



# Consequences of expatriate top manager replacement on foreign subsidiary performance

Bebenroth, Ralf  
Froese, J. Fabian

---

**(Citation)**

Journal of International Management, 26(2):100730

**(Issue Date)**

2020-06

**(Resource Type)**

journal article

**(Version)**

Accepted Manuscript

**(Rights)**

© 2019 Elsevier Inc. All rights reserved.

This manuscript version is made available under the CC-BY-NC-ND 4.0 license

<http://creativecommons.org/licenses/by-nc-nd/4.0/>

**(URL)**

<https://hdl.handle.net/20.500.14094/90008059>



**CONSEQUENCES OF EXPATRIATE TOP MANAGER REPLACEMENT ON  
FOREIGN SUBSIDIARY PERFORMANCE**

**Abstract**

Integrating expatriate staffing and leadership succession literature, this study investigates the influence of expatriate top manager replacement on foreign subsidiary performance and the moderating effects of subsidiary context. Building on a refined understanding of agency theory and evidence from 2,113 firm-year observations, including 260 expatriate successions, this study shows that when expatriates are replaced, regardless by whom (either host-country national or expatriate manager), the performance of the subsidiaries declines, suggesting that the departure of expatriate top managers often see subsidiaries being left in a less than favorable condition. If the subsidiary's prior performance has been unsatisfactory, the newly appointed expatriate might not be able to prevent further deterioration of its performance. Replacing expatriates with host-country national managers can help improve subsidiary performance, but this usually happens in older, more established subsidiaries. These findings framed in a refined agency theory provide us a more in-depth understanding of expatriate staffing failure.

**Keywords:** expatriate top manager; HCN (Host Country National); foreign subsidiary's performance; leadership succession; agency theory; Japan

### INTRODUCTION

Expatriates play an important role in the top management of foreign subsidiaries because they exercise control and coordination, as well as transfer knowledge (Edstroem & Galbraith, 1977; Chang, Gong, & Peng, 2012; Harzing, 2001; Harzing, Pudelko, & Reiche, 2016). At the same time, however, expatriates are costly and may encounter difficulty in gaining legitimacy in the host country compared to host-country national (HCN) managers (Bhaskar-Shrinivas, Harrison, Shaffer, & Luk, 2005; Tarique, Schuler and Gong, 2006). Eventually, this may result in lower subsidiary performance (Hung-Wen, 2007; Harzing, 1995).

When multinational enterprises (MNEs) establish foreign subsidiaries, they usually send expatriates from the headquarters (HQ) to lead and manage these establishments (Bruning, Bebenroth, Pascha, 2011). As expatriates usually stay for only a limited time abroad, MNEs need to replace these expatriates with other expatriates or HCN managers. Prior expatriate staffing research has reported that such staffing decisions have substantial influence on the performance of the affected subsidiaries, though empirical findings are mixed. For instance, Gong (2003) found that expatriate subsidiary top managers were associated with higher subsidiary performance, whereas Gaur, Delios and Singh (2007) found that expatriate top managers had a negative impact on the performance of subsidiaries, especially in older ones. Therefore, this study aims to shed further light on the performance consequences of expatriate top manager<sup>i</sup> staffing as well as the moderating effects of the subsidiary context, viz. prior performance and age of the subsidiary (Gaur et al. 2007; Karaevli, 2007).

We seek to contribute to the expatriate and leadership succession literature in the following ways. First, this study integrates expatriate staffing and leadership succession literature to increase our understanding of performance consequences of top expatriate

manager replacement. Past expatriate staffing research had been usually based on cross-sectional data, adopting a rather static view. However, the term “staffing” pertains to an ongoing, dynamic process. Drawing from leadership succession research (Giambatista, Rowe, & Riaz, 2005; Hilger, Mankel, & Richter, 2013; Karaevli, 2007), we adopt a longitudinal approach to capture the leadership succession process, i.e. the replacement of the expatriate top manager of a foreign subsidiary by another manager. As in previous expatriate staffing research, we distinguish between expatriate<sup>ii</sup> and HCN managers (Gaur et al., 2007; Gong, 2003, Sekiguchi, Bebenroth, & Li, 2011), allowing for four possible leadership succession types. In the case of continuing a similar staffing strategy, we have: expatriate succeeds another expatriate (expat -> expat), or HCN manager succeeds another HCN manager (HCN -> HCN). In the case of changed staffing, we have: HCN manager succeeds an expatriate (Expat-> HCN), or an expatriate succeeds an HCN manager (HCN-> Expat). This study focuses on expatriate replacement, i.e. involving at least one expatriate predecessor or successor. Accordingly, we shall explain and empirically demonstrate how succession types differently effect each other on the performance of the affected subsidiary.

Second, we extend agency theory (Jensen & Meckling, 1976) by developing and empirically testing a model to explain the performance consequences of inside and outside status of expatriate and HCN subsidiary managers. Our model is inspired by Kostova, Nell, and Hoenen (2018), who provide a conceptual model distinguishing between different agency problems and contextual factors. While prior expatriate staffing research has focused on agency dilemmas between HQ and HCN managers (e.g. Gong, 2003), we provide a more nuanced view by investigating multiple agency dilemmas of both HCN and expatriate top managers, distinguishing between self-interest, lack of opportunity (Kobrin, 1988), and incompetence (Hendry, 2002; Kostova et al., 2018). We also respond to a call by Steinberg

and Kunisch (2016) to analyze the agency theory in the context of headquarter subsidiary relationships.

Third, following recent research and recommendations from expatriate staffing and leadership succession literature (e.g. Gaur et al., 2007; Giambatista et al., 2005; Karaevli, 2007, Sekiguchi et al., 2011), we further investigate how contextual organizational-level factors influence subsidiary top manager succession consequences. This provides important insights as to when expatriate replacements are beneficial for subsidiary performance. Specifically, we investigate the interactive effects of subsidiary age and prior performance with succession types. We test our hypotheses on expatriate staffing in foreign subsidiaries in Japan, the third largest economy in the world, where more than 3,000 foreign subsidiaries are located (Toyo Keizai, 2017).

### THEORETICAL FRAMEWORK

Agency theory is one of the most commonly used theories in organizational research (Eisenhardt, 1989, Wiseman, Cuevas-Rodríguez, & Gomez-Mejia, 2012). It provides a solid theoretical explanation for issues related to expatriate staffing and leadership succession literature (Giambatista et al., 2005; Gong, 2003; O'Donnell, 2000). The agency theory expounds the relationships between principals (owners) who delegate work to agents (managers). It suggests that the delegation of work has the potential to cause goal incongruence and information asymmetry because principals and agents may have different goals in the pursuit of self-interests to maximize their own benefit (Jensen & Meckling, 1976). Thus, the relationship between principals and agents may result in moral hazard and conflict of interests.

In expatriate research, the agency theory focuses on the reduction of economic incentive misalignment problems between the HQ (as principal) and its foreign subsidiaries

(as agents) (Brock, Shenkar, Shoham, & Siscovick, 2008; O'Donnell, 2000; Yan, Zhu, & Hall, 2002). Related research on MNEs has found equivocal support for the agency theory, thus necessitating further refinement of agency theory in the MNE context (e.g. Kim, Prescott, & Kim, 2005; O'Donnell, 2000). In response, Kostova et al. (2018) developed a refined conceptual model to better comprehend the agency theory in the MNE context. The core ideas are based on the assumptions that 1) agents are affected by two different sources of agency problems, and 2) MNEs are influenced by the internal organizational context and the external social context in which they operate. As for the former, Kostova et al. distinguish between the traditional perspectives of agents (HCN or expatriates) who pursue their own self-interests versus bounded rationality or incompetence of agents (Hendry, 2002). In other words, agents may fail to meet the principal's goals not necessarily because they pursue their own opportunistic goals; but because of their "honest incompetence" or just because of a lack of opportunity. As for the latter, Kostova et al. refer to organizational complexities within MNEs and to multiple social contexts of different host countries in which they operate that challenge agents to meet their goals. This study aims to transfer and apply these two core ideas to the subsidiary top manager staffing context, while considering the HQ as the principal and the expatriate or HCN (host country national) top manager as the agent.

Drawing from Kostova et al. (2018), we have developed a simplified figure that demonstrates the challenging context for HCN managers and expatriates in MNEs (see Table 1). Based on leadership succession literature (Giambatista et al., 2005, Pandey and Rhee, 2015), we distinguish between insiders who are familiar with the context, and outsiders who are not familiar with the context. Insiders can better satisfy internal stakeholders than outsiders (Giambatista et al., 2005) because outsiders might not be able to achieve their goals due to bounded rationality (Hendry, 2002). Expatriate and HCN managers can be regarded as both insiders and outsiders at the same time, depending on the relevant context. HCN

managers are insiders within the host country as they are familiar with the local language and culture and are usually well-connected with local stakeholders (Toh & DeNisi, 2005). In contrast, HCN managers are outsiders to the HQ as they live and work far away from it. Expatriate managers are, on the one hand, insiders within the MNE as they have accumulated social and human capital during their work in the HQ and are, thus, better able to communicate and coordinate with the HQ (Chang & Taylor, 1999; Harzing, 2001; Pak, Sun, & Yang, 2019; Pandey & Rhee, 2015). On the other hand, expatriate top managers are outsiders to the subsidiary and its stakeholders in the host-country.

-----  
Insert Table 1 here  
-----

From our refined understanding of agency theory in the MNE subsidiary context, we argue that expatriate and HCN managers as agents are affected by different agency problems that are influenced by their inside/outside status in the context of the MNE and the host-country. Thus, we expect each leadership succession type to have a differential direct and moderating influence on subsidiary-contextual factors that affect subsidiary performance. For this, we consider prior performance and subsidiary age as two important subsidiary-contextual factors because these two factors have been found to be particularly relevant in previous leadership succession and expatriate staffing research (Collings et al., 2010; Gong, 2003; Karaevli, 2007; Sekiguchi et al., 2011). Thus, we propose the following conceptual framework (see Figure 1). In the following section, we develop our hypotheses in greater detail.

-----  
Insert Figure 1 here  
-----

## **HYPOTHESES DEVELOPMENT**

Prior expatriate staffing studies argue that MNEs send expatriate top managers to foreign subsidiaries for various reasons, e.g. to provide them with training, for control and coordination purposes, and because they are trustworthy and represent the culture and management practices of the HQ (Edstroem and Galbraith, 1977; Gong, 2003; Harzing, 2001; O'Donnell, 2000; Yan et al., 2002). Drawing from agency theory in the MNE context, we argue that expatriates have better access to MNE resources and are better able to transfer knowledge (Chang et al., 2012; Harzing et al., 2016). Furthermore, they are more trustable managers to the headquarters than HCN managers (Pak et al., 2019). Thus, they could improve HQ-subsidiary business relationships.

However, their outsider status in the foreign host-country has potentially negative consequences for the performance of the foreign subsidiary. They suffer from bounded rationality issues because of their host-country outsider status. Expatriates often face severe challenges during international assignments due to difficulties in cross-cultural adjustment (Takeuchi, 2010), lack of local knowledge (Toh & DeNisi, 2005, 2007), lack of local networks (Andersson, Forsgren, & Holm, 2002), and lack local language skills (Selmer & Luring, 2015). These challenges eventually result in lower expatriate performance (Bhaskar-Srinivas et al., 2005).

The specific conditions of expatriate assignment may also result in self-interests dilemmas. Expatriates are usually assigned to a foreign subsidiary for three to five years. A three-year assignment can be divided into three stages: 1) during the first 12 to 18 months, expatriates need to adjust to the new job and to the foreign host-country environment, 2) for six to 18 months, expatriates can fully devote their energy to fulfilling their goals, 3) during the last six to 12 months, expatriates need to prepare for their return so that they can secure a



good position at the HQ (Lazarova & Cerdin, 2007; Shaffer et al., 2012). Thus, such expatriates can devote their full attention only six to 18 months to managing the foreign subsidiary (Sanchez, Spector & Cooper, 2000). According to the tenets of agency theory, this situation causes adverse self-interest agency problems for expatriate managers. Instead of pursuing long-term goals beneficial to the subsidiary, expatriate top managers are likely to avoid any major and long-term decisions because they have to bear the risks but are unlikely to reap long-term benefits (Harvey et al. 2001). This is also understandable because of unclear career prospects prior to repatriation (Shaffer et al, 2012; Yan et al., 2002). Taken together, such diverging self-interests aligned with bounded rationality issues result in short-term orientation and corresponding actions, which might be detrimental to sustainable subsidiary performance.

The choice of replacing an expatriate top manager with another expatriate top manager would lead to a continuation in strategic decisions. In the case of an expatriate succeeding another expatriate, the whole (vicious) cycle of expatriates going through the stages of entry into a host-country repeats itself (Levy et al., 2014; Mahajan & Toh, 2014; Takeuchi, 2010; Toh & DeNisi, 2007). Both incumbent and succeeding expatriate top managers suffer from multiple agency problems attributed to diverging self-interests and bounded rationality, as described above.

Even worse, ambitious HCN managers might resent expatriate successors because they would have desired the same position but were overlooked in promotion decisions by the HQ. The glass-ceiling, i.e. the limited career opportunities within MNEs for HCN employees, is a serious cause of low morale and commitment among HCN employees (Hitotsuyanagi-Hansel, Froese, & Pak, 2016; Kopp, 1994). However, the support of HCN employees is important for expatriate success (Toh & DeNisi, 2005, 2007). Thus, given repeated agency

dilemmas of expatriates and lack of support from HCN employees, we propose the following hypothesis:

**Hypothesis 1a:** If an expatriate replaces an expatriate top manager, the performance of the foreign subsidiary will decline.

Although some HCN managers might have lived and worked abroad, we assume that most of them are socialized in the host-country. Understandably, they speak the host-country language, are familiar with local culture, and have developed a good social network since their school and university days, and throughout their professional careers. Thus, they are insiders within the host-country but outsiders from the HQ perspective. Owing to their outsider status in the MNE, traditional agency theory suggests that their self-interests will not always be appropriately aligned with HQ interests (Chang and Taylor, 1999; Gong, 2013). HCN managers have to juggle the interests of both host-country stakeholders and those of the MNE HQ. In terms of agency problems related to bounded rationality as proposed by Kostova et al. (2018), HCN managers usually have limited connections with the HQ and thus face challenges in obtaining requisite resources from the MNE HQ. However, given the self-interest of the HQ to provide all necessary resources to boost subsidiary performance, we argue that this type of incompetence in HCN managers is of less concern. In summary, HCN managers enjoy benefits due to their insider status in the host-country, while having diverging self-interests to headquarters.

Prior literature suggests that if an MNE adopts a change in staffing strategy and appoints an HCN manager to replace the expatriate to head the foreign subsidiary, such a move can positively impact employee morale and subsidiary performance (Hitotsuyanagi et al., 2016, Law et al., 2009). Nevertheless, it must be pointed out that these prior studies were

based on cross-sectional data and did not consider the process of localization. In accordance with our understanding of agency dilemmas, we would assume that this change in staffing would rid the agency problem of incompetence because HCN managers who are insiders in the host-country are replacing expatriates who are outsiders in the host-country.

Despite these positive aspects, we argue that expatriate replacements through HCN managers are associated with lower subsidiary performance in the short to medium term for three reasons. First, a localization strategy signals that the HQ will be more distant to its subsidiary, leading to higher alignment issues between HQ and the foreign subsidiary. Second, given the short-term orientation and actions of the expatriate predecessor, the succeeding HCN top manager must deal with fallout when taking over as head of the subsidiary. The HCN top manager needs to make substantial long-term investments, which increases cost and reduces profitability during the initial years of their tenure. Third, the transition from expatriate to HCN top manager also heightens expectations of HCN employees towards the new management. HCN employees may take the opportunity to demand better working conditions and promotions. Based on traditional agency theory logic, an HCN subsidiary top manager is more embedded into local networks and feels more obligated to local stakeholders, e.g. employees and local suppliers, than to the HQ in a foreign country. This leads to self-interest agency problems between HCN top managers and HQ, as described in prior research (Chang and Taylor, 1999; Gong, 2003), and eventually, to lower subsidiary performance. This leads to the following hypothesis:

**Hypothesis 1b:** If an HCN replaces an expatriate top manager, the performance of the foreign subsidiary will decline.

The typical trend is that MNEs appoint expatriates initially to manage foreign subsidiaries and then gradually replace them with HCNs (Olejniczak & Froese, 2019; Tung, 1984). However, MNEs may also deviate from this trend and appoint HCNs first, and then later replace them with expatriates. As explained above, expatriate managers face various self-interest and incompetence issues in foreign subsidiaries. In addition, middle and lower management of the subsidiary might be particularly unwilling to support newly-appointed expatriate top managers who replace HCNs. Literature provides some evidence that outsiders are better able to revamp organizations, especially if the managers have a broader background (Zhu & Shen, 2016). However, expatriates replacing HCNs may signal a perceived lack of trust and/or lack of capability of middle and lower subsidiary managers. Middle and lower management of subsidiaries are an important source of support for top managers but they can also sabotage expatriates' actions (Toh & Denisi, 2005). In the worst-case scenario, expatriates who replace HCNs can trigger subtle and overt resistance by middle and lower managers of the subsidiary. In short, expatriate top managers of foreign subsidiaries are placed in a very challenging position if they replace HCNs. Moreover, we expect expatriates who replace HCNs to have various self-interests. Coupled with a lack of opportunity or increased agency problems, the performance of the subsidiary concerned suffers. Our hypothesis is thus stated as follows:

**Hypothesis 1c:** If an expatriate replaces an HCN, the foreign subsidiary's performance will decline.

As discussed above, we study expatriate successions and how they influence the status quo of agency dilemmas at foreign subsidiaries. Therefore, we primarily contrast expatriate successions to non-successions. As a robustness check, we further contrast expatriate related

successions to HCN-HCN succession events. However, we refrain from postulating a separate hypothesis for HCN-HCN successions.

### **The Moderating Effect of Prior Performance**

Leadership succession literature argues that it is not only the succession event itself but also contextual factors that affect post succession firm performance (Chung & Luo, 2013; Finkelstein & Hambrick, 1996; Karaevli, 2007). Therefore, in addition to the direct effects of leadership succession types, we investigated how relevant subsidiary-level contextual factors influenced foreign subsidiary performance. Based on prior leadership succession literature (Giambatista et al., 2005; Graffin, Carpenter, & Boivie, 2011; Karaevli, 2007) and expatriate staffing literature (Gaur et al., 2007; Gong, 2003; Oki, 2019; Sekiguchi et al., 2011), we focus on two moderating effects, viz. prior foreign subsidiary performance and the age of the subsidiary. We argue that both of these factors have an influence on the agency dilemmas of new subsidiary top managers. Building on our hypotheses 1a-1c and our theoretical arguments, we will first develop our moderating hypotheses regarding prior performance.

Low performing subsidiaries would require major strategic changes to revamp ailing operations. Leadership succession research suggests appointing outsiders in these cases, because such outsiders might be more willing and able to implement change (Giambatista et al., 2005). In the foreign subsidiary context, MNEs might be inclined to appoint expatriate top managers who are outsiders in the host country because they are more willing to implement HQ goals (Chang & Taylor, 1999; Gong, 2003). Accordingly, we focus our investigation on the interactive effects on prior subsidiary performance by expatriate successors.

However, low prior performance is not a sufficient requisite for outside top managers' success in implementing the necessary changes (Nakauchi & Wiersema, 2015). We argue that

expatriate successors could even worsen the performance of low performing subsidiaries because they might suffer from incompetence problems due to their outsider status in the host country. A local power base is necessary to implement successful changes at the firm, especially during turbulent or challenging times (Karaevli, 2007). Expatriate top managers might lack understanding and support from HCN employees (Toh & DeNisi, 2005, 2007), especially in a country such as Japan well known for its resistance to change (Ahmadjian & Robinson, 2001). Drastic changes, e.g. layoffs initiated by culturally unaware expatriate top managers might even result in drastic responses by enraged local staff that can lead to sabotage (Toh & DeNisi, 2005). All these negative factors could be severe especially at low performing subsidiaries. Furthermore, especially in cases of ailing subsidiaries, agency theory concerns would suggest expatriate top managers avoid taking further risks and thus effectively pass on important decisions to their successors. In this way, they may delay painful actions so that their successors will have to deal with these problematic issues.

In short, diverging self-interests of expatriate top managers and bounded rationality due to the resistance of HCN employees may outweigh the advantages of closer alignment to the HQ. This line of logic leads to the following two hypotheses:

**Hypothesis 2a:** If prior performance of the foreign subsidiary is poor, when an expatriate replaces another expatriate, performance will decline further.

**Hypothesis 2b:** If prior performance of the foreign subsidiary is poor, when an expatriate replaces an HCN, performance will decline further.

### **The Moderating Effect of Subsidiary Age**

Building on agency theory and prior expatriate staffing research (Gong, 2003; Sekiguchi et al., 2011), we propose that replacing an expatriate top manager with an HCN

will have a positive effect on an older and established subsidiary. We argue that the age of a foreign subsidiary influences agency dilemmas for localization. During the early stage of a newly established foreign subsidiary, the expatriate top manager plays an important role in transferring knowledge and corporate values and strengthening the relationships with the HQ (Olejniczak & Froese, 2019; Sekiguchi et al., 2011). During this stage, the insider status of the expatriates is an important factor. These arguments are in line with the traditional understanding of agency theory in the expatriate context (e.g. Gong, 2003) in that expatriates can better align the interests between HQ and foreign subsidiaries, and thus, resulting in superior performance.

However, the longer foreign subsidiaries operate in the host country, the more the advantages of expatriates diminish (Gong, 2003). Over time, HCN employees will learn the management practices and corporate culture of the HQ; eventually they will internalize the values of the MNE (Selmer & Leong, 1996). It is in the interest of MNEs to train and develop HCN staff and managers accordingly (Olejniczak & Froese, 2019; Sarabi et al., 2017). Some MNEs even have long-term strategic talent development programs in place to send HCNs on expatriate assignments to HQ, so-called inpatriation, to improve their social networks in the HQ and internalize the values of the MNEs (Froese et al., 2016), to prepare them for top management positions in the foreign subsidiary (Sarabi et al., 2017). Thus, HCN managers' self-interests will be better aligned with HQ interests. A longer length of operation of foreign subsidiaries will also lead to an increased understanding of the foreign culture and business practices by HQ. Supporting principal agency theory arguments, a longer stay of operation in the host-country will help both HCN managers and the HQ to understand each other better, reduce information asymmetry, and improve goal alignment. HCNs are better able to communicate with customers and employees, while simultaneously being less affected by negative agency problems. Related research found that localization of management led to

increased employee morale and financial performance in foreign subsidiaries (Bader et al., 2017; Hitotsuyanagi-Hansel et al., 2016; Law et al., 2009). This leads to the following hypothesis:

**Hypothesis 3:** If an HCN replaces an expatriate at an older subsidiary, there will be improved performance.

## METHODS

### Sample

This study analyzed data from Toyo Keizai *Gaishikei Kigyo Soran* (a database on foreign affiliated firms in Japan compiled by Toyo Keizai) from 1999 to 2010 having performance data for three years before-and-after the succession of top managers at foreign subsidiaries (Giambatista et al., 2005; Karaevli, 2007). We therefore limited our analysis to successions from 2002 to 2007. Even though the database covers around 3,000 firms per year, only around 400 firms provided sufficient financial data for each year. To increase our sample, we included all subsidiaries that provided sufficient data three years before and after the succession, resulting in an unbalanced panel data set. Overall, our sample included 554 subsidiaries and 2,113 firm-year observations, including 521 successions. Among these 554 subsidiaries, 328 (59%) subsidiaries experienced successions within our six-year time frame. Out of 521 successions, HCN who replaced another HCN is the most common succession type with 261 cases, followed by expatriate who replaced another expatriate (142), expatriate who replaced HCN (67), and HCN who replaced expatriate (51) (see Table 2). In other words, we have 260 successions with expatriates involved. At our robustness check, we contrasted expatriate related successions (all: 260) to 261 related HCN-HCN successions.

-----



Insert Table 2 here

-----

The most common industries in this sample were manufacturing (38%), finance and insurance (30.1%), wholesale and trade (17.6%), and information and communication (5.5%). Most foreign subsidiaries had their HQ in the U.S. (47.6%), Germany (10.7%), the United Kingdom (9.4%), Switzerland (5.6%), France (5.4%), the Netherlands (3.0%), and South Korea (2.7%). The size of the subsidiaries in terms of employees ranged from two to 33,601, with a mean of 835.4 and a standard deviation of 2,639.2; these subsidiaries had been operating in Japan for three to 121 years (mean = 29.1, SD = 19.4).

## Measures

In line with prior research (Chan, Isobe, & Makino, 2008; Chan, Makino, & Isobe, 2010), we measured performance as return on sales of the foreign subsidiary (ROS = net profit / sales). Owing to the lack of data and complex accounting practices within the subsidiary networks of MNEs, sales related efficiency measures were considered superior to shareholder value and return on assets data (Chan et al., 2008, 2011; Gong, 2003). Since ROS can vary greatly across industries, we used industry-adjusted z-scores for all performance indicators, a common procedure in leadership succession research (Karaevli, 2007). To reduce the influence of short-term fluctuations and as recommended by prior research (e.g. Giambatista et al., 2005; Karaevli, 2007), we used three-year averages before and after the succession to measure pre- and post-succession performance. Pre-succession ROS was used as a control and moderating variable for prior performance while post-succession ROS was used as our dependent variable, i.e. subsidiary performance.

As explained above, we were interested in leadership succession, particularly expatriate top manager replacement. Two bilingual graduate students coded the origin of

subsidiary top managers for each year from 2002 to 2007, distinguishing between Japanese (HCN) and non-Japanese (expatriate) top managers. This was easy because all the names of foreign top managers, unlike those of Japanese top managers, are listed in Katakana (the Japanese alphabet for foreign words) and roman letters in the database. In addition, we paid particular attention to foreign top managers from countries/regions which use Chinese characters, namely China, Taiwan, South Korea, and Singapore, but found the same method of data organization. Owing to the manner in which the data were provided, our assistants reached 100 percent agreement on the origin of the top managers. To further validate and better understand the origin of these top managers, we conducted an online desk research on 100 successors. This additional step revealed that all the top managers classified as Japanese were confirmed as Japanese, and that all top managers classified as non-Japanese were indeed non-Japanese. Our additional search further revealed that several expatriate top managers previously worked at other foreign subsidiaries of the same MNE, e.g. a German top manager who had previously worked at an Indonesian subsidiary was subsequently appointed as top manager of a Japanese subsidiary. We compared top manager origin after changes and computed four dummy variables for each leadership succession type and used 'no succession' as the reference category.

Based on prior research (Gaur et al., 2007; Giambatista et al., 2005; Gong, 2003; Karaevli, 2007), we included several control variables that might have an influence on post-succession subsidiary performance. Considering the Japanese context, we used 20 cluster classifications, i.e. 19 dummies for 20 industries, from Japan Statistics Bureau. Since prior research (Gaur, 2007, Gong, 2003) showed that institutional and cultural country effects influenced foreign subsidiary performance, we created dummies for countries/regions that were well represented in our data, namely the U.S., the Eurozone, Asia, the U.K., and Switzerland. In regard to firm level effects, we controlled for prior performance (pre-ROS)

(Karaevli, 2007), subsidiary age (years), subsidiary size as measured by: invested capital (a natural logarithm of invested capital in Japanese Yen), and the number of employees (a natural logarithm of number of employees). We also controlled for foreign ownership (percentage of foreign ownership) (Fang et al. 2010).

### **Data analysis**

Given our unbalanced panel data structure, we conducted random effects generalized least squares (GLS) to test our hypotheses. The results of the Hausman test recommended using random effects instead of fixed-effect models. Since the variances of observations were unequal (heteroscedasticity), and there was a certain degree of correlation between the observations, GLS was superior to ordinary least squares, and was thus the preferable choice (Hamilton, 2009). GLS has frequently been used in prior leadership succession studies (e.g. Zhang & Rajagopalan, 2010). To reduce concerns of endogeneity, we used a one-year lag between dependent and independent, as well as control variables. As recommended by Giambatista et al. (2005), we used the whole sample (with 2.113 firm year observations), comparing all four types of successions to non-succession cases. Further, at a robustness check, we compared the expatriate successions to HCN-HCN successions and mainly received the same results. For our interaction tests, we centered all relevant variables to reduce the potential problems of multicollinearity in line with Aiken and West (1991).

## **RESULTS**

The correlations, means, and standard deviations of our main variables of interest are depicted in Table 3.

-----

Insert Table 3 here

-----

We conducted several hierarchical GLS regressions to better understand our data. First, we entered only the control variables. Second, we added the main effects, i.e. four succession types. Third and fourth, we added the interaction terms of succession types with prior performance and age. As this was the first study on leadership succession choice within a foreign subsidiary context, we entered all possible interaction terms (in our model 5) to obtain a comprehensive overview.

-----

Insert Table 4 here

-----

Results of our analyses are depicted in Table 4. Our baseline model, including only the control variables (Model 1), explained 4 percent of the variance of subsidiary performance. When we entered the four succession types (Model 2), the model could explain six percent of the variance. In line with hypothesis 1a regarding succession of expatriate replacing another expatriate ( $\beta = -0.0327$ ,  $p < 0.01$ ) was negatively associated with foreign subsidiary performance; hence hypothesis 1a was supported. Likewise, succession of HCN replacing expatriate was negatively related with performance ( $\beta = -0.0580$ ,  $p < 0.001$ ), providing support for hypothesis 1b. However, hypothesis 1c was not supported. From a different perspective, we can say that anyone, irrespective of whether he/she was an HCN or expatriate manager, succeeding an expatriate top manager was associated with a lower post-performance.

When we added the interaction terms of succession types with prior performance (Model 3), the model had a statistically better fit than model 2 ( $\Delta\text{Wald } \chi^2(4) = 221.82$ ,  $p < 0.001$ ), suggesting that the moderating effects were relevant. Successions of expatriate

replacing expatriate ( $\beta = 0.3104$ ,  $p < 0.001$ ) and expatriate replacing HCN ( $\beta = 0.0481$ ,  $p < 0.05$ ) interacted with prior performance in predicting post-performance, implying that expatriate successors accentuated the effect of prior performance. In other words, expatriates could improve subsidiary performance only in cases where prior performance was high. However, if prior performance was low, the successors experienced further deterioration in performance. The interaction plots illustrate the results (Figure 2a-b). Thus, these findings supported hypothesis 2a and 2b. We further note that HCN who replaced another HCN could reduce the negative impact of prior performance on post-performance ( $\beta = -0.0862$ ,  $p < 0.001$ ).

In Table 4, model 4, when we added the interaction terms of succession types with subsidiary age, the model had a statistically better fit than model 2 ( $\Delta\text{Wald } \chi^2(4) = 66.05$ ,  $p < 0.01$ ), suggesting that the moderating effects were relevant. As expected in hypothesis 3, when HCN replaced expatriate, there was an indication of positive impact on the foreign subsidiary's performance. This suggests that localization in the form of a replacement of an expatriate by HCN had a positive influence on performance at older subsidiaries. The interaction plot (Figure 3) illustrates this effect.

-----  
 Insert Figure 2 a-b, 3 here  
 -----

### Robustness Check

The robustness check contrasted expatriate related successions to HCN-HCN successions (Table 5) and depicted similar results. It is to mention, however, that the explained variances of subsidiary performance were much higher than at the main results.

Our baseline model, including only the control variables (Model 1), could explain 13.7 percent of the variance. In model 2 (Table 5) and in line with hypothesis 1a regarding expatriates replacing other expatriates ( $\beta = -0.0605$ ,  $p < 0.01$ ) was also negatively associated with foreign subsidiary performance. Likewise, HCN replacing expatriates was once again negatively related with performance ( $\beta = -0.107$ ,  $p < 0.001$ ), providing support for hypothesis 1a and 1b. At the robustness check even hypothesis 1c ( $\beta = -0.0493$ ,  $p < 0.10$ ) was weakly supported to 10%.

Also the interaction terms of succession types with prior performance (Model 3), had a statistically better fit than model 2 ( $\Delta\text{Wald } \chi^2(4) = 154.09$ ,  $p < 0.001$ ), suggesting that the moderating effects were relevant. Expatriate-expatriate successions interacted –as in our original study - with prior performance in predicting a higher post-performance only when prior performance was high already ( $\beta = 0.4720$ ,  $p < 0.001$ ).

In Table 5, model 4, when we added the interaction term of succession types with subsidiary age, we again received a similar (but somehow weaker) result that HCN replacing expatriates leads to a positive performance only at older subsidiaries.

Besides the robustness check, we conducted two additional tests to corroborate our results and to further enrich our understanding of the refined agency theory by Kostova et al. (2018). First, as prior expatriate staffing focused on cultural distance in predicting the performance of foreign subsidiaries (Gong, 2003; Colakoglu & Caliguirri, 2008), we replaced our country dummies by a cultural distance index (Kogut & Singh, 1988), but the results remained essentially the same. Second, we changed the time frame of our dependent variable from a 3-year average ROS to a 2-year average ROS. The results were also essentially the same.

## DISCUSSION

Integrating expatriate staffing and leadership succession literature (e.g. Gaur, 2007; Giambattista et al., 2005; Gong, 2003; Karaevli, 2007), we developed and tested a framework based on a refined agency theory (Kostova et al., 2018) to investigate performance consequences of expatriate replacement at foreign subsidiaries. Our results suggested that performance of subsidiaries declined when expatriates were replaced – no matter by whom. Furthermore, we investigated the moderating effects of subsidiary prior performance and age of the subsidiary. If prior performance was low, expatriate successions would result in further deterioration of the subsidiary's performance. Our results showed that replacing expatriates with HCN managers improved subsidiary performance only in older subsidiaries. The theoretical and practical implications are discussed in the following section.

### Theoretical Implications

Our investigation provides several intriguing findings that increase our theoretical understanding of agency problems with regard to the succession of top managers at foreign subsidiaries. First, we contribute to an increased understanding of a refined agency theory in the expatriate staffing context by building on the core ideas of Kostova et al., (2018) and Hoenen and Kostova (2015). Gong (2003) and other MNE studies (e.g. Chang & Taylor, 1999) highlighted a better goal alignment between expatriates (as compared to HCN managers) and the MNE headquarters as the key argument for why expatriates are better for foreign subsidiary performance than HCN managers. Building on Kostova et al. (2018) we offer a more nuanced perspective of multiple agency problems arising from the complex influences of organizational (MNE) and social (host-country) contexts. Based on that, we developed a model (Table 1) to better comprehend multiple insider and outsider status of

expatriate and HCN managers. We argue that the inside and outside status are associated with multiple agency problems. Expatriates suffer from their outsider status and corresponding incompetence problems in the host-country. They usually do not possess adequate local language skills (Selmer and Luring, 2015), face difficulties in adjusting to a foreign culture (Bhaskvar-Shrinivas et al., 2005; Takeuchi, 2010), lack local knowledge (Toh & DeNisi, 2005, 2007), and have inadequate social network (Andersson et al., 2002). Moreover, relatively short-term international assignments may lead to self-interest dilemmas. Our findings that any successor to an expatriate top manager largely support our arguments and suggest that expatriates leave behind foreign subsidiaries in a condition that makes it difficult for their successors to perform well.

Second, our investigation of the subsidiary context contributes to an increased understanding of the boundary conditions of agency theory in the expatriate staffing context. The interactive effects of prior-performance with expatriate successors (Expatriate → Expatriate, Expatriate → HCN) provide additional support for our argument of the multiple agency problems of expatriate top managers. Both types of expatriate successors experience further deteriorated performance in low performing foreign subsidiaries. This contrasts with traditional agency theory extensions in the MNE context (Chang & Taylor, 1999; Gong, 2003), which would suggest MNEs appoint expatriate top managers to better align the goals of the HQ to their foreign subsidiaries. Further, traditional agency theory rather predicts expatriated top managers to implement changes to revamp ailing foreign subsidiaries. However, understanding of local conditions – apart from aligning self-interests - and a power base are critical for implementing changes in turbulent environments (Karaevli, 2007). Our findings suggest that expatriate top managers might not be able to gain the support of HCN employees in times of hardship to implement much needed changes due to their outsider status. These findings underline the importance of HCN support (Toh & DeNisi, 2005, 2007).



Third, our results also showed how foreign subsidiaries could escape the negative spiral of expatriate successions. Our theoretical reasoning and empirical evidence showed that subsidiary age is an important boundary condition. As foreign subsidiaries mature, replacing expatriates with HCN managers leads to increases performance. This finding confirmed prior expatriate staffing research (Gong, 2003; Sekiguchi et al., 2011), suggesting that the localization of top management is beneficial for foreign subsidiary performance when implemented at a later stage (Tung, 1984). The finding also corroborated with the principal agency theory perspective that trust between the HQ and the subsidiary that is developed over the years removes any advantage of the expatriate manager over an HCN.

### **Managerial Recommendations**

The findings of this study provide several important recommendations for MNEs when making global staffing decisions for their foreign subsidiaries. First, our findings showed that expatriate replacements are on average associated with a declining foreign subsidiary performance. Thus, we recommend MNEs to extend the tenure of their subsidiary top managers. Particularly in countries such as Japan having unique cultural and institutional environments, expatriate assignments should be longer. After foreign subsidiaries are firmly established, MNEs are recommended to appoint HCNs as top managers, as this would increase subsidiary performance.

Second, MNEs may implement long-term global talent strategies to reduce the outside status of expatriate vis-à-vis the host country, and the outside status of HCN manager vis-à-vis the HQ. For instance, MNEs could dispatch HCN managers to the HQ to train them to internalize the HQ's values and practices as well as to develop social networks (Harvey et al., 2000; Reiche, 2006). When these HCN managers return from their HQ experience (in patriation), to run the foreign subsidiary, they can better implement global strategies, transfer

knowledge and maintain relationships between the HQ and foreign subsidiary (Harvey et al., 2000; Harzing et al., 2016; Reiche, 2006), thus, becoming insiders in the MNE and host-country.

Third, if MNEs need to appoint expatriate top managers owing to a shortage of local talent or for control, coordination and knowledge transfer objectives (Harzing, 2001), MNEs could provide incentives in the performance management systems and organizational support to prevent short-term oriented behavior. To reduce the resistance of HCN employees towards expatriate managers' decisions, MNEs may provide HCN employees with intercultural training and incentives. Likewise, expatriate managers should receive intercultural training to better understand the foreign culture (Black & Mendenhall, 1990).

### **Limitations and Avenues for Future Research**

The limitations of this study can serve as avenues for future research. First, this study investigated only expatriate staffing in Japan, and is thus, to a certain degree, context bound. For instance, it is possible that Japan's economic development status influenced our results. In contrast to Japan, developing countries might not have a sufficient pool of highly qualified talent. Thus, MNEs send expatriates to fill in local talent gaps (Edstroem & Galbraith, 1977), and HCN are eager to learn from and work under expatriates. In such situations, the outsider status of expatriates could be partly compensated by the support of HCN employees. Furthermore, Japan has a unique cultural and institutional environment. Japan has, for example, traditional employment practices such as life-time employment and a homogeneous workforce (Sekiguchi et al., 2011). This environment might be particularly difficult for expatriates to succeed. While we argue that our theoretical reasoning would hold in other contexts as well, the magnitude of effects might be lower in culturally and institutionally more similar countries.

Second, we only investigated six years of leadership succession. Our longitudinal panel data is superior to cross-sectional data but longer time spans would enable a further investigation of the evolutionary character of subsidiary development. Even if we provided a large panel data set, we only analyzed archival data as it is common practice in expatriate staffing and leadership succession studies (e.g. Gaur et al., 2007; Gong, 2003; Karaevli, 2007; Sekiguchi et al., 2011). Future studies could be conducted to better understand the background, motivation, and experience of foreign subsidiary top managers in a more fine-grained approach e.g. by conducting a qualitative research design.

Third, we argued mainly based upon the refined agency theory (Kostova et al., 2018). Other theoretical perspectives, such as goal setting theory (Audia, Locke and Smith, 2000; Locke and Latham, 1990) or expectancy theory (Vroom, 1964; Harvey, Speier and Novecevic, 2001) could shed additional light on expatriate successions. The role of leader characteristics such as individual values of goal alignment or cognitive biases could be further investigated. Regarding expatriates, future research could investigate the roles of prior international and host-country experience, training, and cross-cultural adjustment (Takeuchi, 2010). As for HCNs, we recommend research on HQ experience, since inpatriation has become an important strategy to develop HCN managers (Sarabi, Froese, & Hamori, 2017). Furthermore, it would be interesting to investigate perceptions of lower and middle subsidiary managers as they can also play important roles in the success of the expatriate top manager (Toh & Denisi, 2007).

Despite these limitations, this study provided intriguing insights and extended our theoretical understanding of leadership succession at foreign subsidiaries in light of a newly refined principal agency theory.

## REFERENCES

- Ahmadjian, C. L., & Robinson, P. 2001. Safety in numbers: Downsizing and the deinstitutionalization of permanent employment in Japan. *Administrative Science Quarterly*, 46(4): 622–654.
- Aiken, L. S., West, S. G., & Reno, R. R. 1991. *Multiple regression: Testing and interpreting interactions*. Sage.
- Amburgey, T. L., Kelly, D., & Barnett, W. P. 1990. Resetting the Clock: The Dynamics of Organizational Change and Failure. (Vol. 1990, pp. 160–164). Presented at the Academy of Management Proceedings, Academy of Management.
- Andersson, U., Forsgren, M., & Holm, U. 2002. The strategic impact of external networks: subsidiary performance and competence development in the multinational corporation. *Strategic Management Journal*, 23(11): 979–996.
- Audia, P., Locke, E., & Smith, K. 2000. The paradox of success: An archival and a laboratory study of strategic persistence following a radical environmental change. *Academy of Management Journal*, 43, 837–853.
- Bader, A. K., Froese, F.J, Achteresch, A., Behrens, S. 2017. Expatriates' influence on the organizational commitment of host country nationals in China. The moderating role of individual values and status characteristics. *European Journal of International Management*. 11(2), 181-200.
- Barnard, H., & Cantwell, J. 2007. World Investment Report 2005: Transnational Corporations and the Internationalization of R&D, United Nations Conference on Trade and Development United Nations, New York and Geneva (2005).
- Bhaskar-Shrinivas, P., Harrison, D. A., Shaffer, M. A., & Luk, D. M. 2005. Input-based and time-based models of international adjustment: Meta-analytic evidence and theoretical extensions. *Academy of Management Journal*, 48(2): 257–281.

- Black, J. S. & Gregersen, H. B. 1999. The Right Way to Manage Expats. *Harvard Business Review* (March-April): 52-62
- Black, J. S., & Mendenhall, M. 1990. Cross-cultural training effectiveness: A review and a theoretical framework for future research. *Academy of Management Review*, 15(1): 113–136.
- Brock, D. M., Shenkar, O., Shoham, A., & Siscovick, I. C. 2008. National culture and expatriate deployment. *Journal of International Business Studies*, 39(8): 1293–1309.
- Bruning, N.S., Bebenroth, R. and Pascha, W., 2011. Valuing Japan-based German expatriate and local manager's functions: do subsidiary age and managerial perspectives matter? *The International Journal of Human Resource Management*, 22(04), pp.778-806.
- Caligiuri, P.M., 2000. Selecting expatriates for personality characteristics: A moderating effect of personality on the relationship between host national contact and cross-cultural adjustment. *MIR: Management International Review*, pp.61-80.
- Carter, M. Z., & Mossholder, K. W. 2015. Are we on the same page? The performance effects of congruence between supervisor and group trust. *Journal of Applied Psychology*, 100(5), 1349.
- Chan, C. M., Isobe, T., & Makino, S. 2008. Which country matters? Institutional development and foreign affiliate performance. *Strategic Management Journal*, 29(11): 1179–1205.
- Chan, C. M., & Makino, S. 2007. Legitimacy and multi-level institutional environments: Implications for foreign subsidiary ownership structure. *Journal of International Business Studies*, 38(4): 621–638.
- Chan, C. M., Makino, S., & Isobe, T. 2010. Does subnational region matter? Foreign affiliate performance in the United States and China. *Strategic Management Journal*, 31(11): 1226–1243.
- Chang, E., & Taylor, M. S. 1999. Control in multinational corporations (MNCs): The case of Korean manufacturing subsidiaries. *Journal of Management*, 25(4): 541–565.

- Chang, Y.-Y., Gong, Y., & Peng, M. W. 2012. Expatriate knowledge transfer, subsidiary absorptive capacity, and subsidiary performance. *Academy of Management Journal*, 55(4): 927–948.
- Chen, C. C., Choi, J., & Chi, S.-C. 2002. Making justice sense of local-expatriate compensation disparity: Mitigation by local referents, ideological explanations, and interpersonal sensitivity in China-foreign joint ventures. *Academy of Management Journal*, 45(4): 807–817.
- Chung, C., & Luo, X. R. 2013. Leadership succession and firm performance in an emerging economy: Successor origin, relational embeddedness, and legitimacy. *Strategic Management Journal*, 34(3): 338–357.
- Colakoglu, S., & Caligiuri, P. 2008. Cultural distance, expatriate staffing and subsidiary performance: The case of US subsidiaries of multinational corporations. *The International Journal of Human Resource Management*, 19(2): 223–239.
- Collings, D.G., McDonnell, A., Gunnigle, P. and Lavelle, J., 2010. Swimming against the tide: Outward staffing flows from multinational subsidiaries. *Human Resource Management*, 49(4), pp.575-598.
- Dickson, M. W., BeShears, R. S., & Gupta, V. 2004. The impact of societal culture and industry on organizational culture: Theoretical explanations. *Culture, leadership, and organizations: the GLOBE study of*, 62: 4–93.
- Doz, Y., & Prahalad, C. 1986. Controlled variety: A challenge for human resource management in the MNC. *Human Resource Management*, 25(1): 55–71.
- Edstroem, A. & Galbraith, J.R. 1977. Transfer of Managers as a Coordination and Control Strategy in Multinational Organizations. *Administrative Science Quarterly*, 22 (2): 248–263.
- Eisenhardt, K. M. 1989. Agency theory: An assessment and review. *Academy of management review*, 14(1): 57–74.

- Fang, Y., Jiang, G. L. F., Makino, S., & Beamish, P. W. 2010. Multinational firm knowledge, use of expatriates, and foreign subsidiary performance. *Journal of Management Studies*, 47(1): 27-54.
- Farah, B., Beamish, P., & Dau, L. A. 2016. Do MNE Parent-Foreign Subsidiary Governance Mechanisms Really Impact Foreign Subsidiary Performance? *Academy of Management Proceedings*. Vol. (1), p. 16-40.
- Finkelstein, S., & Hambrick, D. C. 1996. *Strategic leadership: Top executives and their effects on organizations*. South-Western Pub.
- Froese, F. J., & Goeritz, L. E. 2007. Integration management of Western acquisitions in Japan. *Asian Business & Management*, 6(1): 95–114.
- Froese, F.J., Kim, K., Eng, A. 2016. Language, cultural intelligence, and inpatriate turnover intentions: Leveraging values in multinational corporations through inpatriates. *Management International Review*. 56, 283-301.
- Froese, F. J., & Peltokorpi, V. 2011. Cultural distance and expatriate job satisfaction. *International Journal of Intercultural Relations*, 35(1): 49–60.
- Gaur, A. S., Delios, A., & Singh, K. 2007. Institutional environments, staffing strategies, and subsidiary performance. *Journal of Management*, 33(4): 611–636.
- Giambatista, R. C., Rowe, W. G., & Riaz, S. 2005. Nothing succeeds like succession: A critical review of leader succession literature since 1994. *The Leadership Quarterly*, 16(6): 963–991.
- Gong, Y. 2003. Subsidiary staffing in multinational enterprises: Agency, resources, and performance. *Academy of Management journal*, 46(6): 728–739.
- Graffin, S. D., Carpenter, M. A., & Boivie, S. 2011. What's all that (strategic) noise? Anticipatory impression management in CEO succession. *Strategic Management Journal*, 32(7): 748–770.
- Hamilton, L., C. 2009. *Statistics with Stata*. Belmont, CA: Brooks/Cole.

- Harvey, M. G., Speier, C., & Novecevic, M. M. 2000. Strategic global human resource management: The role of inpatriate managers. *Human Resource Management Review*, 10(2): 153–175.
- Harvey, M., Speier, C., & Novecevic, M. M. 2001. A theory-based framework for strategic global human resource staffing policies and practices. *International Journal of Human Resource Management*, 12(6), 898-915.
- Harzing, A.W.K., 1995. The persistent myth of high expatriate failure rates. *International Journal of Human Resource Management*, 6(2), pp.457-474.
- Harzing, A. 2001. Who's in charge? An empirical study of executive staffing practices in foreign subsidiaries. *Human Resource Management*, 40(2): 139–158.
- Harzing, A., Pudelko, M., & Sebastian Reiche, B. 2016. The bridging role of expatriates and inpatriates in knowledge transfer in multinational corporations. *Human Resource Management*, 55 (4): 679–695.
- Haveman, H. A. 1993. Ghosts of managers past: Managerial succession and organizational mortality. *Academy of Management Journal*, 36(4): 864–881.
- Hilger, S., Mankel, S., & Richter, A. 2013. The use and effectiveness of top executive dismissal. *The Leadership Quarterly*, 24(1): 9–28.
- Hitotsuyanagi-Hansel, A., Froese, F. J., & Pak, Y. S. 2016. Lessening the divide in foreign subsidiaries: The influence of localization on the organizational commitment and turnover intention of host country nationals. *International Business Review*, 25(2): 569–578.
- Hoenen, A.K. and Kostova, T., 2015. Utilizing the broader agency perspective for studying HQ–subsidiary relations in multinational companies. *Journal of International Business Studies*, 46(1), pp.104-113.
- House, R. J., Hanges, P. J., Javidan, M., Dorfman, P. W., & Gupta, V. 2004. *Culture, leadership, and organizations: The GLOBE study of 62 societies*. Sage publications.



- Hung-Wen, L. (2007). Factors that influence expatriate failure: An interview study. *International Journal of Management*, 24(3), 403.
- Ikegami, Maznevski, M., and Ota, M. 2017. Creating the asset of foreignness: Schrödinger's cat and lessons from the Nissan revival. *Cross Cultural & Strategic Management*, 24(1), pp.55-77.
- Jensen, M. C., & Meckling, W. H. 1976. Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of Financial Economics*, 3(4): 305–360.
- Karaevli, A. 2007. Performance consequences of new CEO “Outsiderness”: Moderating effects of pre-and post-succession contexts. *Strategic Management Journal*, 28(7): 681–706.
- Keizai, T. 2015. Gaishikei Kigyō Souran (Foreign Firms in Japan). Tokyo: Touyou Keizai Shimpousha.
- Kimberly, J. R. 1981. Managerial innovation. In P. C. Nystrom & W. H. Starbuck (Eds.), *Handbook of organizational design* (Vol. 1, pp. 84–104). New York: Oxford University Press.
- Kobrin, S. J. 1988. Expatriate reduction and strategic control in American multinational corporations. *Human Resource Management*, 27(1): 63–75.
- Kogut, B., & Singh, H. 1988. The effect of national culture on the choice of entry mode. *Journal of international business studies*, 19(3): 411–432.
- Kopp, R. 1994. International human resource policies and practices in Japanese, European, and United States multinationals. *Human Resource Management*, 33(4): 581–599.
- Kostova, T., Nell, P. C., & Hoenen, A. K. 2018. Understanding Agency Problems in HQ-Subsidiary Relationships in Multinational Corporations: A Contextualized Model. *Journal of Management*, 44(7), 2611-2637.
- Kostova, T., & Zaheer, S. 1999. Organizational legitimacy under conditions of complexity: The case of the multinational enterprise. *Academy of Management review*, 24(1): 64–81.

- Law, K. S., Song, L. J., Wong, C.-S., & Chen, D. 2009. The antecedents and consequences of successful localization. *Journal of International Business Studies*, 40(8): 1359–1373.
- Lazarova, M. B., & Cerdin, J.-L. 2007. Revisiting repatriation concerns: Organizational support versus career and contextual influences. *Journal of International Business Studies*, 38(3): 404–429.
- Lee, S., & Song, S. 2012. Host country uncertainty, intra-MNC production shifts, and subsidiary performance. *Strategic Management Journal*, 33(11): 1331–1340.
- Levy, O., Taylor, S., Boyacigiller, N. A., Bodner, T. E., Peiperl, M. A., & Beechler, S. 2014. Perceived senior leadership opportunities in MNCs: The effect of social hierarchy and capital. *Journal of International Business Studies*, 46(3): 285–307.
- Locke, E. A., & Latham, G. P. 1990. *A theory of goal setting & task performance*. Prentice-Hall, Inc.
- Mahajan, A., & Toh, S. M. 2014. Facilitating expatriate adjustment: The role of advice-seeking from host country nationals. *Journal of World Business*, 49(4): 476–487.
- Murray, B., Stewart, G., Piotrowski, M. 2002. Personality and job performance: Test of the mediating effects of motivation among sales representatives. *Journal of Applied Psychology*, 87(1): 43-51.
- Nakauchi, M., & Wiersema, M. F. 2015. Executive succession and strategic change in Japan. *Strategic Management Journal*, 36(2): 298–306.
- Nguyen, P., Felfe, J. and Fookien, I., 2013. Antecedents of commitment to a parent company and to a local operation: Empirical evidence from Western employees working for multinational companies in Vietnam. *The International Journal of Human Resource Management*, 24(7), pp.1346-1375.
- North, D. C. 1990. *Institutions, institutional change and economic performance*. Cambridge, UK: Cambridge university press.

- Nystrom, P. C., & Starbuck, W. H. 1981. Managerial innovation. *Handbook of organizational design* (Vol. 1, p. 104). New York: Oxford University Press.
- O'Donnell, S. W. 2000. Managing foreign subsidiaries: agents of HQ, or an interdependent network? *Strategic management journal*, 21(5): 525–548.
- Olejniczak, T., Froese, F.J. 2019. Managing HRM fit over the subsidiary life cycle stages: The case of Japanese subsidiaries in Poland. *European Journal of International Management*, in press.
- Oki, K. 2019. Factory performance and decision-making authority between headquarters, expatriates, and local employees in Japanese MNCs in Southeast Asia. *Asian Business & Management*, DOI: 10.1057/s41291-018-00054-y
- Pak, Y.S., Sun, Q., Yang, Y. 2019. Influences of expatriate managerial styles on host-country-nationals' turnover intentions. *Asian Business & Management*, 18, 263-280.
- Pandey, S. and Rhee, S., 2015. An Inductive Study of Foreign CEOs of Japanese Firms. *Journal of Leadership & Organizational Studies*, 22(2), pp.202-216.
- Peltokorpi, V., Allen, D. G., & Froese, F. 2015. Organizational embeddedness, turnover intentions, and voluntary turnover: The moderating effects of employee demographic characteristics and value orientations. *Journal of Organizational Behavior*, 36(2): 292–312.
- Peng, M. W. 2004. Outside directors and firm performance during institutional transitions. *Strategic management journal*, 25(5): 453–471.
- Pfeffer, J., & Salancik, G. R. 1978. *The external control of organizations: A resource dependence perspective*. Stanford University Press.
- Piekkari, R., Nell, P. C., & Ghauri, P. N. 2010. Regional management as a system. *Management International Review*, 50(4): 513–532.
- Plourde, Y., Parker, S.C. and Schaan, J.L., 2014. Expatriation and its effect on HQ' attention in the multinational enterprise. *Strategic Management Journal*, 35(6), pp.938-947.

- Quigley, T. J., & Hambrick, D. C. 2012. When the former CEO stays on as board chair: Effects on successor discretion, strategic change, and performance. *Strategic Management Journal*, 33(7): 834–859.
- Reiche, S. B. 2006. The inpatriate experience in multinational corporations: An exploratory case study in Germany. *The International journal of human resource management*, 17(9): 1572–1590.
- Sakano, T., & Lewin, A. Y. 1999. Impact of CEO succession in Japanese companies: A coevolutionary perspective. *Organization Science*, 10(5): 654–671.
- Sanchez, J.I., Spector, P.E. and Cooper, C.L., 2000. Adapting to a boundaryless world: A developmental expatriate model. *The Academy of Management Executive*, 14(2): 96-106.
- Sarabi, A., Froese, F. J., & Hamori, M. 2017. Is inpatriate assignment experience a ticket to the top of a foreign subsidiary? The moderating effect of subsidiary context. *Journal of World Business*, 52(5): 680-690.
- Sekiguchi, T., Bebenroth, R., & Li, D. 2011. Nationality background of MNC affiliates' top management and affiliate performance in Japan: knowledge-based and upper echelons perspectives. *The International Journal of Human Resource Management*, 22(5): 999–1016.
- Selmer, J., & De Leon, C. 1996. Parent cultural control through organizational acculturation: HCN employees learning new work values in foreign business subsidiaries. *Journal of Organizational Behavior*, 557–572.
- Selmer, J., & Luring, J. 2015. Host country language ability and expatriate adjustment: The moderating effect of language difficulty. *The International Journal of Human Resource Management*, 26(3), 401-420.
- Shaffer, M. A., Kraimer, M. L., Chen, Y.-P., & Bolino, M. C. 2012. Choices, challenges, and career consequences of global work experiences a review and future agenda. *Journal of Management*, 38(4): 1282–1327.

- Shay, J.P. & Baack, S. 2006. An empirical investigation of the relationships between modes and degree of expatriate adjustment and multiple measures of performance. *International Journal of Cross Cultural Management*, 6. (3), pp. 275-294.
- Shen, W. and Cannella, A.A., 2002. Revisiting the performance consequences of CEO succession: The impacts of successor type, postsuccession senior executive turnover, and departing CEO tenure. *Academy of Management Journal*, 45(4), pp.717-733.
- Stahl, G. K., & Caligiuri, P. 2005. The Effectiveness of Expatriate Coping Strategies: The Moderating Role of Cultural Distance, Position Level, and Time on the International Assignment. *Journal of Applied Psychology*, 90 (4): 603-615.
- Steinberg, A.S. and Kunisch, S., 2016. *The Agency Perspective for Studying HQ-Subsidiary Relations: An Assessment and Considerations for Future Research*. In Perspectives on HQ-subsubsidiary Relationships in the Contemporary MNC (pp. 87-118). Emerald Group Publishing Limited.
- Takeuchi, R. 2010. A critical review of expatriate adjustment research through a multiple stakeholder view: Progress, emerging trends, and prospects. *Journal of Management*, 36(4): 1040–1064.
- Tarique, I., Schuler, R. and Gong, Y., 2006. A model of multinational enterprise subsidiary staffing composition. *The International Journal of Human Resource Management*, 17(2), pp.207-224.
- Toh, S. M., & DeNisi, A. S. 2005. A local perspective to expatriate success. *The Academy of Management Executive*, 19(1): 132–146.
- Toh, S. M., & Denisi, A. S. 2007. Host country nationals as socializing agents: A social identity approach. *Journal of Organizational Behavior*, 281–301.
- Toyo Keizai (2017) *Gaishikei Kigyo Soran*. Printed Issue.

- Tung, R. L. 1984. Human resource planning in Japanese multinationals: a model for US firms? *Journal of International Business Studies*, 15(2): 139–149.
- Tung, R. L. 2016. New perspectives on human resource management in a global context. *Journal of World Business*, 51(1): 142–152.
- Tungli, Z., Peiperl, M. 2009. Expatriate practices in German, Japanese, U.K., and U.S. multinational companies: A comparative survey of changes. *Human Resource Management*, 48(1), 153-171.
- Vroom, V. 1964. *Work and Motivation*. New York: Wiley.
- Welch, D. E. 2003. Globalisation of staff movements: beyond cultural adjustment. *Management International Review*, 149–169.
- Wiseman, R. M., Cuevas-Rodríguez, G., & Gomez-Mejia, L. R. 2012. Towards a social theory of agency. *Journal of Management Studies*, 49(1): 202–222.
- Yan, A., Zhu, G., & Hall, D. T. 2002. International assignments for career building: A model of agency relationships and psychological contracts. *Academy of Management Review*, 27(3): 373–391.
- Zaheer, S. 1995. Overcoming the liability of foreignness. *Academy of Management journal*, 38(2): 341–363.
- Zhang, Y. 2008. Information asymmetry and the dismissal of newly appointed CEOs: An empirical investigation. *Strategic Management Journal*, 29(8): 859–872.
- Zhang, Y., & Rajagopalan, N. 2010. Once an outsider, always an outsider? CEO origin, strategic change, and firm performance. *Strategic Management Journal*, 31(3): 334–346.
- Zhu, D. H., & Shen, W. 2016. Why do some outside successions fare better than others? The role of outside CEOs' prior experience with board diversity. *Strategic Management Journal*, 37(13), 2695-2708.

Figure 1  
Conceptual Model

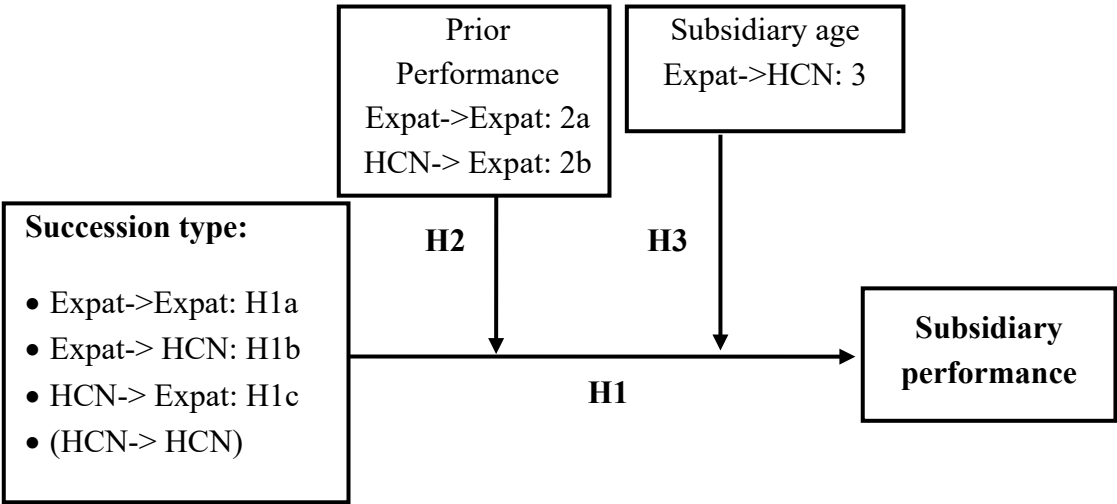


Figure 2a

Interaction Plot of Prior Performance and Expat -> Expat

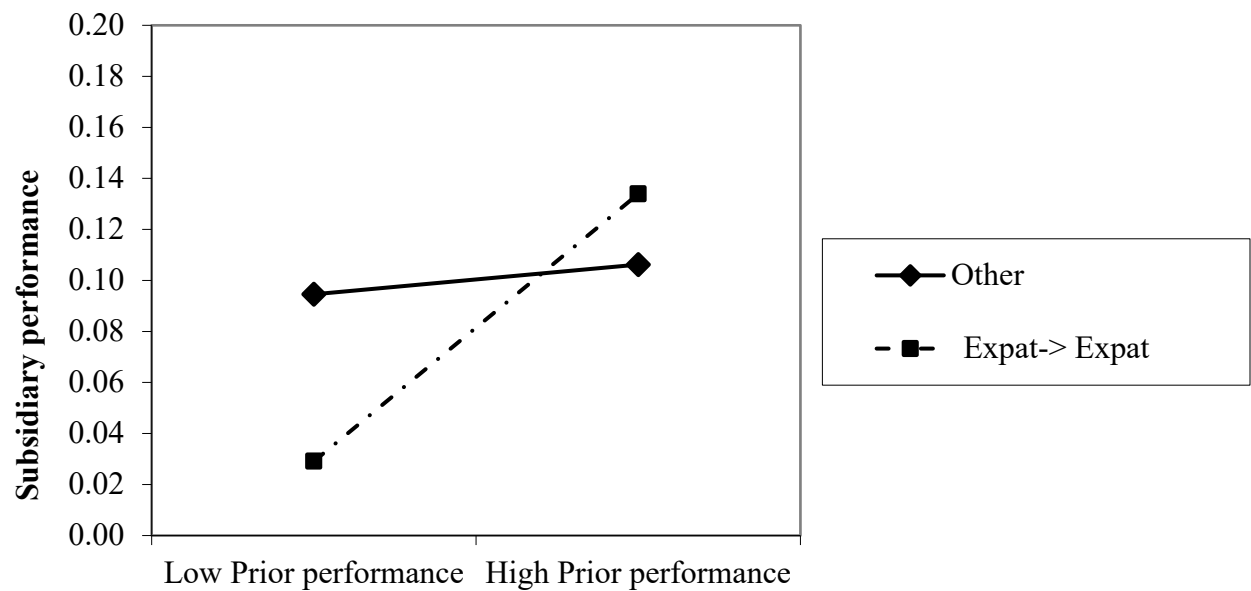


Figure 2b

Interaction Plot of Prior Performance and Expat to HCN

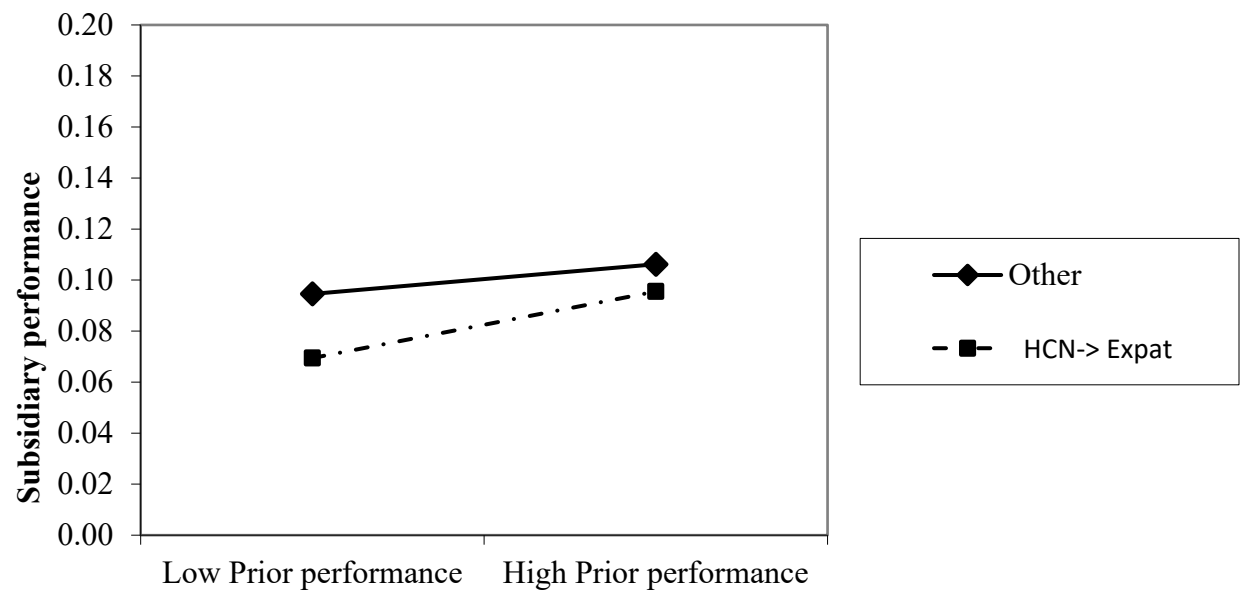




Figure 3

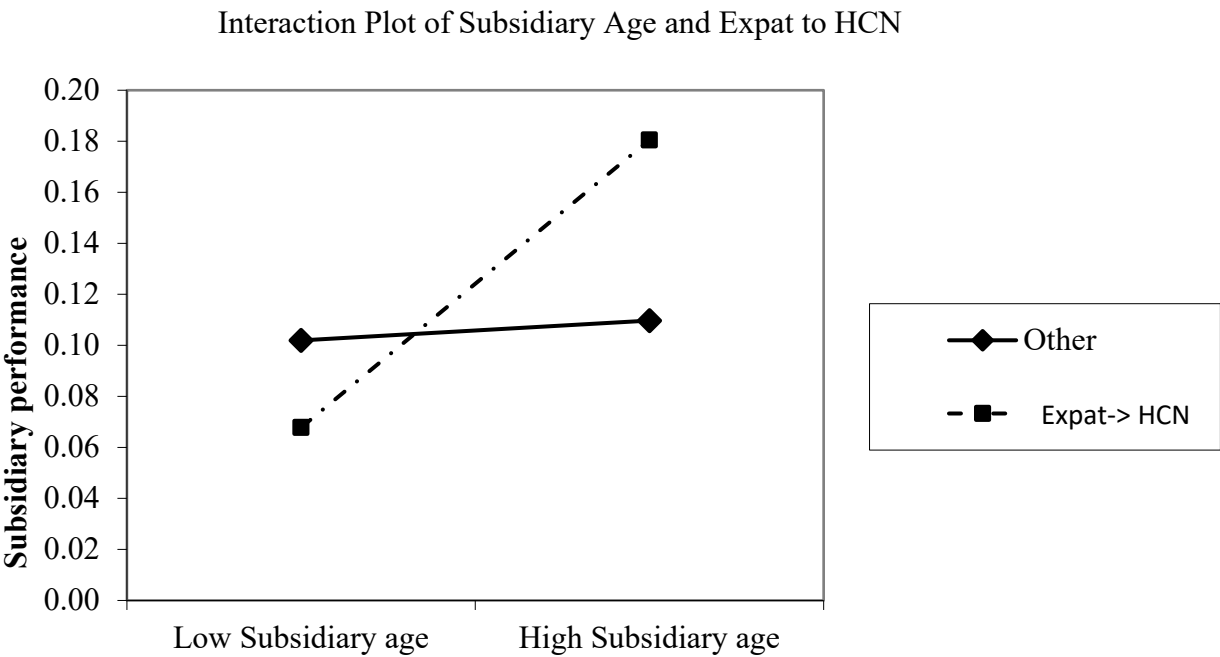


Table 1  
Status of HCN versus Expatriate Successors

Top manager origin	Context	
	Organization (MNE, HQ)	Social (host-country)
HCN	Outsider	Insider
Expatriate	Insider	Outsider

Table 2  
Distribution of different Succession Types

	Frequency	Percent
No succession	1,592	75.3
Expat -> Expat	142	6.7
Expat -> HCN	51	2.4
HCN -> HCN	261	12.4
HCN -> Expat	67	3.2
Total	2,113	100.0

Table 3  
Correlation Table

	Mean	SD	1	2	3	4	5	6	7	8	9
1 Subsidiary performance	0.00	0.15	1								
2 Prior performance	0.01	0.30	0.27*	1							
3 Subsidiary age	29.12	19.43	0.00	0.03	1						
4 Invested capital	7.44	2.17	-0.05*	0.02	0.21*	1					
5 Employees	4.96	1.84	-0.04	0.10*	0.37*	0.46*	1				
6 Foreign ownership	76.84	27.21	0.04	0.02	-0.16*	0.14*	-0.23*	1			
7 Expat -> Expat	0.07	0.25	-0.05*	-0.01	0.00	0.17*	-0.03	0.14*	1		
8 Expat -> HCN	0.02	0.15	-0.12*	-0.03	0.00	0.06*	0.05*	0.07*	-0.04	1	
9 HCN -> HCN	0.12	0.33	0.03	0.00	0.00	-0.04	0.01	-0.11*	-0.10*	-0.06*	1
10 HCN -> Expat	0.03	0.18	-0.05*	-0.02	0.00	0.04*	0.05*	0.03	-0.05*	-0.03	-0.07*

Table 4  
Results of GLS Regressions with Subsidiary Performance as Dependent Variable

	Model 1			Model 2			Model 3			Model 4			Model 5		
	Coef.	SE		Coef.	SE		Coef.	SE		Coef.	SE		Coef.	SE	
Prior performance (PP)	0.0402	0.0109	***	0.0443	0.0109	***	0.0388	0.0121	***	0.0466	0.0109	***	0.0434	0.0121	***
Subsidiary age (age)	0.0003	0.0003		0.0003	0.0003		0.0001	0.0003		0.0002	0.0003		0.0001	0.0003	
Invested capital	0.0008	0.0037		0.0015	0.0036		0.0019	0.0034		0.0019	0.0036		0.0020	0.0033	
Employees	-0.0070	0.0041	+	-0.0066	0.0040		-0.0065	0.0038	+	-0.0066	0.0039	+	-0.0063	0.0037	+
Foreign ownership	0.0003	0.0002		0.0004	0.0002	+	0.0004	0.0002	+	0.0004	0.0002	+	0.0004	0.0002	+
Expat -> Expat				-0.0327	0.0111	**	-0.0220	0.0108	*	-0.0332	0.0112	**	-0.0232	0.0109	*
Expat -> HCN				-0.0580	0.0166	***	-0.0632	0.0162	***	-0.0603	0.0167	***	-0.0630	0.0163	***
HCN -> HCN				0.0073	0.0080		0.0082	0.0078		0.0074	0.0080		0.0100	0.0078	
HCN -> Expat				-0.0175	0.0144		-0.0184	0.0141		-0.0173	0.0145		-0.0099	0.0144	
Expat -> Expat X PP							0.3104	0.0266	***				0.3025	0.0275	***
Expat -> HCN X PP							-0.0337	0.0362					-0.0453	0.0365	
HCN -> HCN X PP							-0.0862	0.0255	***				-0.1313	0.0308	***
HCN -> Expat X PP							0.0481	0.0279	*				-0.0470	0.0429	
Expat -> Expat X age										0.0001	0.0005		-0.0001	0.0005	
Expat -> HCN X age										0.0027	0.0008	***	0.0027	0.0008	***
HCN -> HCN X age										-0.0005	0.0004		-0.0003	0.0004	
HCN -> Expat X age										-0.0002	0.0007		-0.0005	0.0007	
Wald Chi square	27.31	*		51.34	***		221.82	***		66.05	***		263.5	***	
Degree of freedom	16			20			24			24			32		
Adjusted R-Square	0.0401			0.0617			0.1421			0.0707			0.1451		

Note: Industry and country dummies were included in the analyses but not depicted here due to space limitations.

Note:

+  $p < .1$   
\*  $p < .05$   
\*\*  $p < .01$   
\*\*\*  $p < .001$

Table 5  
Robustness Check: Expatriate to HCN-HCN GLS Regression successions: Subsidiary Performance as Dependent Variable

	Model 1			Model 2			Model 3			Model 4			Model 5		
	Coef.	SE		Coef.	SE		Coef.	SE		Coef.	SE		Coef.	SE	
Prior performance (PP)	0.1539	0.0254	***	0.1447	0.0252	***	-0.0289	0.1694		0.1498	0.0253	***	-0.0274	0.1676	
Subsidiary age (age)	0.0005	0.0005		0.0005	0.0005		0.0003	0.0005		-0.0003	0.0008		-0.0003	0.0007	
Invested capital	-0.0069	0.0054		-0.0040	0.0056		-0.0014	0.0056		-0.0030	0.0055		-0.0009	0.0055	
Employees	-0.0042	0.0064		-0.0026	0.0066		-0.0058	0.0063		-0.0040	0.0065		-0.0065	0.0063	
Foreign ownership	0.0001	0.0004		0.0007	0.0004		0.0001	0.0004		0.0006	0.0004		0.0001	0.0004	
Expat -> Expat				-0.0605	0.0254	**	-0.0455	0.0239	+	-0.0596	0.0251	*	-0.0459	0.0237	+
Expat -> HCN				-0.1070	0.0315	***	-0.0970	0.0290	***	-0.1063	0.0313	***	-0.0971	0.0289	***
HCN -> Expat				-0.0493	0.0276	+	-0.0421	0.0251	*	-0.0456	0.0273	+	-0.0418	0.0250	+
Expat -> Expat X PP							0.4720	0.1703	***				0.4734	0.1683	**
Expat -> HCN X PP							0.1770	0.1768					0.1845	0.1750	
HCN -> Expat X PP							0.2392	0.1713					0.2437	0.1690	
Expat -> Expat X age										0.0007	0.0011		0.0005	0.0010	
Expat -> HCN X age										0.0038	0.0015	*	0.0035	0.0014	**
HCN -> Expat X age										0.0008	0.0013		0.0005	0.0012	
Wald Chi square	40.12	*		52.32	***		154.09	***		61.13	***		164.73	***	
Degree of freedom	16			20			24			24			32		
Adjusted R-Square	0.1373			0.1605			0.3044			0.1719			0.3178		

Note: Industry and country dummies were included in the analyses but not depicted here due to space limitations.

Note:

+       $p < .1$   
 \*       $p < .05$   
 \*\*      $p < .01$   
 \*\*\*     $p < .001$

$p < .001$

---

<sup>i</sup> We use the term top manager to refer to the top managerial position within the foreign subsidiary. Depending on the firm, other terms such as CEO, general manager, managing director, country head, and president, are sometimes used to describe the same position.

<sup>ii</sup> Prior expatriate studies sometimes distinguish between parent-country (HQ country) and third-country (any country other than home and host-country) national expatriates. However, prior studies have found that the number of third-country national expatriates is very low (Tungli & Peiperl, 2009). Accordingly, prior expatriate staffing studies usually assume that all expatriates are parent-country nationals and do not make any further distinction (Gaur et al., 2007; Gong, 2003; Sekiguchi et al., 2011). Furthermore, the nationalities of expatriates are not provided in secondary databases and are difficult to obtain. Thus, following prior research (Gaur et al., 2007; Gong, 2003; Sekiguchi et al., 2011), we distinguish only between expatriates and host-country national managers.