



Discussion Papers In Economics And Business

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March 2010

この研究は「大学院経済学研究科・経済学部記念事業」
基金より援助を受けた、記して感謝する。

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American, European and Asian MNCs in Japan^{*}

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Abstract

Using archival data published in 2003 and 2007, we investigated factors that influence the change of nationality of the most senior executives in foreign affiliates of MNCs operating in Japan. Our results show that as the length of operation in Japan increases, the likelihood of a non-Japanese top executive in the affiliate being replaced by a Japanese top executive, was higher than that of a Japanese top executive being replaced by a non-Japanese top executive. We also found that when an affiliate had a Japanese top executive at time one, it was more likely that a non-Japanese executive replaced the person if the affiliate's foreign ownership ratio increased at time two. In addition, there were notable differences between affiliates of Asian, North American and European MNCs in top executive staffing patterns of Japanese affiliates. Implications from this study and future research directions are discussed herein.

JEL Classification: F23, M12, M16

Keywords: MNC, foreign affiliate, top executive, Japan

^{*} This research has been supported by the Grand-in-Aid for Scientific Research (No. 20530341), The Ministry of Education, Culture, Sports, Science and Technology, Japan.

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INTRODUCTION

Top executives of the firm have substantial influences on corporate strategy, operation and performance. Theories of executive leadership and the upper echelon's perspective both suggest that it is possible to predict top executives' behavior and strategic decisions from their demographic background (e.g., Hambrick & Mason, 1984; Ireland & Hitt, 1999). Therefore, top executives' demographic background is an important research theme.

This argument has been applied to the studies of foreign affiliates' top executives of the multinational corporation (MNC). Their demographic characteristics, especially nationality, are likely to have a great influence on determining the management style and operational decisions of MNC affiliates (Gong, 2003b). From the human resource management standpoint, the nationality of the top executive influences his/her decision-making about the characteristics of workforce who are recruited and retained in the affiliate. Thus, the replacement of a top executive by another one with another nationality can cause significant changes in the overall characteristics of the affiliate firm. More importantly, top executives of foreign affiliates play a critical role not only at the local level but also for the success of the entire MNC. This is because they are expected to contribute to MNC-wide strategy by acquiring knowledge on local business opportunities and competitions as well as by developing local resources and capabilities (Bartlett & Ghoshal, 1989).

However, the extant literature on executive staffing of foreign affiliates only provides the snap shot at one point in time. Apart from few exceptions (e.g., Downes & Thomas, 2000) the extant research has not investigated staffing pattern from a dynamic perspective. Hence, the research on what triggers the *change* in staffing is currently missing from the literature. In order to fill this gap, we investigate factors that influence MNCs' executive staffing decisions by studying *changes* of affiliate top executives' demographic background.

Our study is unique, as we theorize and empirically test the dynamic process of the

top executive change thus contributing to the field of international human resource management (IHRM). This paper focuses on nationality as the demographic background of top executives of MNC affiliates (subsidiaries and branch offices) operating in Japan. It also compares MNC affiliates from different geographic regions—namely, North America, Europe and Asia—and examines differences in terms of the executive staffing patterns and changes of top executives' nationalities over two points in time.

This paper is organized as follows. First, we review the literature on the executive staffing of MNC affiliates, identify the current state of the research stream, and identify the research gap. Second, the Japanese business context is discussed and hypotheses of this study are developed. Third, the results of empirical examinations of our data are reported. Finally, implications for research and practices are discussed.

LITERATURE ON THE EXECUTIVE STAFFING OF MNC AFFILIATES

Researchers in the IHRM field have investigated the roles and determinants of MNCs in sending expatriates to foreign affiliates. A seminal study by Edström and Galbraith (1977) offers a theoretical framework that explains MNCs' use of expatriate managers to: (1) fill affiliate positions due to the difficulty of finding qualified local managers, (2) develop capabilities of managers through international experience, and (3) develop affiliates in order to be controlled by MNC headquarters.

The third aspect—sending expatriate managers as agents to control foreign affiliates—has been explored in depth in recent years. It has been suggested, for instance, that there are different types of control through expatriates, from direct and formal ones to more informal ones by fostering socializations and informal communications (Harzing, 2001a). Based on agency theory (Eisenhardt, 1989), researchers have demonstrated that cultural distance (Gong, 2003a) and institutional distance (Gaur, Delios, & Singh, 2007) between a headquarters and an affiliate are related to using expatriates as agents to control an affiliate.

Other researchers examined the role of total capital investment and ownership ratio as indicators of control from MNC headquarters. Consistent with this view, Widmier, Brouthers and Beamish (2008) have found that total capital investment to subsidiaries is positively related to the percentages of Japanese expatriates in the foreign affiliates. Likewise, Bebenroth, Li and Sekiguchi (2008) have found that the higher ownership ratio is, the more expatriates are assigned as top executives in Japanese affiliates of MNCs. Based on the knowledge-based view of the firm (Grant, 1996; Nickerson & Zenger, 2004), which perceives firm knowledge as an important source of competitive advantage, researchers suggest that expatriate managers play a critical role as knowledge agents between an affiliate and other units of an MNC (Hocking, Brown, & Harzing, 2007; Minbaeva, 2005).

While there are advantages in sending expatriates to foreign affiliates, there are also compelling reasons for MNCs to consider hiring local executives instead. It is well known that sending expatriates is extremely costly because MNCs have to pay various benefits to expatriates (e.g., Dowling, Schuler, & Welch, 1994). On the other hand, local managers' familiarity to the local market and business practices brings value to successful management of foreign affiliates (Harzing, 2001b; Toh & DeNisi, 2005). In addition, local executives are more effective in understanding local institutional rules and obtaining legitimacy, and have more skills to manage local employees (Sekiguchi, Bebenroth, & Li, forthcoming). By staffing a local manager as the top executive of an affiliate, there will be a positive signaling effect for local employees at the middle or lower levels of the affiliate. The literature suggests that employees are generally more motivated when they recognize that there are opportunities for them to be promoted to senior management levels (Daniels & Radebaugh, 1998; Gong, 2003a).

Reconciling the pros and cons of using expatriates or local managers is determined by the MNC's international strategy. One of the classic theoretical frameworks in this area is the

typology developed by Perlmutter (1969), in which affiliate staffing policies are identified in relation to the MNC's international strategy. He suggested that an MNC with ethnocentric attitudes towards internationalization adopts a staffing policy where all top-level managerial positions in both affiliates and headquarters are filled by people from the parent country of the MNC. MNCs with polycentric attitudes, or MNCs that acknowledge the importance of local business values and cultures, tend to employ host country nationals for managerial positions in affiliates. MNCs that adopt geocentric attitudes, or emphasize collaboration between headquarters and subsidiaries, tend to employ people of from all around the world.

The effect of MNC's international strategy on executive staffing of affiliates has been examined empirically. For example, using survey data collected from the affiliates of Japanese MNCs operating in Korea, Ando, Rhee, and Park (2008) have found that the level of global integration and the degree of centralization of decision-making are positively related to assigning Japanese expatriates as executives of Korean affiliates. The size of affiliates, usually measured by the number of affiliate employees, is also related to MNCs' international strategy. Using their Irish data, Thompson and Keating (2004) have found that prevalence of parent country nationals decreases as the affiliate becomes larger and that the probability of having a parent country national as top executive is lower on average in larger affiliates.

While most empirical studies give us just a snapshot of MNCs' staffing policies of their affiliates at one point in time, several studies imply that the accumulation of MNCs' local experience over time, measured by the length of operation in host countries, may influence their affiliate staffing policies. Using the data on subsidiaries of Japanese MNCs in 40 host countries, Widmier et al. (2008) have found that MNCs' length of operation in host countries is negatively related to the expatriate staffing ratio. Likewise, Thompson and Keating (2004) obtained partial support for the negative relationship between the length of

operation in a host country (Ireland) and the use of expatriates. Ando et al. (2008) have found that the effects of the global integration and centralization of decision-making on sending expatriates to fill affiliate executive positions became weaker as the affiliate's length of operation increased. Gong (2003a) has also found that the effect of cultural distance on the tendency of MNCs to use expatriates in overseas affiliates became weaker over time.

Drawing from Franko's (1973) theory of the evolution of the MNC, Downes and Thomas (2000) theorized the U-curve approach to overseas staffing. They have explained that firms will gradually increase expatriate population at their foreign affiliates in the initial stage of internationalization in order to expand their knowledge-base overseas. They have also suggested that the use of expatriation will diminish in the second stage as knowledge and experience of host countries are gained and accumulated within the MNC. However in the third and more mature stage of internationalization, they suggest that the expatriate population will increase again. Their empirical data generally supported their propositions.

Although the above-mentioned studies incorporated the idea of change over time in their studies, they are based on cross-sectional data. To our knowledge, there is hardly any study that has investigated dynamic, changing process of affiliate top executive staffing in relation to MNCs' strategic components such as size, capital investment, or ownership ratio of the affiliate. Therefore, we endeavor to address the effect of dynamic change process by using longitudinal data.

THE CURRENT STUDY

To address the research gap in the area of executive staffing of MNC affiliates this study focuses on the change of top executive nationality over time in Japanese affiliates of MNCs. By focusing on the Japanese context, the current study also addresses another gap in the literature—that is, the scarcity of studies that examine MNCs from multiple regions. To date, many researchers have studied Japanese MNCs' affiliate executive staffing (e.g., Ando

et al., 2008; Belderbos & Heijltjes, 2005; Delios & Björkman, 2000; Gong, 2003a; Widmier et al., 2008). However, there are few studies that examine MNCs from various different countries-of-origin (for exceptions see Bebenroth et al., 2008; Harzing, 2001b). Our study is unique in the sense that it explores MNCs from diverse countries-of-origin operating in one host country (i.e., Japan). By selecting a particular host country, we are able to incorporate several local contexts, as described below, into our hypothesis and subsequent analyses.

First, affiliates of foreign MNCs operating in Japan are called *gaishikei* in Japanese, meaning “foreign affiliated”. They tend to be perceived by business people and job seekers as a single cluster of firms that have distinctive characteristics compared to those of conventional Japanese firms. This is because conventional Japanese firms are relatively homogeneous in terms of management style, including employment policies. The homogeneity in management style derives from the country’s population structure and language used in business, education, and daily life. The Japanese population’s ethnic background remains very homogeneous compared to many other Asian and Western countries (e.g., Oyserman, Coon, & Kimmelmeier, 2002). Of the total population, 98.4% are Japanese who speak Japanese as their first language (Immigration Bureau of Japan, 2006). Almost all firms in Japan, including MNC affiliates, use Japanese language in daily business. It is very rare for Japanese people to use English on a daily basis unless they are in job positions that require interactions with overseas.

Second, the homogeneity and collectivistic nature of the Japanese society is considered a reason behind the development of strong institutional environment in business and employment practices, which most of the firms, including MNC affiliates follow (e.g., Robinson, 2003). For example, it is often pointed out that a large proportion of Japanese human resource practices, such as long-term employment, seniority-based wage and promotion, and enterprise unionism (OECD, 1973; Sano, 1995; Sekiguchi, 2006) are

embedded in the unique characteristics of the Japanese context.

With these contexts in mind, we expect that the nationality of a top executive of an MNC affiliate would have a great impact on strategic decision-making, management styles, operational procedures and workplace climate of the affiliate in Japan. For example, if the top executive is Japanese, the Japanese affiliate may have more autonomy, more Japanese style management, and more Japanese atmosphere and climate. If the top executive is non-Japanese on the other hand, the affiliate may be controlled much more by the MNC parent and, thus, has a management style, atmosphere, and climate that are more similar to those of the parent.

We also anticipate that there are significant differences in executive staffing patterns and factors that cause nationality changes of top executives at Japanese affiliates according to different countries-of-origin of the MNC. There are about 3300 MNC affiliates in Japan (Toyo Keizai Shimposha, 2007). Of these, about 48% of MNCs are North American, 40% are European, 10% are Asian, and the rest are from other regions. While North American and European countries are culturally closer to each other, they are culturally more distant from Asian countries (Hofstede, 2001). Geographic distances from these regions to Japan also differ considerably. The cultural distance and/or physical distance between countries-of-origin and the host country (i.e., Japan) may result in different executive staffing patterns (e.g., Gong, 2003a). Moreover, Asian MNCs are relatively new to internationalization compared to the North American and European counterparts (Mathews, 2006). This may also result in different executive staffing patterns.

Based on these theoretical and contextual discussions, we will develop our hypothesis in the next section.

HYPOTHESIS DEVELOPMENT

The Direct Influence of the Length of Operation

We predict that an affiliate's length of operation in Japan has a direct influence on the change of nationality of the affiliate's top executive over time. This is because, if a Japanese affiliate of an MNC has a non-Japanese top executive, the pressure to replace the executive with a Japanese will increase over time as the affiliate matures. As the length of operation in Japan increases and the MNC's experience in Japan accumulates, the importance of expatriates in filling the top executive position at the Japanese affiliate as a control agent of the MNC parent will likely decrease. The headquarter-affiliate relationship will be strengthened over time, and for example, knowledge exchange between the affiliate and the rest of the MNC will become smoother and more effective over time. This will enable a Japanese executive to replace the role of expatriate executive.

In addition, Japanese executives likely have better skills to manage local employees than non-Japanese ones and are more likely to receive local legitimacy (Gong, 2006). Institutional theory suggests that organizations seek to obtain legitimacy and respect from stakeholders by following institutional rules, and failing to obtain legitimacy will decrease the chance of organizational survival (e.g., Meyer & Rowan, 1977; Scott, 1995). Expatriate top executives are less experienced than local ones in host countries, indicating that they are less effective in understanding local institutional rules and obtaining legitimacy. Furthermore, as their experience in Japan is accumulated, affiliates will have a better knowledge about the Japanese labor market, which increases the probability of finding talented Japanese managers for their top executive positions.

This prediction is consistent with extant literature that has theorized and tested negative association between the length of operation in local countries and the use of expatriates by cross sectional data (e.g., Thompson & Keating, 2004).

In contrast, the length of operation may not have much influence on MNC affiliates with Japanese top executives to replace them with non-Japanese ones. This is because such affiliate firms might have already replaced non-Japanese top executives with Japanese ones in the past. In this case, affiliates will continue to employ Japanese top executives in order to manage the firm effectively. Downes and Thomas' (2000) U-curve model suggests that some firms may replace Japanese top executives with non-Japanese ones as the internationalization stage proceeds further and affiliate firms become more mature. Yet, it is less likely for Japanese affiliates because not many MNC affiliates are likely to have reached the later or final stage of the internationalization process.

We extend the discussion regarding the effect of operation lengths on foreign affiliate executive staffing by focusing on the *change* of executive nationality of affiliate firms based on a set of longitudinal data. Thus, we hypothesize:

Hypothesis 1: As the length of operation in Japan increases, the likelihood that a non-Japanese top executive of the affiliate be replaced by a Japanese one will become greater than the likelihood that a Japanese top executive be replaced by a non-Japanese one.

Motivation to Replace a Non-Japanese Top Executive with a Japanese One

When MNCs currently have non-Japanese top executives to manage their Japanese affiliates, such MNCs would be motivated to replace affiliate top executives with Japanese ones. Other than the simple effect of the length of local operation as predicted in the previous hypothesis, we posit that there are two major factors that motivate MNCs to replace non-Japanese executives with Japanese ones. The first factor is expansion of the local operation and the second one is increase of the level of affiliates' autonomy.

MNCs will expand local operation when headquarters want to explore the possibility of local business expansion. For instance, MNCs may expand their local sales operation in a country with a large market. The Japanese market has been an attractive one for many MNCs because the Japanese economy has been the second largest in the world for the most part of

the last 30 years. Hence, MNC headquarters may regard its Japanese affiliate as a strategic asset source for the entire MNC. Another example of expansion of local operation occurs when MNCs transfer their product development function to host countries in order to take advantage of the local research and development (R&D) capabilities (Cantwell & Mudambi, 2005; Nobel & Birkinshaw, 1998). Japan's total R&D expenditure (calculated on purchasing power parity basis) maintains the second largest in the world (MEXT, 2009). In addition, the R&D expenditure in the country's gross domestic products (GDP) has been the world's highest from 1990 to 2004 (MEXT, 2006). Hence, MNCs may decide to take advantage of the local R&D capability by placing R&D functions in Japanese affiliates.

In these scenarios, Japanese affiliates will likely increase the number of employees, usually through hiring more local people who are knowledgeable about the local market and local business practices. Intertwined with the expansion of host country operations, MNCs may also invite more local shareholders to invest in the affiliate so as to gain local financial resources in enhancing local operations. This may be especially so when MNCs lack financial resources to increase capital investment of the local operation.

MNCs will grant foreign affiliates greater autonomy when they adopt multidomestic strategy. This occurs when MNCs try to achieve maximum local responsiveness by customizing both their product offering and marketing strategy to match different national conditions (Bartlett & Ghoshal, 1989). For example, headquarters may perceive the affiliate location strategically important as a unique market, thus having location-specific advantages by increasing local responsiveness. Another possibility where the affiliates will obtain higher autonomy is associated with the process of subsidiary-driven charter extension (SDE) (Birkinshaw & Hood, 1998). SDE is the process in which foreign affiliates are successful in convincing their parent firms to allow them more autonomy as well as more resources. However this process is not always desirable for headquarters as it relates to lowered control

over a subsidiary. Another explanation for the increase of affiliate autonomy is that it is associated with headquarters' preparation for the withdrawal or exit from local operation. MNCs may consider exiting from the local operation because headquarters may no longer consider that particular local market as a strategically important location, even if local business itself is still in a good condition. Yet another explanation is that local shareholders or business partners are eager to take over affiliates' operations.

In these scenarios, the advantage of hiring Japanese top executives instead of non-Japanese executives will become higher. When the number of Japanese employees increases in a Japanese affiliate, for example, the top executive of the affiliate needs to be able to manage Japanese employees effectively. In addition, the affiliate's top executive needs to be knowledgeable about the Japanese context in order to be responsive to local business opportunities in both cases of business expansion and increase of autonomy. Furthermore, the affiliate may be motivated to introduce more local mood and atmosphere in the workplace as to attract more attention of local shareholders and also to attract local employees. Top executives play an important role in creating such mood and atmosphere (e.g., Walter & Bruch, 2008).

Based on these discussions, we predict that an increase in number of employees and a decrease in foreign ownership ratio will associate with the replacement of non-Japanese top executives with Japanese ones. Thus, we hypothesize:

Hypothesis 2a: A non-Japanese top executive will be more likely to be replaced by a Japanese one if there is an increase in the number of employees.

Hypothesis 2b: A non-Japanese top executive will be more likely to be replaced by a Japanese one if there is a decrease in the foreign ownership ratio.

Motivation to Replace a Japanese Top Executive with a Non-Japanese One

There are at least two factors that motivate MNCs to replace Japanese top executives with non-Japanese. The first factor is the tightening of the control over an affiliate by a

headquarters; and the second factor is the reduction of the service for Japanese customers.

One possible scenario for MNCs increasing the control of foreign affiliates is the adoption of global integration strategy in which MNCs centralize and standardize business operations at the headquarter level (Bartlett & Ghoshal, 1989). In global integration strategy, MNC headquarters aim to transfer standardized know-how, operational routines and other resources to promote integration. More coordination and control will become necessary in these processes. To achieve this, MNC headquarters will likely tighten control over its Japanese affiliate. The headquarters may gain a higher level of control by increasing its ownership ratio. Affiliates' foreign ownership ratios will be increased through additional capital investment by headquarters or headquarters' purchase of stocks from local shareholders.

Another possible scenario for MNCs to increase the control of foreign affiliates is to improve the business performance of affiliates that have not been operating profitably. Headquarters may become skeptical about the competence of Japanese top executives of affiliates with low performance and, hence, may no longer trust them for managing affiliates. An increase in the level of control may also be accompanied by an increase of headquarters' ownership ratio of the affiliate, resulting in the reduction of Japanese ownership ratio.

Yet another possible scenario is when MNCs decide to change roles of foreign affiliates to reduce the level of services for local customers. Instead of locating a large subsidiary, the MNC headquarters may prefer to place a small branch office with the simple role of sending local information to the headquarters. Such a branch may exist solely for MNC parent country nationals to visit Japan to conduct business meetings; they do not provide service to Japanese customers. If MNC headquarters want to change the role of Japanese affiliates from serving Japanese customers to more like small branch office, there will inevitably be a reduction of employment at the Japanese affiliate.

In these scenarios, accompanied by the increase of foreign ownership ratio and/or the decrease of the number of employees, advantages of having non-Japanese top executives instead of Japanese ones will increase. For example, non-Japanese top executives sent from MNCs' home countries would be more effective for maintaining close communication ties with headquarters that facilitate coordination and control (Gaur et al., 2007; Gong, 2003a; Hocking et al., 2007). In short, in these circumstances, the top executive of the affiliate is likely be replaced by non-Japanese who will act as an agent on behalf of the headquarters. In addition, non-Japanese top executives are more preferable in the case of serving foreign business partners and parent country nationals, who travel from home countries, with the absence of serving Japanese customers or Japanese business partners.

Based on these discussions, we hypothesize:

Hypothesis 3a: A Japanese top executive will be more likely to be replaced by a non-Japanese one if there is a decrease in the number of employees.

Hypothesis 3b: A Japanese top executive will be more likely to be replaced by a non-Japanese one if there is an increase in the foreign ownership ratio.

Comparison between North American, European and Asian MNCs

As discussed earlier, we anticipate significant differences in executive staffing patterns depending on MNCs' countries-of-origin. Factors that cause nationality changes of affiliates' top executives are also likely depend on the countries-of-origin.

We posit that MNCs from North America and Europe, or 'Western' MNCs, are more similar to each other rather than different from each other in terms of executive staffing. We also expect that MNCs from Asian countries are significantly different from their North American and European counterparts in executive staffing of foreign affiliates. Specifically, we predict that Asian MNCs rely more on non-Japanese top executives, and on parent country nationals in particular, than North American and European counterparts. Furthermore, we predict that Asian MNCs are less likely to replace their non-Japanese top executives with

Japanese ones compared to North American and European counterparts.

There are at least two good reasons to predict in this way. First, Asian MNCs are often considered late- and new-comers in the global economy (Mathews, 2006). As a result of accelerated internationalization, the degree of globalization, or “having a broad and deep penetration of foreign markets across the world” (Rugman & Verbeke, 2004: 3), of Asian MNCs tend to be lower than those of North American and European counterparts from more industrialized nations (Mathews, 2006). Thus, Asian MNCs are likely to have ethnocentric policies towards affiliate staffing, resulting in a heavy reliance on parent country nationals to manage foreign affiliates (Perlmutter, 1969).

Second, the geographic distance between Japan and countries in which MNCs are headquartered is another factor for our prediction. Headquarters of Asian MNCs are located geographically closer to Japan than those of North American and European counterparts. This means travel cost and time to and from Japan is relatively small for Asian MNCs. Therefore, it is easier and less costly for Asian MNCs to send their parent country nationals to Japan as top executives. Due to the geographical proximity and the cultural proximity between Asian countries and Japan, it would be easier for Asian MNCs than North American and European counterparts to assign parent country nationals to lead the Japanese affiliates. In addition, it would be easier for Asian MNCs than for North American and European counterparts to recruit their home country nationals who are foreign residents living in Japan. In fact, Korean and Chinese account for over 50% of foreign resident aliens (Immigration Bureau, Japan, 2006). It may also possible to find many other Asian people currently living in Japan. MNC affiliates in Japan may find these people attractive in filling in their top executive positions because they know both about their home countries and Japan very well. Therefore, the affiliates may seek to select foreign residents in Japan as top executives.

From these reasons, we would argue that Asian MNCs tend to have non-Japanese top

executives to manage their Japanese affiliates. Thus, we hypothesize:

Hypothesis 4: Asian MNCs will rely more on non-Japanese top executives and are less likely to replace them with Japanese executives compared to North American and European counterparts.

METHOD

Sample

We obtained data from the electronic versions of *Gaishikei-kigyo Soran* (or *Directory of Foreign-affiliated Corporations in Japan*), published in 2003 and 2007 (Toyo Keizai Shimposha, 2003; 2007). We identified 3,244 Japan-based MNC affiliates that were listed in both 2003 and 2007 directories. Industries of the affiliates include wholesale (23.6%), telecommunication (11.6%), retail and service (10.7%), finance and insurance (9.4%), steel and metal (8.7%), medical and chemistry (7.5%), electronics (7.3%), machinery (6.7%), automobile (4.4%) and others (10.1%). MNCs in our sample are from 50 different parent countries, which include USA (46.7%), Germany (10.4%), UK (7.5%), France (7.1%), Switzerland (5.3%), South Korea (2.6%), Netherlands (2.3%), Hong Kong (2.1%), Italy (1.8%), Sweden (1.8%), China (1.7%), Canada (1.4%), Taiwan (1.4%) and others (7.9%). The average number of people employed by the affiliate was 226 in 2003 and 256 in 2007. The affiliate's average foreign ownership ratio was 82.0% in 2003 and 86.5% in 2007. The affiliate's average capital was 2.24 billion yen in 2003 and 2.56 billion yen in 2007. The affiliate's average length of operation in Japan was 22 years as of 2003.

Measures

The nationality of the top executive of each affiliate was determined by examining the name of the executive. The authors independently examined the nationality of the executives and the results were matched later. The inter-rater agreement was 99%. The authors then discussed the conflicting judgments and reached the final consensus. Due to the relative ease in differentiating Japanese names from those of other cultures, previous studies that utilized

the same method also yielded a high level of reliability that is similar to the current study (e.g. 97% to 100% inter-rater agreement) (Gong, 2003a; Harzing, 2001b). The nationality was dummy-coded with 1 for non-Japanese and 0 for Japanese.

The change of nationality of the top executive (dependent variable) was identified whether a Japanese top executive in 2003 was replaced by a non-Japanese one in 2007, or a non-Japanese top executive in 2003 was replaced by a Japanese one in 2007. The change in the number of employees for each affiliate (independent variable) was computed by subtracting the number of employees in 2003 from that in 2007, which was then divided by the number of employees in 2003. The change of ownership ratio (independent variable) for each affiliate was computed by subtracting the ratio in 2003 from that in 2007.

Control Variables

Control variables in this study include industry, the number of years of the Japanese operation, the amount of capital invested in the affiliate, the number of employees, foreign ownership ratio, and regions where MNCs are headquartered. To control for the industry effect, 10 dummy variables were created representing different industries. To control for the country-of-origin of MNCs, we created three dummy variables representing North American, European, and Asian regions.

RESULTS

Means, standard deviations and correlations of key variables under study are presented in Table 1.

Insert Table 1 about here

Table 2 presents the cross tabulation and transitional matrix of nationalities of top executives in 2003 and 2007 for the complete sample. Table 3 presents cross tabulations and transitional matrices of regional samples based on the MNCs' countries-of-origin (i.e., North

America, Europe, and Asia). The rows of the cross tabulation show whether a top executive of an affiliate was Japanese or non-Japanese in 2003 and the columns show whether an executive was Japanese or non-Japanese in 2007. The transitional matrix shows the proportion of Japanese and non-Japanese top executives in 2007 for each category in 2003. In other words, it illustrates how much proportion of executives' nationality changed or remained the same between 2003 and 2007.

Insert Table 2 and 3 about here

The cross tabulation in Table 2 indicates that a majority of the Japanese affiliates (56.1%) had Japanese top executives in both 2003 and 2007. About 26.5 percent of affiliates had non-Japanese executives in both 2003 and 2007. About 20 percent of the affiliates replaced Japanese executives by non-Japanese ones or vice versa. Hypothesis 1 predicted that a non-Japanese top executive in an affiliate at time one would be more likely to be replaced by a Japanese one at time two than a Japanese top executive is replaced by a non-Japanese one. The transitional matrix in Table 2 indicates that the proportion of non-Japanese executives in 2003 being replaced by Japanese ones is higher (.22) than that of Japanese executives being replaced by non-Japanese ones (.15). According to the result of Chi-square test, the difference between the proportions was statistically significant ($\chi^2 = 21.65$, $p < .01$). Thus, Hypothesis 1 was supported.

We conducted further analysis using the regional samples (i.e., North American, European and Asian samples) and made some interesting findings. First, the majority of the Asian MNCs (66.0%) have non-Japanese top executives in both 2003 and 2007 as shown in cross tabulations in Table 3. This is in sharp contrasts to the North American and European samples. According to the Chi-square test results, the North American sample clearly support Hypothesis 1 ($\chi^2 = 48.47$, $p < .01$) and European samples provides marginal support for

Hypothesis 1 ($\chi^2 = 2.64, p < .10$). However, the Asian sample does not support Hypothesis 1. The results show that Asian MNCs of our sample hardly replaced their non-Japanese top executives with Japanese ones, which renders support for Hypothesis 4.

A series of logistic regression analyses were conducted in order to test our Hypotheses 2 and 3 because dependent variables for these hypotheses are dichotomous (i.e., Japanese or non-Japanese). We split the complete sample into two groups. One group consists only of the affiliates that had non-Japanese top executives in 2003. Another group consists only of the affiliates that had Japanese top executives in 2003. Table 4 presents the results of logistic regression analysis of the complete dataset. Control variables only were included in Models 1 and 3 as the first step. Independent variables were added in Model 2 and 4 as the second step.

Insert Table 4 about here

Models 1 and 2 in Table 4 represent the results for the group that had non-Japanese executives in 2003 as to test Hypothesis 2. Hypothesis 2 predicted that a non-Japanese top executive is more likely to be replaced by a Japanese one (a) if there is an increase in the number of employees and/or (b) if there is a decrease in foreign ownership ratio. Model 2 shows that regression coefficients of neither (a) the change in number of employees nor (b) that in ownership ratio were significant. Thus, both Hypothesis 2a and 2b were not supported.

Models 3 and 4 in Table 4 present the results for the group that had Japanese executives in 2003. Hypothesis 3 predicted that a Japanese top executive is more likely to be replaced by a non-Japanese one (a) if there is a decrease in the number of affiliate employees and/or (b) if there is an increase in foreign ownership ratio. Model 2 shows that the coefficient for change in number of employees was not statistically significant. Thus, Hypothesis 3a was not supported. Model 4 shows that the regression coefficient for change in ownership ratio was positive and significant ($p < .01$), supporting H3b.

We conducted further analysis using the regional samples based on MNCs' countries-of-origin (i.e., North America, Europe and Asia). We conducted logistic regression analyses following exactly the same procedures utilized in the complete dataset. Each regional sample was divided into two groups, with one group consisting of affiliates that had non-Japanese executives in 2003 and another one consisting of affiliates that had Japanese executives in 2003.

Table 5 shows the results of logistic regression analyses using the North American sample. For this sample, the results were similar to those of the complete sample. Model 2 in Table 5 indicates that regression coefficients of neither (a) the change in number of employees nor (b) that in ownership ratio were significant. Thus, both Hypothesis 2a and 2b were not supported. Likewise, the regression coefficient for change in number of employees was not statistically significant in Model 4 in Table 5. Hence, the results did not support Hypothesis H3a. Yet, the regression coefficient for change in ownership ratio was significant ($p < .05$) in Model 4. Thus, similar to the result from the complete dataset, results from the North American sample provided support for Hypothesis 3b.

Insert Table 5 about here

Table 6 presents the results of logistic regression analyses of the European sample. Model 2 in Table 6 presents that the regression coefficient for the change in number of employees was not statistically significant. Hence, Hypothesis 2a was also not supported in this sample. However, the regression coefficient for the change in ownership ratio was statistically significant ($p < .05$). Thus, Hypothesis 2b was supported. Model 4 in Table 6 indicates that the regression coefficient for the change in number of employees was not statistically significant. Hence, Hypothesis 3a was not supported. Yet, the regression coefficient for the change in ownership ratio was statistically significant ($p < .01$), supporting

Hypothesis H3b.

Insert Table 6 about here

Table 7 presents the Asian sample. There was hardly any statistical significance found in all models tested utilizing this sample. There was only one regression coefficient (the coefficient for change in number of employees found in Model 4 of Table 7) that was statistically significant. Yet, it was significant only at a marginal level ($p < .10$). Hence, H2a, H2b, H3a, and H3b were not supported in the Asian sample.

Insert Table 7 about here

Post Hoc Analysis

Our data did not to support Hypotheses 2a and 3a in which we tested the change in the number of affiliate employees relating to the nationality change of the top executive. However, it was suspected that the number of affiliate employee (i.e. affiliate size) at time one (2003) could interact with the *change* in the number of employees (between 2003 and 2007), in predicting the top executive nationality change. This is because, for example, the effect on top management staffing might be different between the case of small affiliates becoming larger (or smaller) and the case of large affiliates becoming larger (or smaller). Therefore, as a post-hoc analysis, we included the interaction terms (i.e., number of employees in 2003 x *change* in the number of employees between 2003 and 2007) into the logistic regressions. Results indicate that, for the complete sample, interaction between the number of employees in 2003 and the *change* in the number of employee was negatively and marginally significant ($p < .10$) for the change of nationality from non-Japanese to Japanese top executives. Although the result was marginal, the result may be indicating that, a non-Japanese top executive is more likely to be replaced by a Japanese top executive, if a

relatively small MNC affiliate increases the number of employees over time.

DISCUSSION

The purpose of this study was to investigate the factors that influence the nationality change of top executives of the Japanese affiliate firms of MNCs. We also investigated differences between Japanese affiliates of North American, European, and Asian MNCs in executive staffing patterns and the change of the top executive nationality.

Results of our analysis revealed that, in general, as the length of operation in Japan increased, the likelihood of a non-Japanese top executive in the affiliate being replaced by a Japanese top executive was higher than a Japanese top executive being replaced by a non-Japanese top executive. This finding confirms the view that the importance of expatriate executives' role as headquarters' control agent diminishes over time as a foreign affiliate matures (Thompson & Keating, 2004). Unlike other studies that examine the role of expatriate executives as headquarters' agents using cross-sectional data, our study is significant as we confirmed the view by examining *changes* of affiliate top executives' nationality by utilizing longitudinal data.

We also found that the change in affiliates' foreign ownership ratios was significantly related to the replacement of Japanese top executives with non-Japanese ones. For Japanese affiliates of European MNCs, the change in foreign ownership ratio was also related to the replacement of non-Japanese top executives by Japanese ones. These findings indicate that the change in ownership ratio is a strong predictor of top executive nationality change in Japanese affiliates of MNCs. This finding confirms the view that the change of foreign ownership ratio reflects change in MNCs' foreign operation strategy which will intern be reflected in international staffing practice of affiliates' top executives. Again, we emphasize that our contribution in this area is that we examined *changes* in MNCs' international staffing over time.

Another contribution of our study is that it shed light on differences between affiliates of MNCs from North America, Europe, and Asia and found that there are notable differences in staffing practices of their Japanese affiliates. First, the Japanese affiliates of European MNCs seem more sensitive to the change of ownership ratio in predicting the top executive nationality change compared to those of American MNCs. Second, the affiliates of Asian MNCs are relatively unique in comparison to those of North American and European MNCs with regard to executive staffing patterns and the change of top executive nationality over time. That is, the affiliates of Asian MNCs heavily rely on non-Japanese people to fill top executive positions of their Japanese affiliates. In addition, non-Japanese executives are hardly replaced by Japanese ones in these affiliates.

These findings are important because they seem to be reflecting different strategies of MNCs with different countries-of-origin. Our results on European MNCs indicate that their top executive staffing practices are consistent with levels of their financial control over Japanese affiliates. These findings are consistent with previous observations that European MNCs are more likely to delegate autonomy to foreign affiliates (i.e. multidomestic strategy) (e.g., Bartlett & Ghoshal, 1989). However, we did not find evidence of North American MNCs delegating autonomy to Japanese affiliates by replacing non-Japanese top executives with Japanese ones. As for Asian MNCs, they tend to favor having non-Japanese top executives (mostly parent country nationals) leading their Japanese affiliates. This clearly indicates an ethnocentric staffing policy (Perlmutter, 1969) and shows a somewhat similar trend to Japanese MNCs. These differences are worthy of further investigation. We have contributed in this arena by utilizing unique data sets that incorporate data of Asian MNCs.

Our data did not support statistical associations between the size of Japanese affiliates (measured by the number of employees) and changes in nationality of affiliate top executives. A possible reason for this result is that the standard deviation of the change of the number of

employees was very small (only 22) relative to that of the number of employees itself (1103 in 2003). These statistics indicate that the size of the Japanese affiliates of MNCs did not change much in between 2003 and 2007. This stability in the number of employees of Japanese affiliates may have affected our results. Nonetheless, our results marginally indicated that non-Japanese top executives are more likely to be replaced by a Japanese one if a relatively small affiliate increases the number of employees over time. This finding may be indicating that changes of MNCs' foreign operations are more likely to take place when a smaller rather than larger affiliate increases the number of employees.

Implications for Research

The results of our study have implications for research in IHRM. This study has taken the first step toward better understanding the *change* in nationality of top executives of MNCs affiliates. Using data from two different points of time, our study captured the changes in a dynamic way. Extant studies on executive staffing of MNC foreign affiliates did not pay enough attention to this dynamic process of top executive staffing as they were based on cross sectional data. Using longitudinal data, we have demonstrated the association between the increase/decrease of ownership ratio and the change of top executive nationality in affiliate firms.

This line of research is important because the change in nationality of affiliates' top executives will have significant impact on the management of the affiliates, especially in countries like Japan where workforce is very homogeneous. In such a homogenous context like Japan, sending a top executive from an MNC's parent country will have a significant signaling effect of the imposition of management styles and workplace culture that are very different from the host country. In particular, replacing an expatriate top executive with a host country national one would be a totally different signal because it means that there will be the return of the management styles and workplace culture back to the more local ones. We

would therefore suggest that it is very important to continue this line of research because it could help uncover a new understanding of executive staffing patterns of foreign MNC affiliates.

Limitations

Like any other research, this study is not without limitations. First, although our methodology using longitudinal data was able to capture the dynamic change process of key variables, we did not test causal relationships precisely. Hence, future research should consider using more rigorous methodology to establish the causal link between the key constructs related to this research topic.

Second, one could argue that the comparison between American, European, and Asian MNCs is too coarse. Results of our study indicate that the affiliates of MNCs from North America and Europe are more similar to, than different from, each other in executive staffing and replacing patterns. Still, it is possible that there are significant differences between these two regions and within each region. Europe has many countries with different cultures and histories, MNCs in Europe may be more diverse than those in North America. Thus, there could be more variety in European MNCs in executive staffing practices for their foreign affiliates than those in North America.

Future Research Directions

There are issues on this research topic that could be investigated further in the future. First, future research could investigate other variables than those examined in this study that will influence the change of nationality in top executives of MNC affiliates. For example, the change of organizational structure of entire MNCs and the change of management development policies might be good candidates to be explored in the future.

Second, although this study focused on the nationality of the most senior executive in MNC affiliates, because that person is considered to be the most influential in operations of

the affiliate, future research should include other top executives in analysis and examine the characteristics of top management teams (TMT) as a whole. The change of the TMT characteristics is more complex than the single executive such that it includes the change in the degree of diversity (e.g., proportion of non-Japanese executives within TMT) and the change of the distribution of power within TMT. Therefore, there are possibilities to gain more insights by focusing on the characteristics of TMT as well as the most senior executive.

Third, while our study focused on the predictors of the top executive nationality change, future research could explore the outcomes of the change. Several studies have investigated the relationship between top management nationality of MNC affiliates and affiliate performance (Gaur et al., 2007; Gong, 2003a; Sekiguchi et al., forthcoming). However, there is very little research that went one step further and examined the mechanism between top management nationality and the performance of MNC affiliates. Future research could deal with the effects of the top executive nationality change in relation to employee attitudes and behaviors, and subsequent performance and productivity of the affiliate. In order to investigate these inquiries, researchers may need to combine survey data and archival data such as the ones that were used in this study.

Finally, the comparison of the MNC affiliates from different countries or regions in executive staffing patterns should be investigated further. In particular, there are very limited number of studies that examine the characteristics of Asian MNCs. While many Japanese MNCs are studied in regards to foreign affiliate staffing, there are yet to be similar studies for other Asian MNCs. While Japan shares many similarities with other countries, especially East Asian countries like China and Korea, there are also significant differences too. Therefore, it is worthwhile asking whether Asian MNCs are similar to Japanese MNCs in foreign affiliate executives staffing patterns. Thus, future research could focus on the similarities and differences in affiliate top executive staffing between Asian and Japanese MNCs.

In conclusion, the research on executive staffing patterns of foreign MNC affiliates is still in its early stage and future research on this topic would significantly advance the field of international human resource management.

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Table 1. Descriptive Statistics and Correlations

Variable	Mean	S. D.	1	2	3	4	5	6	7	8	9
1. Years of operation	22.4	14.8									
2. Capital	2,242	16,086	.15 **								
3. Number of employees in 2003	226	1,103	.21 **	.77 **							
4. Number of employees in 2007	255	1,171	.20 **	.80 **	.97 **						
5. Ownership ratio in 2003	82.0	25.8	-.13 **	-.08 **	-.12 **	-.11 **					
6. Ownership ratio in 2007	86.5	23.2	-.13 **	-.07 **	-.10 **	-.10 **	.91 **				
7. Top executive nationality in 2003	0.3	0.5	-.01	.04 *	.01	.02	.28 **	.23 **			
8. Top executive nationality in 2007	0.4	0.5	-.01	.04	.02	.02	.23 **	.24 **	.62 **		
9. Change in number of employees	0.8	21.8	.01	.03	-.01	.09 **	-.03	-.02	-.02	-.01	
10. Change in ownership ratio	1.4	9.9	.02	.00	.03	.03	-.25 **	.17 **	-.04	.02	.01

N = 3,226; *p < .05; ** p < .01

Table 2. Cross Tabulation and Transitional Matrix of Top Executive Nationality in 2003 and 2007 (Complete Sample)

Cross Tabulation			Transitional Matrix		
2007			2007		
2003	Japanese	Non-Japanese	2003	Japanese	Non-Japanese
Japanese	1,294 (56.1%)	223 (9.7%)	Japanese	.85	.15
Non-Japanese	177 (7.7%)	612 (26.5%)	Non-Japanese	.22	.78

Table 3. Cross Tabulation and Transitional Matrix of Regional Samples

Cross Tabulation			Transitional Matrix		
North American MNCs			North American MNCs		
	2007			2007	
2003	Japanese	Non-Japanese	2003	Japanese	Non-Japanese
Japanese	728 (65.9%)	106 (9.6%)	Japanese	.87	.13
Non-Japanese	84 (7.6%)	186 (16.8%)	Non-Japanese	.31	.69
European MNCs			European MNCs		
	2007			2007	
2003	Japanese	Non-Japanese	2003	Japanese	Non-Japanese
Japanese	488 (51.0%)	105 (11.0%)	Japanese	.82	.18
Non-Japanese	80 (8.4%)	284 (29.7%)	Non-Japanese	.22	.78
Asian MNCs			Asian MNCs		
	2007			2007	
2003	Japanese	Non-Japanese	2003	Japanese	Non-Japanese
Japanese	49 (24.9%)	9 (4.6%)	Japanese	.84	.16
Non-Japanese	9 (4.6%)	130 (66.0%)	Non-Japanese	.06	.94

Table 4. Results of Logistic Regression Analysis (Complete Sample)

Variable	Non-Japanese executive in 2003		Japanese Executive in 2003	
	Model 1	Model 2	Model 3	Model 4
Step 1				
Industry dummies	-	-	-	-
Years of operation	.003	.004	-.005	-.006
Capital	.000	.000	.000	.000
Number of employees in 2003	.000	.000	.000 *	.000 *
Ownership ratio in 2003	.003	.004	.019 **	.028 **
North American MNCs	-1.330	-1.364	.590	.573
European MNCs	-.705	-.730	1.125	1.110
Asian MNCs	-.779	.783	.896	1.002
Step 2				
Change in number of employees		.111		.000
Change in ownership ratio		.008		.043 **
Model Chi square	52.076 **	54.133 **	55.293 **	81.498 **
Cox & Snell R2	.085	.089	.042	.062
R2	.130	.135	.076	.111

N = 583 for Models 1 and 2. N = 1,283 for Models 3 and 4; *p < .05; ** p < .01

Due to space considerations, coefficients for industry dummy variables are not reported but are available from the authors.

Table 5. Results of Logistic Regression Analysis (North American Sample)

Variable	Non-Japanese executive in 2003		Japanese Executive in 2003	
	Model 1	Model 2	Model 3	Model 4
Step 1				
Industry dummies	-	-	-	-
Years of operation	.006	.008	.001	.002
Capital	.000	.000	.000	.000
Number of employees in 2003	-.001	-.001	.000	.000
Ownership ratio in 2003	-.006	-.017	.020 **	.025 **
Step 2				
Change in number of employees		.081		-.003
Change in ownership ratio		-.027		.030 *
Model Chi square	23.265 **	25.638 +	28.895 *	34.465 **
Cox & Snell R2	.114	.124	.041	.049
R2	.157	.172	.080	.096

N = 193 for Models 1 and 2. N = 691 for Models 3 and 4; *p < .05; ** p < .01

Due to space considerations, coefficients for industry dummy variables are not reported but are available from the authors.

Table 6. Results of Logistic Regression Analysis (European Sample)

Variable	Non-Japanese executive in 2003		Japanese Executive in 2003	
	Model 1	Model 2	Model 3	Model 4
Step 1				
Industry dummies	-	-	-	-
Years of operation	.001	.003	-.010	-.010
Capital	.000	.000	.000	.000
Number of employees in 2003	.000	.000	.001 **	.001 *
Ownership ratio in 2003	.013	.019 +	.017 **	.030 **
Step 2				
Change in number of employees		.329		.065
Change in ownership ratio		.075 *		.053 **
Model Chi square	18.029	27.716 *	23.648 +	45.557 **
Cox & Snell R2	.060	.091	.044	.084
R2	.094	.142	.073	.138

N = 289 for Models 1 and 2. N = 521 for Models 3 and 4; *p < .05; ** p < .01

Due to space considerations, coefficients for industry dummy variables are not reported but are available from the authors.

Table 7. Results of Logistic Regression Analysis (Asian Sample)

Variable	Non-Japanese executive in 2003		Japanese Executive in 2003	
	Model 1	Model 2	Model 3	Model 4
Step 1				
Industry dummies	-	-	-	-
Years of operation	.029	.041	-.151	-.699
Capital	.001	.001	.001	.007
Number of employees in 2003	.012	.017	.046	.376
Ownership ratio in 2003	.019	.023	1.653	6.317
Step 2				
Change in number of employees		.761		7.656 +
Change in ownership ratio		-.003		-2.909
Model Chi square	6.816	7.75	21.174 *	27.708 *
Cox & Snell R2	.071	.081	.363	.457
R2	.207	.235	.679	.856

N = 92 for Models 1 and 2. N = 47 for Models 3 and 4; *p < .05; ** p < .01; † p < .10.

Due to space considerations, coefficients for industry dummy variables are not reported but are available from the authors.