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Sending Expatriates to Japan?
Executive staffing practice patterns

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Abstract

Our empirical study provides the first insights of executive staffing practice patterns in foreign-owned multinational company (MNC) subsidiaries based in Japan. We explore determinants for parent country nationals (PCN) as top managing directors and – new in the International Human Resource Management (IHRM) literature – also the ratio of PCN found on the board (Ratio) and examine under which conditions they are prevalent in the subsidiaries. We sampled the full range of 3,241 foreign companies in Japan. For the PCN/Ratio, several of our hypotheses were relevant for the PCN and were tested to be positive.

In regard to the ownership ratio of the subsidiaries, the PCN/Ratio is highly significant to 1%, supporting the theory that also for Japan high ownership matters when it comes to sending one's "own" people to the subsidiary abroad. In contrast to studies for other countries, however, the size of the subsidiary does not matter for Japan, at least when measured (like usually done) by the number of employees. Only if we measure size by capital does the PCN/Ratio prevalence become significant.

The PCN/Ratio also becomes highly significant (by 1%) in countries with a high Power Distance and a high Uncertainty Avoidance. PCN sending behavior seems to be somehow a country-specific phenomenon. We, furthermore, show that it matters whether companies settle down in one of the two big centers in Japan (Kanto and Kansai), which cultural circumstances for PCN tend to be more similar than in other areas of Japan. In Kanto and Kansai there are statistically significant more PCN and, therefore, a higher PCN/Ratio than in other Japanese areas.

In regard to MNCs, we show that smaller sized MNCs have a lower prevalence of PCN as their top managing director. These findings are in contrast to the International Human Resource Management literature. We put MNCs into two groups and show that MNCs with under 5000 employees have a lower prevalence of PCN as top managing directors (on average 28%). At the same time however, the PCN to the whole board (Ratio) is higher in these smaller MNCs (up to 10%). In other words, bigger companies seem to rely on their PCN as their top managing director in Japan. In contrast to this, in smaller companies, Japanese senior managers prevail as the top managing directors (HCN), although our research suggests that there are more PCN sent to the board of the bigger MNCs. Finally, we produce evidence that US subsidiaries in Japan have the lowest PCN/Ratio, with the PCN only counting for 22%, and the Ratio at 28%. In stark contrast, Asian countries have the highest PCN/Ratio in our sample, with Korea leading with PCN of 81% and a Ratio of 82%.

Keywords: International Human Resource Management (IHRM); executive staffing practice patterns; Power Distance; Uncertainty Avoidance

Introduction

The first authors who linked Human Resource Management policy to strategy issues were Edstroem and Galbraith (1977). Since then, the question of whether or not an expatriate should run a subsidiary has been a topic of International Human Resource Management (IHRM) research for nearly 30 years (Tung, 1982; Kobrin, 1988; Boyacigiller, 1990; Sohn, 1994; Banai, 1995; Wang et al., 1998; Downes and Thomas, 2000). IHRM examines the question of whether to send a parent country national (PCN) or to find a top manager in the host country, where the subsidiary is actually located (i.e. a host country national (HCN)). There is a variety of literature comparing PCN advantages over HCN (Edstroem and Galbraith, 1977; Hamill, 1989; Hendry, 1994; Negandhi, 1987; Root, 1986; Banai, 1992; Borg and Harzing, 1995).
However, the IHRM literature faces several shortcomings. Many studies in this area focus only on the PCN as the top managing director. Two exceptions in this field are the studies done by Boyacigiller (1990) and Tang and Maloney (2006). They investigated the ratio of expatriates to all employees in the subsidiaries. There are also multi-country research designs, where Japanese HRM – when included in all in the samples – normally compare IHRM staffing policies to other countries. Kopp, who contributed empirical research in 1994 also analysed staffing placement practices in three areas: Europe, Japan and the United States. Another multi-country study was done by Harzing in 1999 and 2001 who noted that: "It can also be concluded, that while Japanese MNCs continue to rely strongly on expatriates, European MNCs have localized their subsidiary management in the past two decades" (2001, 26). In these studies, however, data for a single country is only available to a limited degree. Furthermore, many studies examine policies but do not examine the actual staffing practices in place. There is therefore, a paucity of empirical research on international staffing (for an exception see Harzing, 1999, 2001; Thompson and Keating, 2004; Tang and Maloney, 2006). Finally, research undertaken in this field includes often times only small sample sizes, as shown by Tung's basic research in this field (1982) which consisted of only 144 companies. Other studies in this field also had a small sample size. Boyacigiller (1990) conducted research with only 84 cases, Kopp (1994) with 81 and Peterson et al., (1996) with only 29 cases. Tang and Maloney's (2006) research utilised a sample of only 284 companies.

Another string of research is country specific, even though it is only partly connected to Japan. However, if Japan is integrated into the research, it is not about foreign subsidiaries in Japan. As far as the authors are aware, IHRM studies related to Japan and to Japanese investment usually examine Japanese firms' conduct in overseas markets. That is, they investigate Japanese HRM in other countries (Belderbos and Heijltjes, 2005; Nakamura, 2005; Delios and Bjoerkman, 2000; Kranias, 2000; Belderbos, 1997; Rodgers and Wong, 1996; Belderbos and Sleuwaegen, 1996; Bartlett and Yoshihara, 1988; Beamish and Inkpen, 1998).
In our research on executive staffing practice patterns in foreign MNC subsidiaries located in Japan, we investigated the opposite viewpoint to what has been frequently presented in the literature until now. The present paper seeks to address this gap in the literature by testing, under carefully controlled conditions, several hypotheses on staffing practice patterns in the Japanese context (Attachment 1). This article provides the first empirical evidence concerning executive staffing practice patterns in foreign MNC

subsidiaries based in Japan. We not only investigated the issue of PCN as top managing directors but also the ratio of PCN to all members in the board room (later referred to PCN/Ratio). In contrast to Boyacigiller (1990) and Tang and Maloney (2006) who used a ratio of PCN to all employees company wide, we focus on the ratio in the boardroom of the subsidiary to the ratio of PCN to all board members.
In the next section, we describe our theoretical concept, followed briefly by an examination of Japanese HRM developments. In the proceeding section, we develop our hypotheses. After bringing together both our methodology and our results we will briefly examine MNCs and their country origin. Finally, we will present a conclusion that draws together the key findings presented in this paper.

The Theoretical concept

Early groundbreaking research on executive staffing policies was initially undertaken by Edstroem and Galbraith (1977). They developed a concept that gave concrete reasons why headquarters should send expatriates to a subsidiary located in another country (Borg, 1988). They found three motives and distinguished them as such: *to fill positions*, *to allow management development*, and to foster *organizational development.* In addressing the first motive, *to fill positions,* means that there is no country national available to fill this position. This first motive mainly concerns the lack of technical expertise amongst the people found in the host country, thus meaning that the MNC has to send its own managers to the subsidiaries.[1]

The second motive, centred on the idea of *management development*, means that the MNC would still prefer to send an expatriate even if qualified host country managers are available in the country where the subsidiary is located. The idea behind this idea is that such a policy brings experience to the expatriate manager, thus meaning that promising employees might be sent out as expatriates to subsidiaries which are located in other countries in order to receive valuable experience. After repatriation, they will be ready for bigger tasks worldwide, or at least to become a kind of *bridge maker* between the overseas subsidiary and the headquarters of the MNC.

Finally, the third motive for transferring managers to subsidiaries in foreign countries, so Edstroem and Galbraith state, is less related to the individual development of managers but rather to the overall development of the organization, so-called *organizational development. Organizational development* occurs when the MNC headquarters sends expatriates abroad to coordinating and/or controlling the business activities of the overseas subsidiary. Even if enough qualified HC-managers are available (the first motive) and there is no pressing need to develop managers (the second motive), the reasons underpinning sending a manager to an overseas subsidiary can frequently be based on this third motive.

We base our hypotheses on these three motives, as developed by Edstroem and Galbraith. Furthermore, in some cases where appropriate, we also integrate three other theories, such as transaction cost theory, agency theory and also use the resource based view. In the next section of the paper, we present the Japanese context.

Japan and human resources policies

In this section we want to present recent HR developments in Japan. Basically, we argue that the HRM system has dramatically changed and for foreign investors there are now new opportunities in regard to finding suitable senior Japanese managers.
Traditionally, the Japanese HRM 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 has been 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). In postwar Japan, the management pattern has been frequently identified as paternalistic where the employees relate to each other in similar fashion to a family. It can be said that up until now it was considered difficult to find appropriate senior Japanese managers.

Recently however, Japan has seen change in this area and HRM strategies have been modified to a large extent (Benson and Debroux, 1998; Takeuchi, 2005). Through the long economic recession in the 1990s and increasing global competition, there is high pressure on Japanese organizations to modify their policies and strategies in regard to becoming more open and more flexible in the HRM market. The government, especially the Ministry of Finance (MOF) is supporting a more flexible HR market, which can be achieved through both internal and an external policies. The internal policy is called *Shukko*, which describes a method by which companies are able to send their own employees without difficulty to other subsidiaries. Especially the bigger companies who rely on flexible HR policies welcome this initiative. Another external method is called *Hakken*, where employees are staffed by a third company. These third company based employees are employed within a flexible system and can easily be let go during times of economic difficulties. Normally contracts of *Hakken* employees cover only short time stays in the company.

Other changes are visible in the performance based and skill /knowledge based pay system, which is steadily becoming the dominant system in contrast to the previous seniority based pay system (Watanabe, 2000: 327). In recent years, Japanese managers are more flexible in changing companies than they were before the 1990s (Pascha, 2005). Overall therefore, the Japanese HRM system is changing dramatically, while also offering significant possibilities for foreign investors. Underlying this trend is the prevalence and importance of foreign direct investment (FDI) in Japan, widely acknowledged as the key driver behind these changes in HRM in Japan. One of the key ways nowadays that foreign companies can benefit from this more open HR market in Japan is that it is now easier to find high quality senior Japanese managers (HCN). In the following we provide some hypotheses to test executive staffing practice patterns in foreign MNC subsidiaries based in Japan.

Hypothesis

The purpose of this study is to find determinants for executive staffing practice patterns in foreign MNC subsidiaries based in Japan. Consequently, this paper analyzes determinants of PCN/Ratio in two ways. First, PCN appointments as top managing directors are investigated, and in the second step, the board ratio of PCN to all board members is investigated. We used the full range of 3241 foreign companies based in

Japan. To date, Third country nationals (TCN) have not been included in our study due to the small number in executive positions in foreign owned subsidiaries in Japan.

General part

In the general part, we test five hypotheses. First, we investigate the size of the subsidiary and examine whether the PCN prevalence differs. In regard to transaction cost theory, the larger the subsidiary the higher the investment risk for the headquarters. According to Edstroem and Galbraith, *organizational development* becomes increasingly important when the size of the subsidiary increases. Therefore, the bigger the subsidiaries the higher the investment is; thus meaning that the MNC should be more interested in controlling the subsidiary by sending a PCN to it (Boyacigiller, 1990; Harzing, 2001; Hamill, 1989). Our hypothesis is:

> *Hypothesis 1.1 PCN/Ratio subsidiary managers will be more prevalent in larger subsidiaries*

In our second hypothesis we investigated the issue of ownership ratio. In regard to Edstroem and Galbraith (1977), a higher ownership ratio leads to an *organizational development* motive for sending a PCN to the subsidiary; certainly transaction cost theory supports this idea. The higher the ownership share by the MNC in the subsidiary, the higher the financial risk becomes for the MNC. In this regard, PCN who are sent to Japan with an expatriate package receive extra benefits, like free housing, a free car etc. thus making them more expensive than Japanese top managers. Regarding transaction cost theory, an expatriate sent to Japan is assumed to be more expensive than a Japanese top manager and, therefore, will only be sent when the share of ownership is high. In other words, if a foreign MNC only has a low level of ownership share in the subsidiary, it should be less important to take the high risk and the high costs of sending a PCN to this subsidiary. Therefore, we are assuming that the PCN/Ratio will increase and become more prevalent as the ownership ratio itself increases. Our hypothesis therefore is:

> *Hypothesis 1.2 The PCN/Ratio will increase in line with a higher ownership share by the MNC.*

Our third hypothesis is concerned with the experience and knowledge of the subsidiary. Underpinning the motive of *position filling* is often the notion that PCN are more prevalent in younger subsidiaries. It can also be argued from the resource-based view, that young enterprises in the market can hardly attract Japanese top managers. One of the reasons could be that Japanese top managers, in cases where they plan to work for a foreign enterprise, are more attracted by well known companies. According to the resource-based view, PCN can serve as an initial liaison by the headquarters to the subsidiary. Harzing confirms that: "…transfer for communication reasons is likely to be more important for recently established subsidiaries, since the communication network with headquarters has to be build up from scratch" (2001, 10). Alternatively, the extent of prior knowledge could be one of the decisive factors for placing a HCN in the overseas

subsidiary (Gupta and Govindarajan, 2000). The resource-based view explicitly suggests that as the MNC gets more experienced in the host country, there is a good chance that PCN prevalence decreases. Younger subsidiaries could also use a PCN sent from headquarters to implement fundamental guidelines formulated at the headquarters of the parent company ((Harzing, 1999, 2001; Boyacigiller, 1990; Hamill 1989). Therefore, our hypothesis is:

Hypothesis 1.3 The PCN/Ratio is more prevalent in younger subsidiaries.

Our fourth hypothesis concerns industry specific characteristics. 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, therefore. In regard to *organizational development*, industries should differ in their HR-structure. Thus, resource-based theory suggests that a multinational firm is likely to rely more on the host country nationals when there is a greater need to obtain local knowledge. For example, there is high foreign investment in some industries like banking, where local knowledge is generally not as important as in other industries. From the agency's viewpoint, it should be easier to achieve a smooth alignment (especially for banks), when there is a high prevalence of PCN employees within the foreign-based subsidiary of the MNC bank. Our hypothesis therefore is:

Hypothesis 1.4 The PCN/Ratio will be more prevalent in bank subsidiaries than in other industries.

In regard to business contacts generated by the subsidiary with other countries, some researchers suggest that host country oriented subsidiaries have usually less necessity to receive PCN employees as they are unable to help in the local business market (Belderbos and Heijltjes 2005). According to 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 subsidiaries, the need to have PCN should be relatively low. According to the aforementioned *management development* motive by Edstroem and Galbraith (1977), PCN numbers should increase in line with export /import activities of the Japanese subsidiary. We investigated this question in regard to export and import activities of the subsidiaries, to establish whether PCN in export /import oriented subsidiaries are more likely to prevail. Therefore, we tested this hypothesis:

Hypothesis 1.5 PCN prevalence increases in line with the subsidiaries import and export activities

Cultural aspects

In the second part of our hypotheses on subsidiaries, we researched significant cultural aspects. The international business research literature has extensively used Hofstede's work on national character measurement (Hofstede, 1980, 1991). 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). Based on this seminal work, later research was carried out to analyze cultural distances between headquarters (firm's home country) and subsidiaries in host countries (Kogut and Singh, 1988; Erramilli, 1991, 1993; Agrawal, 1994).

We developed our aforementioned hypotheses using two of the four criteria: Power Distance (PD) and Uncertainty Avoidance (UA). Power Distance can be best described as the "…perception of the superior's style of decision-making and of colleagues' fear to disagree with superiors, and with the type of decision-making which subordinates prefer in their boss" (Hofstede, 1980, 92). The other criterion, the Uncertainty Avoidance Index, (UAI) is used by Kogut and Singh (1988) to explain entry choice into foreign countries. This index is low in societies where individuals accept uncertainty easier. We use this UAI developed by Hofstede too, to test whether countries with higher uncertainty avoidance more often send a PCN to their subsidiary to Japan. Our two hypotheses therefore are:

> *Hypothesis 2.1 Countries with higher Power Distance (PD) leads to an increase in the PCN/Ratio*
>
> *Hypothesis 2.2 Countries with higher Uncertainty Avoidance (UA) leads to an increase in the PCN/Ratio*

The third hypothesis using the idea of cultural distance covers several aspects in Japan. Cultural distance in this sense refers to the degree of difference that exists between a cultural climate a PCN finds in a Japanese city to an international cultural climate (to at least in other English speaking parts in the world). Higher cultural distance is associated with greater uncertainty. Managers in the heavily populated regions of Kanto (Tokyo, Yokohama etc.) and Kansai (Osaka, Kobe, Kyoto etc.) might not face big cultural difficulties as they can work within a large expatriate community. According to our data, almost all foreign subsidiaries are based in these two centres, 3083 to only 148 based in other areas. Interestingly, from our full sample of 3241 companies, there are 2838 foreign firms headquartered in the Kanto area (in or around Tokyo), while the Kansai region only plays host to 245. However, many foreign companies have their main subsidiary located in Tokyo and a second subsidiary located in Kansai (not shown in our data, however). Consequently, in big cities, like Tokyo or Osaka there are more Japanese business men who can speak English in contrast to local areas where only very few foreigners reside and even fewer foreign-owned businesses are present.

> *Hypothesis 2.3 The PCN/Ratio will be more prevalent in Kanto and Kansai as the cultural distance is smaller then in other areas of Japan.*

Methodology and research model

It is difficult to obtain enough valid information via surveys or interviews for this research; therefore, this data was gathered mostly from secondary sources (mainly through the *Gaishikei-kigyo soran*, 2003 digital data base). All information on executive staffing practice patterns used in this research targeted the top management level, including board members. In this sense, we concentrated on two areas. First, we investigated top managing directors who lead subsidiaries (what has been done, at least for other countries). Second, we investigated the ratio of parent country nationals as managers (Ratio) in the subsidiary board (an area not covered in the literature to date). The nationalities of the managers were classified by the managers' names as either PCN or HCN. Even if it is not 100% assured that the classification is always correct, previous testing using a smaller sample on German executives located in Japan-based subsidiaries obtained promising results (Bebenroth and Pascha, 2006).

Moreover, in our data of 3241 foreign subsidiaries in Japan, there were only 55 publicly listed foreign companies out of a total of 3189 foreign companies in Japan. The size of the companies (subsidiaries and MNC) 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 from the Website: http://www.geert-hofstede.com.

In the statistical analysis part we worked with two different models. For our research on senior managing directors we took binary data, PCN versus HCN, and used a logit regression model. This model relates to the probability of having a PCN to a set of explanatory variables X.

$$\text{Prob}(PCN=1) = \text{Exp}(\alpha+\beta X) / (1+\exp(\alpha+\beta X))$$

In our investigation of the Ratio we used the following multiple regression model:

$$\text{Ratio} = \beta_0 + \beta_1 * \text{Ln(Employee)} + \beta_2 * \text{Ln(Capital)} + \beta_3 * \text{Ownership} + \beta_4 * \text{Age} + \beta_5 * \text{Industry Dummy} + \beta_6 * \text{PDI} + \beta_7 * \text{UAI} + \beta_8 * \text{AreaE} + \beta_9 * \text{AreaW} + \varepsilon$$

Results

We present our regression results in table 1. On the left hand side, our results are presented using the logit model for explaining the decision to assign a PCN as a senior managing director. On the right hand side our results are presented using the simple multiple regression model as a method to investigate the Ratio.

Table 1 Logit regression and multiple regression results of PCN/Ratio

Variables	PCN		Ratio	
	β	Significance	β	Significance
General part				
Size of subsidiaries (Ln no. of employees)	-.003	.926	-4.86E-03	.402
Size of subsidiaries (Ln capital)	.071	.021**	1.53E-02	.002***
Ownership ratio	.034	.000***	4.91E-03	.000***
Age of subsidiary	.003	.489	8.66E-04	.107
Industry Dummy	-.368	.208	-7.37E-02	.110
Cultural distance				
Power Distance Index (PDI)	.027	.000***	4.68E-03	.000***
Uncertainty Avoidance Index (UAI)	.008	.005***	1.36E-03	.005***
Area difference Kanto to others	.680	.016**	6.40E-02	.048**
Area difference Kansai to others	.764	.018**	.103	.011**
Number	2684		2683	
Explanation	.127 (Cox & Snell)		.132	

* = 10% significance, ** = 5% significance, *** = 1% significance

Overall the empirical model performs well. We have explanation power with a pseudo-R^2 for our logit-model of 12.7% and for our multiple regression model of 13.2%.

Our first hypothesis, that PCN will be more prevalent in larger subsidiaries, is only partly confirmed, just measured by the size of capital but not in the number of employees (like other studies relied on, e.g. Harzing, 1999, 2001). Measured by capital, PCN assignment as top managing director was significant to 10% and the PCN-ratio was very significant at 1%.

The ownership share showed a significant positive result (1%) and supports our hypothesis pertaining to the PCN senior managing directors as well as for the Ratio. That means there is a clearly visible increase of PCN/Ratio in line with a higher ownership share. In our third hypothesis – testing for a correlation between the age of the subsidiary and a PCN/Ratio – we could not find any significance.

Our fourth hypothesis centred on the banking industry, did not show any significance regarding banks in our regression models. In an additional step, therefore, we tested for the financial industry as a whole using a correlation analysis.

Table 2 Correlation of PCN/Ratio to Industry Dummy

Industry Dummy	PCN-mean	Significance	Ratio-mean	Significance	Frequency
Other than banking Industries	.30	Mean 1＜ Mean2, .000***	.33	Mean 1＜ Mean2, .000***	3014
Financial industry	.51		.51		227
Total	.31		.35		1223

As can be seen in the table 2 above, PCN as senior managing directors in the financial industry are (with 51%) more prevalent than in other industries on average (with 30%). This holds for a significance of 1%.

Finally, our fifths hypothesis in the general part of this research deals with the correlation of Import/Export to the MNC/Ratio. The results are presented in the table below.[2]

Table 3 Import and Export

Variables	**PCN**		**Ratio**	
	β	**Significance**	**β**	**Significance**
Import	.009	.000***	2.37E-03	.000***
Export	.002	.746	1.47E-03	.059*
Number	647		646	
Explanation	.031		.092	

When investigating the correlation between the import/export ratio of the subsidiary and the PCN/Ratio, our research turned up some interesting results. PCN as top managing directors and their Ratio were highly significant in the import relationship (under 1%). This means that import related subsidiaries rely more frequently on PCN than what is suggested in the literature (Belderbos and Heijltjes, 2005).

For our hypotheses regarding culture, certain specific factors are in line with what we expected. We received support for a positive and significant correlation between PCN/Ratio and Power Distance Index and also for a positive and significant Uncertainty Avoidance Index (both with 1% significance). This means that countries with a high power distance and high uncertainty avoidance send statistically significant more PCN as senior managing directors to Japan, and that there is a higher Rate of PCN in their subsidiaries. This confirms our hypotheses on cultural aspects concerning foreign MNC subsidiaries in Japan.

Also, our results supported a correlation between culturally specific factors in Japan. Almost all foreign subsidiaries are based in the Kanto region, with more than 12-fold based in this central area in comparison to other regions. However, many branch offices are located in the Kansai region. The statistical significance (with 5%) supports our hypothesis that there is higher prevalence of PCN top managing directors in these two populated regions than in other rural areas in Japan (Attachment 2).

A Closer look at MNC size and country orientation

In this additional section on MNC size, we have only used a sample of 1223 companies. For the same reason as with Import/Export, we did not include MNC size in our main model (Table 1) for avoiding bias. Therefore, in this additional section we investigated the PCN/Ratio to the size of the MNC separately, testing with ANOVA-Analysis and using the t-test. In this additional part, we tested PCN/Ratio prevalence to the MNC firm size.

We tested our hypothesis for the size of the MNC in respect to the PCN/Ratio (Thompson and Keating, 2004). In accordance to Perlmutter (1969), internationalization strategies take several steps. The basic idea is that the size of MNC develops over time. At the beginning, the headquarters is still small and has, therefore, an ethnocentric strategy where decisions are done and controlled by the headquarters, subsidiary staffing policies are therefore closely aligned with the interests of the MNC headquarters. In this case PCN would be sent to subsidiaries. As the company becomes bigger in size, the MNC would turn to a more polycentric strategy, where HCN wield substantial influence in the subsidiaries. In the last stage, the MNC becomes a global player and undertakes a more geocentric strategy. With a geocentric strategy, the company appoints the best people it can find regardless of nationality or location. Our hypothesis assumed this would take a U-curve shape. In the regression part, however, we did not find any significance in regard to MNC size and prevalence of PCN/Ratio neither with the logit model nor with regression model (not reported in this paper). The PCN/Ratio was therefore, tested in groups using correlation analysis.

In table 4 we split the MNC into four groups. The smallest group contained fewer than 4,999 employees. The second group had more than 5,000 employees, while the third group had more than 20,000 and the fourth group more than 70,000 employees.

Table 4 Correlation of PCN/Ratio to MNC size

Group by MNC size	PCN-Mean	Standard Deviation	Ratio-Mean	Standard Deviation	Frequency
1 ～ 4999	.28	.45	.45	.35	295
5000 ～ 19999	.39	.49	.47	.36	283
20000 ～ 69999	.36	.48	.42	.34	297
70000 ～ 1383000	.28	.45	.30	.33	348
Total	.33	.47	.40	.35	1223

Table 4 shows that PCN as top managing directors in companies with fewer than 4,999 employees (our smallest group) as well as in our biggest MNC group with more than 70,000 employees have prevalence on average 28%**.** In contrast to this, companies ranging in size from 5,000 to 20,000 employees have on average a PCN prevalence of 39%, while companies with 20,000 to 69,999 employees have on average a PCN prevalence of 36%. The Ratio provides very similar results for all MNCs with fewer than 7,000 employees (42%-47% range). Bigger MNCs, such as the key global corporate players, surprisingly have a Ratio of only 30%.

To investigate whether there is a significant correlation between the different sizes of firms and the PCN as the top managing director, we used ANOVA analysis.

Table 5 ANOVA Analysis of PCN and MNC firm size

ANOVA

LSD

Dependent	(I) Group	(J) Group	Difference of Mean(I-J)	SE	Significance	95% Confidential Interval	
						Min.	Max.
PCN	1	2	-.11*	3.88E-02	.004	-.19	-3.45E-02
		3	-8.57E-02*	3.84E-02	.026	-.16	-1.04E-02
		4	-3.64E-03	3.69E-02	.921	-7.61E-02	6.88E-02
	2	1	.11*	3.88E-02	.004	3.45E-02	.19
		3	2.51E-02	3.88E-02	.518	-5.10E-02	.10
		4	.11*	3.74E-02	.004	3.38E-02	.18
	3	1	8.57E-02*	3.84E-02	.026	1.04E-02	.16
		2	-2.51E-02	3.88E-02	.518	-.10	5.10E-02
		4	8.20E-02*	3.69E-02	.026	9.69E-03	.15
	4	1	3.64E-03	3.69E-02	.921	-6.88E-02	7.61E-02
		2	-.11*	3.74E-02	.004	-.18	-3.38E-02
		3	-8.20E-02*	3.69E-02	.026	-.15	-9.69E-03
Ratio	1	2	-1.79E-02	2.87E-02	.533	-7.41E-02	3.84E-02
		3	2.51E-02	2.83E-02	.375	-3.04E-02	8.07E-02
		4	.15*	2.73E-02	.000	9.62E-02	.20
	2	1	1.79E-02	2.87E-02	.533	-3.84E-02	7.41E-02
		3	4.30E-02	2.86E-02	.133	-1.31E-02	9.91E-02
		4	.17*	2.76E-02	.000	.11	.22
	3	1	-2.51E-02	2.83E-02	.375	-8.07E-02	3.04E-02
		2	-4.30E-02	2.86E-02	.133	-9.91E-02	1.31E-02
		4	.12*	2.72E-02	.000	7.11E-02	.18
	4	1	-.15*	2.73E-02	.000	-.20	-9.62E-02
		2	-.17*	2.76E-02	.000	-.22	-.11
		3	-.12*	2.72E-02	.000	-.18	-7.11E-02

*. Statistically significant at .05

As can be seen in the table above, there is significance between the mean of group 1 and group 2, which is 1%. That means, there is a significant correlation to 1% between PCN as the top managing director and the size of the smallest companies of our sample (fewer than 4,999 employees) and the next bigger MNC (with fewer than 19,999 employees). The same situation applies to group 4 and 2 which also has a 1% significant correlation. The significance between group 1 and 3 is still 5%.

Next, we established only two groups with a separation line of 5,000 employees, where we integrated the bigger MNC (group 2, 3 and 4) into one single group. Here again, it appears there is a differences between these groups as, shown in the table 6 below.

Table 6 Correlation of PCN/Ratio to MNC size

Group by MNC Size	PCN-mean	Significance	Ratio-mean	Significance	Frequency
1 ～ 4999	.28	Mean 1＜	.45	Mean 1＞	295
5000 ～ 1383000	.34	Mean2,	.39	Mean2,	928
Total	.33	.046**	.40	.012**	1223

As can be seen in the table 6, smaller companies with fewer than 4,999 employees have a lower PCN but a higher Ratio (45%). In other words, smaller MNCs have only a prevalence of 28% PCN as top managing directors, however, they seem to compensate

for this through undertaking active staffing practice patterns strategy creating a higher Ratio of PCN in the boardroom of the subsidiary In contrast, he bigger MNCs with over 5,000 employees rely more often on a PCN as top managing director (34%), but have only a Ratio of 39%. By using the t-test we found a 5% significance between our smaller MNCs with fewer than 4,999 employees and the bigger companies with more than 5,000 employees.

In the second step of this research we analysed country specific elements. Interestingly, US companies had the lowest PCN/Ratio prevalence for all countries with subsidiaries in Japan, which was only 27%, the Ratio was even lower with only 22% on average. In contrast to this, Korea had the highest PCN/Ratio in their MNC subsidiaries in Japan with 82% for PCN and a Ratio of 81% (see attachment 3).

We then placed all foreign MNC subsidiaries into three groups, from English speaking countries, European and Asian as La Porta et al. (1999) did. It was clearly visible that MNCs from English speaking countries have on average the lowest prevalence of PCN/Ratio, whereas the PCN was 24% and the Ratio was only 28%. Asian MNCs counted for the highest PCN/Ratio, whereas the PCN was 68% and the Ratio was 69%. European firms were found somewhere in the middle with 38% of PCN in senior management, having a Ratio of 40%.

Table 7 Correlation of PCN/Ratio to Country of origin

Country Group	Frequency	PDI	UAI	PCN	Ratio
English speaking	1892	40.16	44.17	24%	28%
European	989	42.86	64.85	38%	40%
Asian	202	66.13	59.71	68%	69%
Total	3083	42.73	51.82	31%	34%

The PCN/Ratio is also in line with power distance and uncertainty avoidance. That is to say, the higher the power distance and the uncertainty avoidance factors the higher the prevalence of PCN/Ratio, with a high significance (1%) for all variables (see attachment 4: ANOVA-Analysis).

Finally, our study's limitations were clearly in line with most other investigations that have based their findings primarily on desk research. That is, a degree of uncertainty existed in ascertaining whether senior managers were really in fact Japanese nationals or not.

Another limitation of our data source was that only the top management position, seen as the president, was unambiguously visible in its position. Therefore, whether this person really holds the most powerful position in the firm is in reality open to debate. Some anecdotal evidence in Japan seems to suggest that it is not the first person in the hierarchy but others in senior management who hold the real power. 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 position of Chief Financial Officer (CFO). It is possible therefore, that a foreigner in this position could more or less control the subsidiary, even if the president were a Japanese national.

In spite of these limitations however, our study is the first comprehensive research on the issue of staffing practices and patterns in foreign MNC subsidiaries based in Japan.

Conclusion

We investigated several key determinants for executive staffing practice patterns in foreign MNC subsidiaries based in Japan. In this regard, we analysed the prevalence of PCN as senior managing directors and the ratio of PCN to all members in the boardroom.

As a result, we found statistical significance for PCN/Ratio in cases of high ownership share by the MNC. The significance of the ownership share was supported probably through the fact, that Japan is a very expensive country. Therefore, in cases where a PCN is transferred to Japan, the headquarters of the MNC might have been influenced by an *organizational development* motive. This means that the MNCs' headquarters might send PCN for control reasons to their Japan based subsidiaries. In contrast to other countries in Asia where it is less expensive to live, there might also be the motive of *managing development*. In this case, in relatively inexpensive countries expatriates can undergo professional development and are therefore groomed for an international career, but this example does not obviously apply to Japan.

We could not find significance for the correlation between the age of the subsidiaries and PCN/Ratio. In contrast to what is argued in the IHRM literature, the PCN/Ratio does not prevail in younger foreign MNC subsidiaries based in Japan. In the banking industry we could not obtain any significance in our regression. However, in a separate correlation test we showed that PCN as top managing directors prevail on average with 51%, which stands in stark contrast to all the other industries with an average of 30%. In the area of Import/Export, we also found high significance for import related subsidiaries (to 1%). In regard to import /export, we 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 are no suitably trained local staff available. Also the second motive, *management development* could be applicable at stronger import based subsidiaries, as the subsidiary will benefit in cases where managers from the MNC are trained at the subsidiary.

The PCN/Ratio regressed to cultural specific aspects measured by Power Distance Index and Uncertainty Avoidance Index, showing significance to 1%. MNC from countries with high power distance and high uncertainty avoidance have a higher prevalence of PCN/Ratio in their subsidiaries in Japan. Also in our other hypothesis about cultural-specific aspects in Japan, we can show that there is a statistically significant higher PCN/Ratio prevalence in the two big areas in Japan, namely the Kanto and Kansai regions.

In regard to our additional MNC related research, using a separate model and a sample of 1,223 MNCs, we reached the conclusion that we are unable to support the theory that in bigger companies a higher PCN/Ratio prevails. Like Thompson and Keating in their study of Ireland, we could not find any significance between the size of the MNC and the prevalence of PCN/Ratio. But when we divided companies based on their sizes into two groups, we were able to show that there is higher prevalence of PCN as senior managing directors in companies with over 5,000 employees. In contrast to this, in smaller companies under 5,000 employees, we found a higher Ratio. This means that bigger

companies more frequently send PCN as senior managing directors, whereas smaller companies might rely on a Japanese head, but will more often send a board manager to the subsidiary (i.e. a higher Ratio).

Finally, we investigated country specific aspects for all major investors in Japan and their ownership share in the subsidiary. North American MNCs had, surprisingly, the lowest Ratio (with 22%) as well as the lowest score worldwide for PCN as their top managing directors (27%). Additionally, when we placed all the countries into three groups, we found that English speaking countries had the lowest PCN/Ratio prevalence (with 24% and 28% respectively), and Asian countries had the highest (with 68% and 69% respectively), while European countries were in the middle (with 38% and 40% respectively). By using ANOVA-Analysis, we showed that these findings are in line with the power distance and uncertainty avoidance for all three groups between every two variables.

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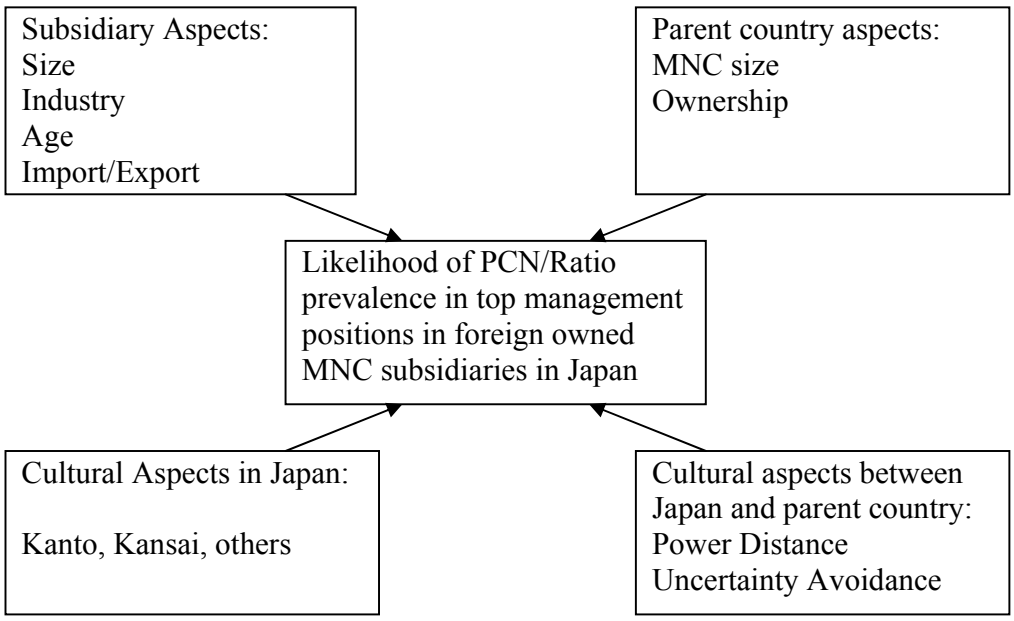
Attachments 1-4

Attachment 1 Likelihood of PCN/Ratio



Attachment 2 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.	95% Confidence Interval 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

Attachment 3 Cultural specific characteristic

Country	Frequency	PDI	UAI	PCN	Ratio
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%
Korean	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%

Attachment 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

[1] It is to mention that their study focused on third world countries where first world MNCs invest in.

[2] We did not include Import/Export variables in our main logit/multiple regression models (Table 1), as we could get data only from 647 subsidiaries. Therefore, we avoided bias influence by Import/Export variables to our main models.