31
PCN	1	2	−.14*	1.76E−02	.000	−.18	−.11
		3	−.45*	3.31E−02	.000	−.51	−.38
	2	1	.14*	1.76E−02	.000	.11	.18
		3	−.30*	3.46E−02	.000	−.37	−.24
	3	1	.45*	3.31E−02	.000	.38	.51
		2	.30*	3.46E−02	.000	.24	.37
Ratio	1	2	−.12*	1.59E−02	.000	−.15	−8.74E−02
		3	−.41*	3.00E−02	.000	−.47	−.35
	2	1	.12*	1.59E−02	.000	8.74E−02	.15
		3	−.29*	3.13E−02	.000	−.35	−.23
	3	1	.41*	3.00E−02	.000	.35	.47
		2	.29*	3.13E−02	.000	.23	.35

*. Statistically significant at .05

PCN= PCN as top manager
Ratio= ratio of PCN board members

8.104 words