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Management localization and performance of MNCS in China : a contingent resource-based view

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MANAGEMENT LOCALIZATION AND PERFORMANCE OF MNCS IN CHINA: A CONTINGENT RESOURCE-BASED VIEW

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MANAGEMENT LOCALIZATION AND PERFORMANCE OF MNCS IN CHINA: A CONTINGENT RESOURCE-BASED VIEW

by

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ABSTRACT

Management Localization
and Performance of MNCs in China:
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Although many foreign invested enterprises (FIEs) and consultants in China put the localization to a strategic level, management localization is still an emerging issue of human resource management in academic research. A few previous studies on management localization focused on the internal efficiency of the subsidiaries or parent-subsidiary relationship. The impact of management localization on the interaction between the subsidiary and local environment has received little attention. Moreover, localization lacks a consistent and valid definition. This thesis attempts to bridge the gap by systematically exploring the strategic impact of management localization. Management localization is defined as substituting expatriate managers with local managers. Based on resource-based view, local managers can be considered the vehicle of local managerial resources and thus can bring competitive advantage to the subsidiary. It is hypothesized that the effect of the management localization on the performance of the subsidiaries is contingent on cultural distance, localization emphasis, resource dependence, and decision participation of the local managers. In-depth interviews in China help to illuminate the concept validity and definition of management localization, and the data from a questionnaire survey in China are used to test the hypotheses. The results of hierarchical regression analyses provide partial support for the contingent resource perspective. The findings have meaningful implications for management localization at the multinationals' subsidiaries and provide strong heuristics for future studies of this issue.

I declare that this is an original work based primarily on my research, and I warrant that all citations of previous research, published or unpublished, have been duly acknowledged.

HUANG SHENGSHENG
Date

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CHAPTER 1. INTRODUCTION

1.1 Rationale

Localization has become an important issue in the cross-national operations of international businesses. In China, localization is one of the most enthusiastic endeavors for many foreign invested enterprises (FIEs) and management consultants (Keeley, 1999). The widely accepted GI-LR model (global integration and local responsiveness) emphasized the need for balancing the global and local the subsidiaries of multinational corporations (MNCs) (Prahalad and Doz, 1987). This underlying rationale makes localization lie in the same high level as globalization. Sugiura (1990) also introduced the Honda's experience of implementing globalization by localization strategy. However, academic research on localization is an emerging issue and far more adequate and theorized.

Existing literature about localization primarily focused on human resource management (HRM). These efforts are motivated by the problems with expatriate management, especially the high expatriate failure rate. Some researchers focused on the standardization or adaptation of the HRM practice (e.g., Chen & Wilson, 2003). Some researchers discussed the differences between the locals and the expatriates and the factors influencing the choices between locals or expatriates (e.g., Erdener and Torbiorn, 1999), while other researchers shed light on the process through which the positions originally held by the expatriates are localized (e.g., Wong and Law, 1999; Law et al, 2004; Keeley, 1999).

Previous studies have three limitations. First, previous studies mostly focused on the internal efficiency or subsidiary-parent relationship. The difference between the expatriate managers and local managers in terms of their relationships with local environment should have impact on the relationship between the subsidiary and its local environment. Secondly, previous research only considers localization one of HRM issues in operational level or micro level. The GI-LR paradigm implies that MNCs not only need to keep standardization to exploit their present resources and knowledge (e.g., cost reduction and scale economy) and but also respond to the local contingency that is necessary to achieve effectiveness in local environment. Localization of human resources should have implications for the subsidiary's survival and success at strategic level. The impact of localization on performance could be detectable. Thirdly, the valid and consistent definition of localization is lacked. In practitioner's journals, the term "localization" is used with a lot of confusion (Keeley, 1999). In academic research, the definition of localization (e.g., Wong and Law, 1999; Fryxell et al, 2004) is also inconsistent and lacks practical validity.

1.2 The proposed study

The purpose of the present thesis is to elaborate and empirically test the effect of management localization on the subsidiaries' performance basing on analyzing localization's influence on the effectiveness of the subsidiary's operations.

Based on previous literature, this study reinvestigates the strategic importance of localization, clarifies the concept of the localization, and defines the management localization. The distinctions between each level of localization and between management localization and staffing composition are proposed. Due to the importance of the human resources to the firm's success, this thesis focuses on the management localization and, to make the research consistent with previous studies, the present study is limited to the research on "*pure*" management localization –substituting expatriate managers with local managers.

As the human resource is a vital input to the rent generating system of the firm, this study adopts the resource-based view as the theoretic framework. After reviewing the previous research on the resource-based view of the firm, an extended and contingent resource model is developed. The resources' contribution to competitive advantage depends on the environmental factors and the firm characteristics (i.e., strategy of the firm) that influence the dynamic value of the resources, the integration (utilization) of the resources within the firm, and so on.

Different to many practitioners who advocated the positive consequences of localization, we proposed that the impact of localization is conditional. Localization has two effects on the managerial resource pool of the subsidiaries: substitution and complementarity. Management localization with poor substitution, i.e., poor localization process, will do harm to the exploitation of superior knowledge from parent company. Furthermore, the value of the location-specific knowledge as complement managerial resources depends on the country similarity and resource dependence on local environment. The resource integration within the subsidiaries also can influence the utilization of the valuable local-related managerial resources. It is hypothesized that the impact of management localization on the subsidiaries' performance is conditional (i.e., there is no significant main effect), and their relationship might be moderated by the efforts of the management localization process, cultural distance, resource dependence on local environment, and decision participation of the local managers.

1.3 Major findings

Based on the in-depth interviews with eight FIEs and three HR consulting companies, the practical significance of localization is reconfirmed. The proposed content and typology of localization is supported and the discriminant validity of three levels of localization is verified. Based on a survey data from 80 MNCs in China, our findings show that management localization of top management team (TMT) does have strategic implications for the subsidiaries of multinational corporations. In a culturally distant and resource-dependent host environment, management localization with high localization emphasis and high local participation can help shore up the subsidiary's performance. Our study suggests that localization is among the crucial factors to achieve local responsiveness and thus could contribute to the GI-LR paradigm. Our study also implies that MNCs should not only consider the localization issue from an HRM perspective, but also, the localization policy can act as a strategy in China's operation to achieve better performance for their subsidiaries.

1.4 Organization of the thesis

This thesis is organized as follows. In Chapter 2, the practical and theoretical significance of localization research is reinvestigated and, after reviewing the existing literature, the research question is developed. In Chapter 3, we define the localization concept and confirm the validity basing on the in-depth interviews with eleven companies. A contingent model of resource-based view is developed to guide the theory development. Chapter 3 also elaborates the theory and hypotheses. Five hypotheses are proposed. Research methods are described in Chapter 4. The results of hypotheses testing are reported in Chapter 5. Lastly, we discuss and extend our findings in Chapter 6.

CHAPTER 2. LITERATURE REVIEW

2.1 Research background

Localization in international business is an emerging issue in academic research. Although a few studies have focused on it (e.g., Fryxell et al, 2004; Law et al, 2004; Wong and Law, 1999), it is necessary for researchers to clarify the practical rationale and significance of the research. In this part, we reconfirm the significance and rationale of localization research in international business by exploring practical and academic background. The investigation focuses on two questions: Is the localization issue practically important? What are the theoretical roots of the localization issue?

Practitioners and consultants have discussed localization and related issues for more than ten years in China. From year 1995 to 2004, more than one hundred foreign invested enterprises that are ranked *Fortune* TOP 500 in China have made public news or declarations about localization.[1]

In China, the costs for the expatriate managers are extremely high. On average, an expatriate manager costs an additional US$ 200,000 to 300,000 per year on top of his normal salary (Lasserre and Ching, 1997). As compensation package for the local managers is much lower than for the expatriate managers, localization can reduce the

[1] Searched by online search engines in April 2005. The key words are 1) “localization” & “China”, and 2) “*Bentuhua*” and “*Dangdihua*” in Chinese.

extra costs. The adjustment problems that the expatriate managers encounter also impede the expatriate managers from exhibiting their capabilities (Shaffer and Harrison, 1998). In China, localization is more important to MNCs than in other host countries because 1) there is a growing need for managerial human resources accompanied with the business blooming to most MNCs; and 2) cultural distance and environmental uncertainty makes the adjustment more difficult to most expatriates from western countries.

In practitioner's journals, numerous consultants and managers from foreign invested companies have discussed the localization issues and shared their experiences. For example, as a general manager of IBM great China, Chow (1998) showed the importance and the process of localizing management team of IBM China. Katrin (1996) and Latta and Cummins (1999) discussed how to localize the compensation package of expatriate managers. Cohen (1999) suggested that the localization strategy should be formal and scheduled and Massey (1999) implies that a carefully planned localization should include succession plan.

In international business research, "local" and "global" can be considered two sides of the international business. As a fundamental framework for international business, the GI-LR paradigm (global integration and local responsiveness) (Prahalad and Doz, 1987) was widely accepted as guidance for international business research (e.g., Hannon et al., 1995). The GI-LR model might be generalized as how to balance the global standardization that can exploit the present resource and knowledge (e.g., cost reduction and scale economy) and the local contingency that is necessary to achieve success in local environment. On one hand, MNCs should efficiently transfer to their overseas subsidiaries their superior knowledge accumulated from their successful operations in their home countries or other host countries (Kogut and Zander, 1993). On the other hand, they face the risk that the knowledge does not match the local environments.

The organization theory suggests that organization should react to the environmental change efficiently and effectively (Holland, 1975). As a part of the external environment that the multinational corporations (MNCs) face, local environment where the subsidiaries operate in is vital to the success of the subsidiaries. Localization strategy, which either draws attention to local interest parties or increases shared characteristics with local environment, is a possible solution to cope with changing local environment.

It might be concluded that localization research could complement or contribute to international business research. As a method and strategy to achieve local responsiveness, localization is as important as the globalization. Unfortunately, there are many publications about why and how the companies globalize their production, distribution, and marketing strategy while only a few studies have attempted to elaborate rationale for localizing the cross-national operations.

2.2 Existing literature

After analyzing the practical and academic significance of localization research, we provide a review of the literature on localization in international business research.

Because most literature focused on the human resource management (e.g., Fryxell et al, 2004; Lasserre and Ching, 1997; Wong and Law, 1999), we narrow our review in HRM related studies. Due to the scarcity of the academic research on this issue, studies in other relevant fields such as staffing pattern were also reviewed.

The localization-related issues in HR became one of the critical topics maybe not only because human resource is central to the success of internationalization efforts (Florkowski and Schuler, 1994), but also because there exist distinct variations between participants within the subsidiaries located in different national environments in terms of cultural, economic and institutional differences. Two streams can be found in the previous studies related to HRM.

The first stream is the study about the localization of human resource management practice (e.g., Rosenzweig and Nohria, 1994; Jaw and Liu, 2004; Chen and Wilson, 2003), i.e., how to select, train, and manage the human resource. The stream can be seen as a branch of those studies trying to explore whether the management practice of the MNCs is globally standardized or is contingent on the local environments. For example, Chen and Wilson (2003) found that the subsidiaries of multinational corporations (MNCs) generally adopted standardized pattern of HRM from parent companies in spite of the ownership structure (i.e., joint venture or wholly owned).

The second stream focuses on the localization of human resources. Basically, the MNCs can staff the management positions with three kinds of people: parent country nationals (PCNs), host country nationals (HCNs), i.e., local managers, and third country nationals (TCNs). The three kinds of human resources, especially HCNs and PCNs, differ in terms of the relationships with parent company and the host environment (Dowling et al, 1999). The expatriate managers who mostly are composed of PCNs and TCNs are good transferors and controllers from parent company but they could encounter serious adjustment problem due to linguistic obstacle and cultural barrier. Moreover, in some host countries, the costs of the expatriate managers are extremely high compared with local counterparts and the supply of qualified expatriate managers cannot catch up the growing need. Localization by substituting the expatriate managers or employment of local managers (HCNs) at the subsidiary level becomes a feasible choice. Therefore, the practices and HR research turns from how to train the expatriates to adapt to the local conditions (e.g., Harvey, 1986) to how to localize their managerial positions (e.g., Wong and Law, 1999; Fryxell et al, 2004). The differences between the local managers and the expatriate managers also imply the antecedents, the process, and the consequences of localization. Because the main objective of the present paper is to study the localization of managerial human resources, the literature of this stream is reviewed in details as following.

2.2.1 Motivations of HR localization

For several reasons, there has been an increasing emphasis on localizing the management with local managers at the subsidiaries. First, the development of cross-national operations enlarges the needs for localization. Based on life cycle theory, Cui (1998) predicts that accompanied with the mature of cross-national expansion, the need for localizing their human resources grows. On the other hand, the growing scale of the investments needs more qualified managers, especially to those FIEs in China (Lasserre and Ching, 1997). Secondly, the costs for hiring the expatriates are extremely higher than their local counterparts. In those cost-oriented companies, reducing the number of the expatriates through localization became a useful and important solution (Fryxell et al, 2004). The joint effect of the need for more managers and the high compensation package makes it finically unaffordable to keep more expatriates. Lastly, the expatriate failure in adjusting to the local living and working career impedes the expatriates from exploiting the skills and knowledge they owned so that they are not competent for their jobs any more (Solomon, 1994; Shaffer and Harrison, 1998; Shaffer et al., 1999). High expatriate failure rates means unexpected production and transaction costs to the companies. The failure rate in emerging countries such as China, Russia, India and Brazil sometimes is as high as 25-30 percents (Melvin and Sylvester, 1997; Harvey, 1999).

2.2.2 Consequences of management localization

As the consequence of the localization, the increase of the locals could change the staffing composition of the subsidiaries and influence the subsidiaries' outcomes. Therefore, the effects of localization, i.e., the impact brought by the employees with different nationalities or their mixture, also could be found in the studies on staffing pattern.

Despite the lack of empirical evidence, previous studies invariably suggest that if management localization is effectively implemented, it can help alleviate the problems associated with expatriate management (Lasserre & Ching, 1997; Prahalad & Lieberthal, 1998). A localized management can help minimize the problems caused by cultural differences, contribute to better communication, strengthen employee relationship, and create more development opportunities for local managers. All of these in turn will lead to employee satisfaction and loyalty, improve management effectiveness, and relieve the heavy financial burden on the new ventures.

Erdener and Torbiorn (1999) and Festing (1997) adopted transaction cost analysis of staffing pattern and suggested that the transaction costs generated by the different staffing pattern led to the different performance. Festing (1997) imported transaction cost analysis to within firm transactions and identified four factors that would bring transaction cost, namely environmental uncertainty, assets specificity, bounded rationality, and opportunism. Erdener and Torbiorn (1999) analyzed the differences in terms of transaction costs incurred by the locals and the expatriates. Their study suggested that the benefits of the locals or the expatriates of the subsidiaries depend on the total transaction costs and thus a certain mixture of the host country nationals (HCNs) and parent country nationals (PCNs) would achieve the minimum transaction costs. Adopting organizational learning theory, Gong (2003a) explored the organization learning within the heterogeneous staff team and proposed that the heterogeneous staffing composition will have negative impact on short-term performance but have positive impact on long-term performance. It also implies the bell-shaped curve linear relationship between localization and the performance (whatever short term and long term). From subsidiary-parent relationship perspective, Gong (2003b) validated the importance of the expatriates in the control mechanism of the MNCs especially in the culturally distant local countries.

However, research on the effect of management localization has been sporadic. Only a few empirical studies attempt to examine the effect of management localization on subsidiary performance (e.g., Gong, 2003b; Gupta and Govindarajan, 2000). An ATKearny survey of global companies in China found that companies that had achieved large market share in China had less than 10 expatriates, much less than other firms (ATKearny, 1989). Konopaske et al (2002) found that while expatriate management contributes to subsidiary financial performance for wholly owned subsidiaries, a more localized management is better for joint ventures. Their findings suggest that the effect of management localization on performance may be conditional on other factors.

Different from many others who have backed up the localization effort, a few scholars showed their controversial viewpoints. Kobrin (1988) argued that the reduction of the expatriates would weaken the global integration and consistent identification of the MNCs. Moreover, based on case studies in China, Gamble (2000) pointed out that the development of culturally literate expatriates could become a more valuable resource for subsidiaries than substituting expatriates with local managers and the costs of the expatriates should be considered a long-term investment in the MNCs.

2.2.3 Localization as a process

Believing that how to localize matters more than the pros and cons of locals and expatriates, some other scholars shed light on the substituting process. In China, due to the scarcity of local talents, training and qualifying the local candidates before their filling the expatriates' positions is definitely important. Meanwhile, the limited supply of qualified local managers in China presents tremendous challenges to multinationals in retention. Wong and Law (1999) proposed a three-stage practical model (Planning–localizing- consolidating) on how to achieve effective localization. Basing on questionnaire survey, Fryxell et al (2004) identified four predictors of successful localization, i.e., formal planning, local selection emphasis, retention efforts, and attributions of trustworthiness. Law et al (2004) focused on how to transfer the knowledge from the expatriates to local candidates. Selmer (2003b) emphasized the importance of the expatriates' willingness to localize their own positions; in other word, the willingness and the mentoring capability of the expatriate influence the success of localization. The underlying logic of the previous literature focusing on the process is that if the locals can own all the same knowledge and skills as the expatriate managers the localization could be successful.

Although most of the previous studies refer to the term "localization" as the process in which expatriates are substituted by the locals, the use of the term localization has not been consistent (Keeley, 1999). Instead of replacing expatriate with local managers, companies may also transfer an expatriate to local terms at the end of an assignment, i.e., localizing the expatriates (Neuendorf, 1996). Katrin (1996) refers "localization" to changing the compensation package to local standard and making local the employment contracts. The same broadened usage of localization also appeared in a report from PricewaterhouseCoopers China.[2]

2.3 Summary and limitations of previous research

In the present study, we focus on localization of human resources. In this stream, the main topic of previous studies is substituting expatriate managers with local nationals. Except for several studies about staffing pattern in MNCs, most studies in this stream treated localization as an issue in human resource management. Localization is considered to benefit to the subsidiaries by reducing the HR costs and avoiding expatriate failure caused by poor adjustment. Moreover, filling the top positions with local nationals can also motivate the host country employees because localization provides more promotion chances for local nationals. The local managers in the management team are proposed to have impact on the performance by a few empirical studies but the findings are conditional or inconsistent. A carefully planned and implemented process is also treated crucial to the successful localization.

The first limitation of previous studies is the lack of consistent and valid definition of localization, which impedes the localization research. From the perspectives adopted, previous research focused on the following three aspects: 1) the subsidiary-parent relationship and the integration of the global operations (e.g., Gong 2003b; Kobrin, 1988); 2) the efficiency of the subsidiaries' operations, such as transaction cost analysis and organizational learning perspective (e.g., Gong, 2003a; Erdener and Torbiorn, 1999); and 3) the effective process of localization, e.g., exploring whether and how the locals can own enough competing capabilities to

[2] Reported by Zhang Zhili, Shanghai Morning Post, Nov. 18 2004

substitute for the expatriates successfully (e.g., Law et al, 2004; Wong and Law, 1999). However, the previous research has ignored the relationship between the subsidiary and local environment. Those articles focusing on the localization process (e.g., Wong and Law, 1999; Law et al, 2004) only capture one side of the localization: how to keep the knowledge and skills owned by the expatriate managers when reducing the number of the expatriates is a requirement (maybe due to the high costs and failure rate). If only this side is considered, localization can be treated as a kind of compromise with saving money because the local managers might never perfectly obtain everything from their expatiate mentors. The other side is: What differences can the local managers bring? The local-based background might make the locals more compatible to local environment and more efficient to identify and encounter the changes in environment. The above assumption also makes the statement possible: The local managers with local knowledge and local-specific skills lacked by the expatriates have implication to the performance of the subsidiaries.

In addition, a few studies particularly focus on the relationship between localization and the subsidiaries' performance (Lasserre and Ching, 1997; Gamble, 2000). The other limitation is the lack of empirical testing, especially large sample testing. Among the empirical studies particularly on the consequence of localization, two adopted case study as research methods (Law et al, 2004; Fryxell et al, 2004), and only one adopted questionnaire survey (Fryxell et al, 2004). In other relevant studies, localization is not treated as a major variable when exploring the relationship with performance.

The purpose of this study is 1) to confirm the validity of localization concept and define the management localization and 2) find out the impact of localization on the performance of subsidiaries of MNCs (i.e., foreign invested enterprises, FIEs) through examining the localization's influence on the firm-environment exchange.

CHAPTER 3. DEFINITIONS AND THEORY DEVELOPMENT

3.1 Scope of the research and assumptions

We confined our study to the localization of managerial human resources -- management localization. A clear definition will be given in the following part. The antecedents of the management localization are not the focus of this study. Previous studies show that the factors related to parent company, the expatriate managers, and host environment could influence the motivations, incentives, and procedures to implement management localization (Dowling et al, 1999; Fryxell et al, 2004; Gamble, 2000; Solomon, 1994; Wong and Law, 1999). Nor will we pay a lot of attention to the process of localization. In other word, we treat localization as an exogenous variable and only explore the performance-related consequence of localization.

The fundamental assumption of this study is that the MNCs' motivation of cross-national operation is to utilize the existent resources, knowledge, and skills. Penrose (1959) proposed that the growth of the firm results from the maximization of the returns of existent resources and capability. Kogut and Zander (1993) argue that the multinational corporations come into being when the knowledge is so tacit that it cannot be transferred through market transaction.

Secondly, the subsidiaries are in the hierarchy of their parent company. The MNC is a centralized bureaucratic organization and its subsidiaries share basic common organizational culture and core resources. It also can be deduced from the first assumption. The hierarchical arrangement rather than arm-length market transaction ensures the efficient knowledge transfer and resource exploitation. Parent company always exerts strict control on its subsidiaries regardless the ownership structure of the subsidiaries (Child and Yan, 1999). An MNC is an integrated entity exposed to different environments that achieves a same but multi-level goal rather than a group of independent organizations (Ghoshal and Westney, 1993).

Thirdly and therefore, the initial status of oversea subsidiaries could be regarded as the replications of the parent company or parts of it. In other word, theoretically, the status before localization is that all the operations are replicated from parent country. It is undoubtedly that this status might not happen because localization can always happen more or less. In fact, the MNC often benefits from localization such as the localization of the raw materials and workforce. Before localization, the managerial human resources are composed of the expatriates from parent company or other subsidiaries in third countries. Certainly, some positions, such as HR manager, could be already localized with the trained locals when the subsidiary was established.

3.2 Definitions and validity

The little attention received in academic research on localization can partly attribute to the lack of conceptual scheme of the localization research. Clear and well-defined concept should be developed before exploring the relationships between localization and other phenomenon. In this part, we clarified the localization concept and gave definition to our key concept – management localization. The concepts "expatriate manager" and "local manager" are also defined.

3.2.1 Management localization defined

Although the term "localization" appeared widely in numerous literature of sociology, economics, international business (IB) and anthropology, unfortunately, few precise and consistent definitions were given to localization. In Merriam-Webster dictionary, the meanings of "localize" include 1) to make local: orient locally; 2) to assign to or keep within a definite locality; and 3) to accumulate in or be restricted to a specific or limited area. The first meaning is likely used in IB research. The second and third meanings are similar to the definition in biology, politics, and computer science. For example, in politics localization might be equivalent to "decentralization", which means to delegate more power to local government and local people.

After analyzing the globalization strategy of Honda Motor Company, Sugiura (1990) identified four kinds of localization: localization of products, of profits, of production, and of management. In his typology, localization means local orientation and doing in local way. In other words, the localization of cross-national operation refers to making the operation "by the locals" and "for the locals". Most of previous studies focus on localization of human resources. Fryxell et al (2004) and Selmer (2004b) refer to localization as "substituting the expatriate managers with locals". Chen and Wilson (2003) use the term "localization" as the counterpart of standardization when comparing the human resource management practices of subsidiaries.

In practice, the forms and levels of localization might be more complicated. A report from PricewaterhouseCoopers China shows that the localization has three forms: localizing the expatriate's contract; localizing compensation package of the expatriates; and substituting by locals. The articles in practitioner journals often discuss the "localization of expatriates". Katrin (1996) and Latta and Cummins (1999) focus on how to convert the expatriate package into local package and award contracts under the name of local subsidiaries rather than parent company.

It can be concluded that the term "localization" has several dimensions. In the present study, we classify the localization into two forms: managerial localization and technical localization. This typology parallels to Daft's (1982) viewpoint that the organization is composed of an administrative and a technical core. The technical localization refers to the localization of input (raw materials and labor and so on), production techniques, and output (products). The managerial localization refers to the localization of structure, mechanism, and pattern of management system. Managerial localization can have two categories: instrumental localization and management localization. Instrumental localization focuses on the routinized practice and rules that are either codified or not codified. Instrumental localization might include localization of HRM practice (e.g., Rosenzweig and Nohria, 1994; Jaw and Liu, 2004). It also includes "localizing" the expatriates in terms of the compensation package (Katrin; 1996; Latta and Cummins, 1999). To meet the cost reduction policy or the expatriates' subjective desires, integrating the expatriates into local management structure is the localization of management practice. Management localization refers to the localization of managerial human resources. Our propositions about the typology, definitions, and validities of different forms of localization are verified by in-depth interviews conducted in 2004. More details are provided in the methodology and results parts.

To clarify our research objectives, management localization can be further categorized into three forms. The first is *pure* localization, which refers to substituting local nationals for the expatriate managers[3]. The second is *quasi*- localization, which refers to localizing the knowledge and skills of the expatriate managers through learning from the environment, which can be called "externalized learning" (Ernder and Torbiorn, 1999). The third is *homologizer*, which refers to the repatriation of host country nationals. In China, some Chinese managers assigned by the parent company often have Western educational background and have lived in MNC's parent country for some years (e.g., returnees). MNCs may substitute the non-Chinese expatriates with expatriates with Chinese background or the overseas Chinese. Some practitioners consider this practice localization as well. For these HRM researchers, the same ethnic background might reduce the adjustment problem.

To capture the main point of localization research, this study focuses on the phenomenon of pure localization of top management team (TMT) in the present study for the following reasons. *Quasi*- localization is the process that the expatriate managers learn from the interactions between them and local environment. However, this learning process might be impeded by absorptive capability due to the lack of common shared knowledge with local environment (Cohen and Levinthal, 1990). The

[3] The same definition is adopted in Fryxell et al (2004). Wong and Law (1999) and Law et al (2004) define localization as "substituting the expatriate managers with qualified local managers". This definition could cause tautology problem when exploring the implication of localization to performance.

interpretation bias can make “learning by doing” very difficult because they cannot perfectly identify the environmental change or correctly evaluate the environmental feedbacks (Argris, 1976; Daft and Weick, 1984). Therefore, the *quasi*- localization process could be a very slow process and cannot generate strategic consequences in a short term. In the “homologizer” localization, most of the returnees have enough knowledge about the parent company and know little about their homes because they have not been in host country for some years (Prahalad and Lieberthal, 1998). Some HRM scholars call the phenomenon “localization” probably because this kind of substitution can reduce the adjustment failure. However, if measured by the knowledge background and cultural and ideological factors, they are more like the foreign expatriates than local nationals. We focus on the TMT because the crucial function of the TMT. The top management team includes CEO, General Manager, Deputy GM, and the directors (or department heads) who report to General Manager directly (Eisenhardt and Schoonhoven, 1996).

Although management localization can lead to the change of staffing composition, they are two different concepts. Management localization specially refers to the localization of managerial human resources, i.e., the managerial level of the subsidiaries, while staffing composition generally refers to all employees. Moreover, as a HRM concept, staffing composition describes a static status of the workforce composed of heterogeneous subgroups that can be categorized by nationality, education, and any other factors (Dowling et al, 1999). Management localization leads to the different composition of management team only in terms of local-related characteristics.

3.2.2 Local manager and expatriate manager

We define the local manager as a local-hired local Chinese who is in the management team. The expatriate manager refers to a manager hired by the parent company and assigned to the local subsidiary for a relatively long period. A typical expatriate manager is a non-Chinese foreigner or overseas Chinese (including returnee) and takes a non-local compensation package. To avoid the classification bias, we involve all other possible kinds of managers in a third category ("others"). Not all the expatriates are involved in our research as well. We excluded those short-term assigned expatriate managers and those expatriated technicians who do not assume any managerial positions. For example, during the initial period of a newly established subsidiary, there might be more short-term expatriates whose duties are clearly defined as training and transferring knowledge and skills rather than controlling the daily operations. Moreover, substituting them is not the issue of management localization.

3.3 Resource-based view: A contingent model

In the following part, we develop our theoretical model guiding the localization study. We articulate why resource-based view (RBV) is adopted in our study and, after briefly reviewing literature about RBV, we propose a contingent RBV model that would guide the following analysis.

3.3.1 Management localization and RBV

Human resource is a vital input to the rent-generating system of the firm. As an intangible resource that is of social complexity and causal ambiguity, human resource is more likely to produce a competitive advantage (Hitt, et al, 2001). Strictly speaking, the knowledge, skills, and abilities embedded in the human resources become the determinant of a firm's survival and success.

It should surprise no one to adopt resource-based view of the firm to study HR issues. Castanias and Helfat (1991; 2001) argue that managerial skills and knowledge of the top management team (called managerial resources hereinafter) is also a kind of resource of the firm. Management localization, which means substituting the expatriate managers with local managers, should influence the managerial resources input to the firm. Therefore, using the RBV to study the consequences of management localization is reasonable and feasible.

The RBV framework is adopted in the present study not only because of the strong power of RBV in strategic management but also the lack of coherent theory in HRM (Wright and McMahan, 1992) and the limitations of other theories ever used in localization–related research.

Transaction cost approach has three limitations. First, it only focuses on the efficiency issue within the subsidiaries and has ignored or bypassed the environment-firm relationship. For example, total costs explanation in Festing (1997) has ignored the differences of economic conditions between host country and parent country. The resource-based view of the firm not only takes into account the resources that the firms obtained but also implies the environmental factors that influence the rent-generating capability of those resources. Secondly, the transaction cost approach is hard to empirically test. It is difficult to identify the transaction costs of hiring local or expatriate managers. Moreover, the transaction costs or the total costs could not be operationalized and measured directly and persuasively. Thirdly, transaction cost explanation cannot provide practical strategic implications and suggestions (Goshal and Moran, 1996). In other word, it fails to provide a solution for the MNCs to manipulate and evaluate the staffing pattern to achieve lower transaction costs or better performance.

Organization learning theory previously used in localization study also has several limitations (e.g., Gong 2003a). First, organization learning theory emphasizes the effect of the management team heterogeneity but doesn't takes into consideration the relationship between host country nationals (locals) and host environment. Secondly, the mutual learning behavior can happen only if the local manager in the TMT can have discretion power. Otherwise, the learning behavior might be unidirectional and could not lead to the maximization of the knowledge pool of the whole TMT. In practice, the discretion power is often unequally distributed in terms of local managers and the expatriates. In other word, the improvement of long-term performance, which Gong (2003a) has mentioned, might not be achieved. However, organization learning theory does not involve this disparity in the analytical scheme.

3.3.2 Resource-based view of the firm and contingent RBV model

The resource-based approach focuses on the resource side of the firm rather than the market side (Wernerfelt, 1984). Whether the firm occupies the needed resources and how it deals with the needed resources links to the competitive advantage and performance. Barney (1991) proposes that if the firm owns the resources that are valuable, rare, and imperfectly imitable and substitutable, the firm can obtain sustained competitive advantage and abnormal profit (better performance). The resources include assets, organizational processes, firm attributes, information, knowledge, and so on. Penrose (1959) argues that the inputs of the firm are the combination of the resources for different purposes in different ways rather than the resources themselves. Some other scholars have extracted "capabilities" form Barney's (1991) concept. The capabilities come from the combination and integration of resources and thus are more intangible and inimitable sources of competitive advantage than simple input resources (Peteraf, 1993; Prahalad and Hamel, 1990; Handerson and Cockburn, 1994).

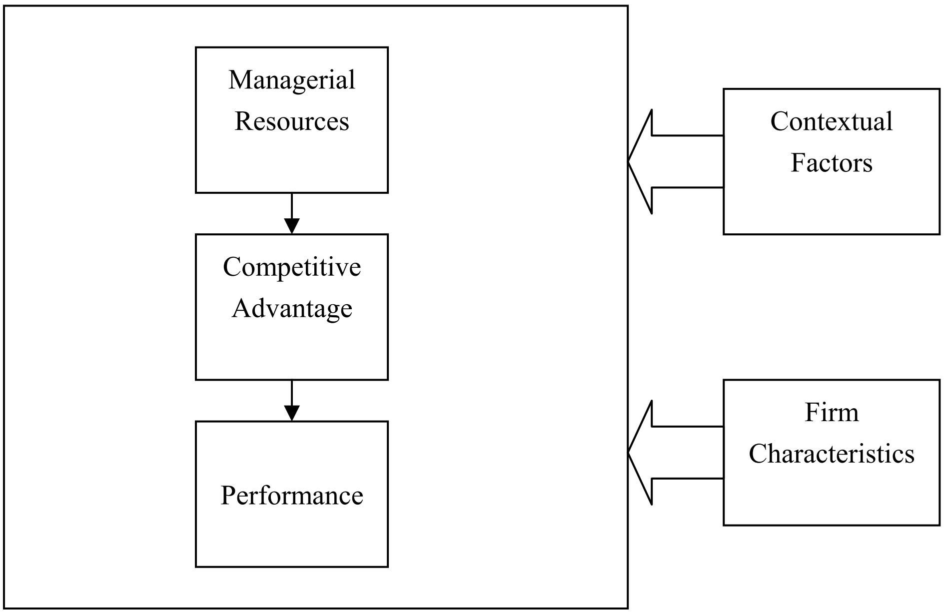
RBV is one of the most powerful approaches to explain the issues in international business (Peng, 2001b). However, in practical adoption the Barney's (1991) four criteria are limited in practical adoption because of their context insensitive character (Brush and Artz, 1999). Rumelt (1984) proposes that the "isolation mechanism" makes those resources and capabilities difficult to imitate and substitute and thus provides potential to generate competitive advantage. The isolation mechanism not only includes resource-related attributes just as what Barney (1991) has proposed, but also can come from the environment-related attributes, such as path dependence and social complexity (Barney, 1991), or specificity of the resources (Wernerfelt, 1984). In other word, the competitive advantages could differ even if two firms have homogeneous resources: the different integration and combination methods will lead to different rent-generating capability.

Therefore, some researchers propose a contingent perspective of the RBV. Brush and Artz (1999) suggest that the "value" of the resources might be contingent to different contexts. Based on empirical investigation into service sector, Hitt at al (2001) find that the returns of the resources also depend on the firm's strategy. Henderson and Clark (1990) imply that the "architectural innovation" could affect the substitutability of the resources. Cohen and Levinthal (1990) pointed out that absorptive capability could speed the imitation. Grant (1996a) suggested that only when the knowledge resource can be integrated into the value adding process the knowledge could be a source of competitive advantage.

The actual and positive linkage between the competitive advantage and the performance is also conditional. The strong bargaining power of resource suppliers and the imperfection of the resource market could weaken the tie between competitive advantage and measurable performance. Thus, the competitive advantage does not always lead to higher firm-level performance because the resource owners might appropriate abnormal rents from the firm (Coff, 1999; Hitt et al, 2001).

Following the contingent perspective of RBV, we classify the contingent factors into two categories: contextual factors and firm characteristics. The contextual factors might include the competitors, resource markets, and customers. The firm characteristics might include firm strategy, organization culture, and other characteristics. Based on literature review, this study proposes a contingent RBV model as the theoretical guidance of localization study (Figure 1).

Figure 1. The RBV Model Used in the Present Study



3.4 Expatriate managers, environment change, and local managers

In the present part, the theory of management localization is developed and the hypotheses are proposed. First, the roles of expatriate managers and local managers are discussed based on analysis of the function of top management team (TMT) and the cross-national expansion of MNCs. Expatriate managers act as a vehicle for superior knowledge from the parent company and, on the other hand, the local manager can be the efficient internalization of local-related knowledge. Secondly, it is proposed that the local-related managerial resources can be the source of competitive advantage of the subsidiaries and thus have implications to the firm's performance. Based on above propositions, we develop five hypotheses about the impact of management localization on performance. Four moderating effects are identified based on the contingent RBV model.

3.4.1 Dominant logic expansion and the role of the expatriate managers

The top management team has strong and influential power on firm's operations and is one of the important factors in the rent generating system of the firm (Hambrick and Mason, 1984; Hitt et al., 2001). The choices made by the top management team are the content of strategic management of a firm (Child, 1972). The managerial resources not only have substantial impact on the internal operations but also have externally-related functions such as dealing with external parties (Barney, 1991; Castanias and Helfat, 1991). The managerial resources embedded in the TMT have been accumulated during the previous operations. Prahalad and Bettis (1986) named such knowledge as “dominant logic” of a firm. The top management team makes decisions based on those skills and knowledge accumulated from previous experience. Because the dominant logic is path-dependent, it is difficult to shift in accordance with the environmental change (Prahalad and Bettis, 1986).

The expansion of MNCs can be considered the exploitation of their own superior resources. The critical advantage that a MNC brings to its subsidiaries is its superior knowledge (Bartlett and Ghoshal, 1997; Kogut, 1991; Penrose, 1959). The resources especially knowledge and skills are often difficult to codified and transferred (Kogut and Zander, 1993). The subsidiaries of the multinationals adopt similar (if not the same) production, marketing, and management techniques to their parent company. They have similar organizational structures and share the same organization norms and culture. The expatriate managers in the TMT are the holders and transferors of the superior knowledge. Many of them come from the parent companies or other subsidiaries with years’ experience prior to their assignments to the new subsidiary. They are familiar with the parents’ strategic goals (Kobrin, 1988). They have already internalized the parent companies’ cultures, values, and norms (Gong, 2003b). The routinized “best practice” embedded in the expatriate managers, which forms the dominant logic of the subsidiaries, becomes a critical source of success in cross-borders expansion. These parent-company-related knowledge and skills are not available in local managers for three reasons: 1) the tacitness and uncodifiablility of these knowledge and skills; 2) the different knowledge base of the expatriates and locals; and 3) the different learning environment (Gamble, 2000; Kobrin, 1988).

3.4.2 Environmental change and the expatriate strategic failure

Many management researchers treat an organization as an adaptive system. In other word, the organization has to match the environment complexity and changes in a nontrivial way (e.g., Boisot and Child, 1999; Holland, 1975). The resource dependency theory suggests that the inter-dependence among organizations (i.e., between organization and its external interest parties) forces them to meet the external expectations and requirements (Pfeffer and Salancik, 1978). In a multinational environment, the subsidiary not only faces an external environment different from the parent country in terms of the interest groups, institutional forces, and cultural, social and economical conditions, but also encounters a different internal environment, i.e., the workforce mostly composed of the host country nationals (HCNs). Therefore, the management behaviors of the subsidiaries need to respond to these differences.

From the organizational ecology theory, Hannan and Freeman (1989) argue that the two properties of the organization, named reliability and accountability, give advantage to the organizations through improving the internal efficiency. At the same time, the organizations have high inertia due to the efficient practice routines and the rules to switch between routines. When the environment changes, whether the adaptation to the different environments is successful or not depends on the change speed of environment and the speed of organization's correspondent changes to adapt to it (Hannan and Freeman, 1989).

In a word, it is necessary to adjust the dominant logic to achieve effective strategic management. Because of the inertia of dominant logic and the TMT composed of the expatriate managers, the managerial resources from the expatriate managers probably do not match the new environment very well. Moreover, the need for location-specific knowledge and the lack of absorptive capability for learning can lead to the expatriate failure at strategic level. A detailed analysis is as follows.

In the organization-environment exchange, information about the environment must be correctly and efficiently obtained, filtered, and processed into a central nervous system of sorts, in which the organization's choices and reactions are made (Daft and Weick, 1984). This exchange process, which Daft and Weick (1984) defined as "interpretation", includes translating environmental events, developing models for understanding, bringing out meaning, and assembling conceptual schemes among the top managers. If the subsidiary faces a very different local environment from that of the parent company, top managers might encounter serious problems because of the interpretation bias due to the lack of consistent decoding and coding system.

According to the communication theory, consistent decoding and coding scheme must be developed between the sender and receiver (Gupta and Govindarajan, 2000). Kogut and Zander (1993) also mentioned the importance of coding system in knowledge transfer. The coding system itself is a kind of knowledge. The essence of this knowledge is how to correctly desymbolize the environmental information and how to react to the environment in an understandable way. This knowledge also constitutes into the absorptive capability (Cohen and Levinthal, 1990). It is likely that this knowledge is tacit and difficult to codify and transfer. It relates to the custom, religion, routine, culture, and social and economic conditions and is location-specific and highly context-dependent. It was historically created, accumulated, and routinized by nationals through long-term interactions among them and the environment they live in.

Therefore, in a host environment dissimilar with parent country, the “strategic failure” of the expatriates could happen: the expatriate managers will find it difficult and even fail to cope with the organization-environment exchange. It is also unlikely that they can easily obtain these knowledge and skills in a short time through “learning by doing” or training due to the tacitness of the knowledge and the high contingency of these resources’ application to the daily decision-making process.

3.4.3 The role of local managers and resource internalization

When the expatriate managers cannot adapt to the change of the environment, involving local managers in the TMT of the subsidiary might be a feasible solution to react to the changes. Growing up from the local environment, local managers have local-related managerial resources. These resources are complement to the parent-company-related managerial resources owned by the expatriate managers. These local-related managerial resources embedded in the locals were created and accumulated from the long-term local experience under the local climate. Moreover, they are not only the information of the local environment but also the knowledge that is hard to codify and teach (Nonaka, 1994).

For example, in China, the managers of the foreign invested enterprises should know more about the effects of the *Guanxi* (interpersonal relationships) in business operations. Without local-related managerial resources, many managers from Western countries cannot understand why their rivals can win the business through negotiating with customers on the dinner table rather than on the working table. Moreover, the managers should know how to motivate their local employees through changing their management patterns that come from parent company. They certainly have more chance to succeed if they have constructed strong valuable social relationships.

Theoretically, involving local managers in the TMT is internalization of local-specific knowledge and skills. They might take two roles: mediator and accelerator. Erdener and Torbiorn (1999) conclude that "unfamiliarity, unpredictability, and complexity of the foreign environment create a need for cultural mediators who are knowledgeable about the host country culture." As mediators, local managers can act as translators to identify and interpret the environment changes and to resymbolize the possible reactions to environment. Thus, the conflicts and mismatch between the TMT and the environment could be reduced. On the other hand, involving the individuals with location-specific knowledge in the subsidiaries can speed up the knowledge creation through socialization and accelerate the knowledge upgrading of the TMT (March, 1991; Nonaka, 1994).

Compared with outsourcing methods to gain local-related knowledge and skills such as external training and consulting, internalizing the locals could be more efficient. Due to the high context-dependence nature of local-related knowledge, the expatriate managers cannot effectively and efficiently obtain the knowledge and skills from secondary data or other institutions. In other words, because of the tacitness and individual-stickiness of the managerial resources and the alien character of the expatriates, internalizing the local managers into the organization is the most efficient solution (Nonaka, 1994). Moreover, managerial resources cannot be gained from market transactions because the transaction costs and risks would be extremely high due to high assets specificity and possible opportunism behavior (Williamson, 1975). Furthermore, it is practically infeasible to assign all the local-related operations to external institutions.

3.4.4 Evidence: The importance of local-related managerial resources in China.

China, which has the biggest population in the world, is attracting more and more foreign direct investment since 1979. During the past twenty years, China has absorbed nearly 4,997,600 million US dollars FDI from 1979 to 2003 (China Yearbook, 2004). The survey from Kang Management Adviser Company indicated that China has replaced Brazil, becoming the second most popular region among foreign investors after the U.S.A. By year 2000, 400 of the *Fortune* TOP 500 MNCs have invested in China (Luo, 2000).

However, many researchers have pointed out that China cannot promise the players fruitful results if they ignore the special situations and characteristics of China. What the most MNCs encountered in China is an environment different from that in their parent countries. Cultural differences, structural uncertainty, and the fast changes during transition might make the local environment more difficult to adapt to and to react effectively. As a typical Eastern culture, the Chinese culture has many different characteristics from those of a typical Western culture under which the most MNCs are grown up. These differences could have impact on the management and operations of the MNCs (Hofstede, 1993; 2001). The transformation from a centralized economy to a market-oriented economy triggered the fast changes in the policy system and industrial environment, which increases the uncertainty and risks (Luo, 2000).

Treating China as a complex social system, Boisot and Child (1999) propose that the historical characters shaped the different and complex nature of Chinese society compared with those Western industrialized countries. They also propose two alternative strategies to handle the complexity of Chinese system based on complexity theory and the "information space" framework. One is "leave it alone", which means the standardization approach. However, previous empirical studies do not support that this approach would lead to better results (Boisot and Child, 1999). The other is using local Chinese capabilities to absorb it. The latter approach might be less efficient but offer a greater chance for those MNCs from Western countries to survive in a complex and unpredictable environment (Hannan and Freeman, 1989).

Under the host environment with high uncertainty and complexity, the managers, especially the top managers of the subsidiaries from Western countries, desperately need the local-related knowledge and skills. The huge environmental difference makes the upgrading of managerial resource more necessary. Therefore, as an efficient and feasible channel to own the local-related managerial resources, localization of the TMT is more important in China than elsewhere.

3.5 The contingent effects of management localization on performance

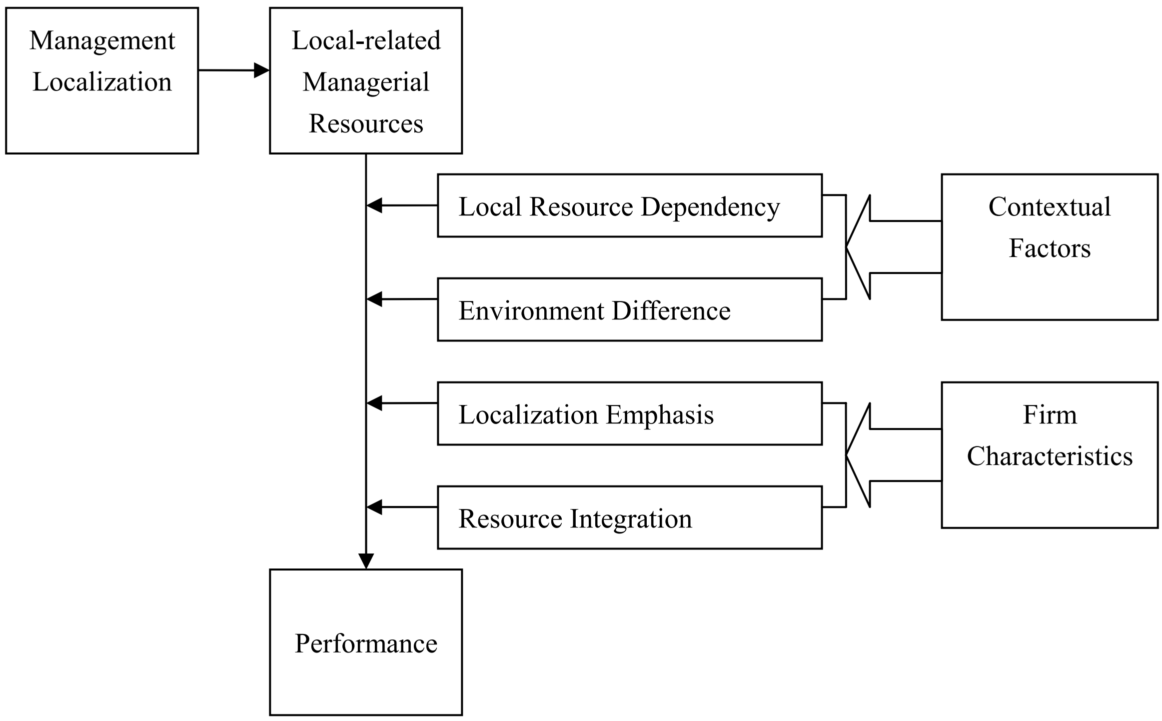
As discussed, local-specific knowledge and skills can help a subsidiary to achieve effective exchange between the firm and local environment. Involving the locals in the TMT could be the most efficient way to enlarge the resource pool of the TMT. Furthermore, Castanias and Helfat (2001) argue that the characteristics of managerial resources satisfy Barney's (1991) criteria and they are important sources of competitive advantages and contribute to the rent generating process for the firm. As the vehicle of local-related managerial resources, qualified local managers are rare in China (Gamble, 2000). As a possible "imitation" method, poaching local managers from other rivals might not bring the same managerial resources because the managerial resources are intangible and HR management practice is of high specificity and complexity (Wright et al, 1994). Coff (1999) proposes that if the resource owner has more bargaining power to appropriate abnormal benefits the competitive advantage might not lead to better measurable performance. Hitt et al (2001) also found that the curve-linear relationship between human capital and performance could attribute to the high costs of superior human resources. However, in China, this situation might not happen after localization due to the big compensation disparity between the expatriates and local managers (Chen et al, 2002).

Therefore, it can be concluded that local-related managerial resources have the potential to bring competitive advantage. However, because management localization is a substitution, the managerial resources embedded in the expatriate managers might be lost after localization. Those resources are as same important as local-related resources. Therefore, management localization alone could not promise a better performance. Furthermore, from RBV, the rent-generating process could be influenced by contextual factors and firm characteristics. In this part, we discuss the main effect of the management localization and identify four moderating factors.

Following previous literature, we identify two factors that influence the value of local-related managerial resources. The value relates to the subsidiary's need for local-related managerial resources. First, the need can be attributed to the degree of environmental difference. The more environmental difference between parent and host countries, the more likely the failure could happen. Consequently, the need for local-related managerial resources increases. Secondly, the dependence on local environment could influence the need for local-related resources. The less dependence, the lower necessity for the subsidiary to react to host country environment and, therefore, the lower need for local-related managerial resources. Besides above two environmental factors, firm strategy also can moderate the effect of management localization. As a method to obtain local-related resources, management localization is not costless. The leave of the expatriate managers might reduce the knowledge pool and weaken the lies between parent company and the subsidiary. The consequent loss of parent-related resources, i.e., the cost of localization, depends on the degree in which the skills and knowledge of expatriate managers were retained in the localization process. Therefore, the success of localization process could be the third factor to influence the benefit of management localization. The second firm factor is how to utilized and integrate the local-related resources within the subsidiary. The realization of the power of local-related resources depends on the participation of the local managers in the management practice (Grant, 1996a).

In summary, four factors, namely, localization effectiveness, cultural distance, resource dependence, and decision participation could influence the linkage between management localization and performance. According to the contingent RBV model, a conceptual model of the effect of management localization can be established (Figure 2). In the following parts, more details are discussed and five hypotheses are proposed.

Figure 2. The Conceptual Framework



3.5.1 Main effect of localization

Even though management localization can help the subsidiary adjust to local environment, it is hard to conclude that management localization alone can improve the performance. Previous literature suggests that the expatriates have more functions than the vehicles of managerial resources in the subsidiary-parent relationship.

Expatriate managers could also benefit the subsidiaries in the following three ways: cultural control, absorptive capability of the inflow knowledge, and the transfer channels. First, Ouchi (1979) posits that the expatriates can help the parent companies exert cultural control on the subsidiaries through duplicating the same organizational climate as the parent company. Secondly, the common shared knowledge between expatriates and the parent companies will improve the absorptive capability, and thus the inflow knowledge from parent company and other subsidiaries can be correctly decoded and efficiently absorbed by the top management team composed of the expatriates (Cohen and Levinthal, 1990). Lastly, the richer social ties and closer relationships with parent companies and other subsidiaries also provide broad channels to transfer the knowledge into the subsidiaries (Gupta and Govindarajan, 2000).

Management localization is a substitution. The expatriate managers as a managerial resource might be not perfectly substitutable. The reduction of the expatriate managers may result in a loss of parent-company-related managerial resources not available in local managers even if a successful localization process was conducted.

According to the contingent RBV, the resource's impact on performance is also conditional. As we will discuss in the coming parts, the contextual factors and firm characteristics could moderate the impact of management localization and even change the direction of the relationship. Thus, the first hypothesis is proposed as following.

H1: Management localization has no significant direct impact on the performance of the subsidiaries in China.

3.5.2 Contingent value of the local-related managerial resources

The value of resources will differ in terms of different context and firm strategy (Hitt et al, 2001; Brush and Artz, 1999). It is argued that country difference and resource dependence could change the value of local-related resources brought by management localization.

Cultural distance. As we discussed in previous part, the dominant logic of the TMT might mismatch the local environment if the local environment is very different from that of parent company. The expatriates' knowledge and skills need to be upgraded in respond to the local environment. In China's transition economy, cultural difference, institutional uncertainty, and the changing environment call for the location-specific knowledge and skills. However, the alien property of the expatriate managers might impede the effective exchange between the subsidiary and local environments. On the other hand, if the subsidiary lies in similar environments with the parent countries, the expatriate managers will encounter less mismatch problem. Moreover, they might share common cultural background (i.e., absorptive capability) with the local environments and can learn from environments efficiently and upgrade their knowledge quickly. Consequently, management localization might not be a necessary choice and its impact is limited. Following other studies (e.g., Davidson, 1980; Li and Guisinger, 1991) about the location similarity of FDI, we use the cultural distance as the proxy of country environmental difference. Thus, we propose the following hypothesis:

H2: Cultural distance moderates the effect of management localization of the TMT on the performance of the subsidiaries in China: localization leads to higher performance at the FIEs from culturally distant countries than those FIEs from culturally similar countries.

Resource dependence. Resource dependence theory suggests that inter-dependence among organizations (e.g., between the organization and its external interest parties) forces organizations to meet the external objectives or requirements of various groups due to the asymmetric resource dependence (Pfeffer and Salancik, 1978). In a multinational environment, the external dependent parties of the subsidiary might be dispersed and not constrained to the local environment. The subsidiary also depends on the parent company, foreign suppliers and customers, and so on. Oliver (1991) argued that the lower degree of external dependence, the greater the likelihood of organizational resistance to institutional pressures. The dispersal of resource dependence will influence the attitude of the subsidiaries toward the changes in host environments, institutional force, and interest parties' requirements. The higher dependence on local resources, the more necessity for the subsidiary to identify with and react to local environment. The local-related knowledge and skills could be more useful and valuable to those local resource dependent subsidiaries. In other word, management localization can bring more benefits if local resource dependence is high. Previous studies also imply that resource dependence on local resources and institutions could influence the human resource management of the multinationals (e.g., Hannon et al, 1995).

H3: Resource dependence moderates the effect of management localization of the TMT on the performance of the subsidiaries in China: localization with high resource dependence on local environment leads to better performance than those with low resource dependence on local environment.

Effectiveness of localization process and internal efficiency. Although parent-company-related managerial resources cannot be perfectly transferred to the local successors, the effectiveness of the localization does matter. Wong and Law (1999) and Fryxell et al (2004) defined the "effective localization" as the successful knowledge transfer from the expatriate managers to the locals. Actually, the effective localization has two direct effects on the subsidiary. First, it can make the local managers develop more knowledge and skills from parent company within the subsidiary after the leave of the expatriate managers. Secondly, through socialization during the localization process, the local managers might have assimilated into the culture and norms of parent company. Their shared common "language" could reduce the conflicts and frictions within the mixed TMT and, therefore, improve the internal efficiency (March, 1991). On the other hand, the shared knowledge can also help the subsidiary strengthen the weakened ties with parent company and other subsidiaries after the leave of the expatriates (Gupta and Govindarajan, 2000). Both the above effects can magnify the benefits of management localization and contribute to better performance of the subsidiary.

However, the problem is how to operationalize and measure the effectiveness of the localization process. The practical effectiveness is measured by the performance (e.g., KPI, Key Performance Indicators). In other word, if local top managers get high evaluation in terms of KPI, A high evaluation could be given to the effectiveness of localization process. Therefore, there should be automatic high correlation between the performance and the effectiveness of localization process. Exploring the relationship between effective localization and performance could become tautological. To avoid tautology, we adopted the localization emphasis as the indicator of effective localization process. Most of the literature about the localization process proposed the high positive correlation between localization emphasis and effectiveness of the management localization. Wong and Law (1999) and Fryxell et al (2004) suggest that the localization emphasis from MNCs is the important predictor of effective localization. The emphasis includes 1) the positive attitude toward localization, 2) the development of a detailed localization plan, and 3) explicit training schedule for local candidates (Cohen, 1999). Thus,

H4: localization emphasis moderates the effect of management localization of the TMT on the performance of the subsidiaries in China: localization with high localization emphasis leads to better performance than those with low localization emphasis.

Resource integration. Previous studies suggest that the resources will not generate maximum rents for the firm until the resources are effectively integrated to the rent generating system (Grant, 1996a; Barney et al., 2001). Harrison et al. (2001) believe that the resource complementarity is an insufficient condition to achieve synergy unless the resources are effectively integrated and managed to realize the synergy. If the subsidiary more frequently involves the local mangers in the management processes and authorizes them to make decisions, the decisions could reflect the advantage of the enlarged managerial resource pool. Unlike in a domestic company, expatriate managers and local managers in the subsidiaries of the MNCs may have different levels of decision power. The expatriate managers are treated as the controllers and guiders of the oversea affiliates, especially joint ventures (Kobrin, 1988; Gong, 2003b). In many subsidiaries in China, the expatriates have more discretionary power than the local counterparts. If the participation of the local managers to the decision-making processes is limited, exploitation of the local-related managerial resources will be limited. On the other hand, if the local managers participate actively in the decision makings of the subsidiary and their opinions are well considered, the subsidiary's reactions to the environment could be more effective. Therefore, we propose our last hypothesis as following:

H5: Decision participation moderates the effect of management localization of the TMT on the performance of the subsidiaries in China: localization with high decision participation of the local managers leads to better performance than those with low decision participation of the local managers.

CHAPTER 4. RESEARCH METHODS

4.1 Data collection

We conducted in-depth interviews and a questionnaire survey in Mainland China in 2004. The purpose of the interviews is 1) to reinvestigate the practical significance of localization issue, 2) to clarify the definition and content of localization, and 3) to provide supports for questionnaire design. The aim of the questionnaire survey is to find empirical support for the proposed five hypotheses.

The interviews were conducted face to face during August and September and are guided by an open framework (Please refer to Appendix B for details). We selected twenty FIEs according to representativeness and convenience. After initial contact, eight FIEs accepted the invitation for interview. They are located in Beijing, Shanghai, and Nanjing. All the interviewees from eight FIEs are high-level managers, including one General Manager, four HR directors, and three Sales/Marketing directors. Two FIEs come from USA, one comes from Taiwan, two come from Japan, two come from Germany, and one comes from Korea. Four of the eight FIEs are invested by MNCs ranked *Fortune* TOP 500. To obtain a more complete profile, three senior consultants from three HR consulting companies were also interviewed. All the three consulting companies are specialized in providing HR services to FIEs in China for more than five years. The interviewees were asked the prepared questions in their office. The duration of interviews ranges from half an hour to two hours. Their comments and opinions were recorded in texts and reorganized by the interviewer before interviewees' confirmation. The information is recoded and analyzed based on Yin (2002).

Data for hypotheses testing were collected through a questionnaire survey after the interviews. The sampling areas for questionnaire survey include Beijing, Shanghai, Jiangsu, and Guangdong, which totally have attracted nearly half of the FDI in China (China Yearbook, 2004). The population is defined as the legally independent foreign invested enterprises in China that have been in operation for more than two years. The representative offices of the MNCs in China are excluded. During the initiation period, more expatriates might be assigned to help the newly established firms (Cui, 1998). In other word, there exists an entrepreneur bias. Therefore, we excluded those newly established subsidiaries. To those FIEs with two or more foreign investors, we defined "parent company" as the foreign company who has the largest equity ratio in the subsidiary. The sampling framework is based on the manufacture enterprises in 11 economics and technique development zones (ETDZs) in above sampling areas. We also added the FIEs listed in the Directory of American Chamber of Commerce (2004) and HKMA (Hong Kong Management Association) Directory (1999) to balance the number of FIEs from North America and Hong Kong. The total number of FIEs involved is about seven hundred. All the FIEs come from manufacturing industries.

We have contacted the Administrative Commissions *(Guanweihui)* of ETDZs and asked them to distribute our questionnaires to the top-level managers of the companies in their zones. We received help from commissions of four ETDZs. We mailed a cover letter including pledge of confidentiality and the questionnaire to the CEO, General Managers, or other persons in the TMT in all other seven ETDZs. The expatriate managers in the TMT are preferred. The respondents should not represent the interests of local partner(s) in the joint ventures. We followed up by e-mail and telephone. To those FIEs with no detailed managers' information, we contacted the HR department head by phone and asked them to fill out our questionnaires. Totally, there are 86 responses and 80 responses are valid with no missing value. The total valid response rate is about 12%.

The respondents are CEOs, General Managers, or HR managers. Because in some FIEs HR department manager is treated as mid-level, 68% of the respondents are top-level managers, and 32% are mid-level managers (primarily HR managers). As for the ethnic origin of the respondents, 53.5% are local Chinese and others are expatriates (23.7% are oversea Chinese and 23.7% are non-Chinese expatriates). ANOVA tests show that there is no significant difference between different levels of management position and different ethnic origins in major variables.

4.2 Operationalization and measures

4.2.1 Management localization

The localization concept is multidimensional and complex and it is not feasible to measure the localization directly. The present study only focuses on the pure localization, i.e., substituting the expatriate managers with the local managers.

Therefore, we operationalize localization of the TMT as the ratio of the local hired managers among the top managers of 11 top-level positions (i.e., CEO and the directors of the subsidiaries). The ratio approach is based on the following two reasons.

The first, we adopt the ratio of the local top managers because the ratio might satisfy the face validity of the localization construct and is more objective. The localization variable is difficult to be operationalized as the quality or quantity of the local-related resources embedded in local managers. The direct judgment of localization, such as the effectiveness of localization or degree of localization, also could lead to serious tautological problem due to its subjectivity.

Secondly, there is a theoretical consideration of the localization measure. Castanias and Helfat (2001) argued that the knowledge and skills embedded in top managers are unique and hard to imitate. It is likely that when the ratio of the local managers increases, the local knowledge pool will be enlarged accordingly. At the same time, the knowledge pool from the expatriates might decrease. The same measure was used in Gupta and Govindarajan (2000) and Gong (2003b).

We classified the top managers into four categories, the local managers, the oversea Chinese expatriates, the non-Chinese expatriates, and others that are not included in former three categories. Top managers are defined as those individuals that typically include the CEO and the people who report directly to the CEO (usually the functional heads of finance, sales, R&D, and manufacturing), all of who work full time for the firm in executive positions (Eisenhardt and Schoonhoven, 1996). As discussed in the definition part, the Chinese returnees, if assigned by the parent company and not locally hired, are not considered locals. To joint ventures, some local top-level managers (often also are Board members) are representatives of local parent companies. They are hired by local parent companies and are safeguards of local partners' rights and interests. They did not experience the localization process, nor need the necessary managerial resources related to local environment or foreign parent company. Based on our assumption, they would not be considered the outcomes of management localization. Therefore, we asked the respondents to exclude the persons at top level who are representatives of local partner(s) when calculating the number of top managers in 11 top positions.

4.2.2 Other major variables

Multidimensional scales are used to measure major variables. The criteria for performance may vary across subsidiaries and it is not possible to use a single performance criterion for all subsidiaries (Roth and O'Donnell, 1996). We asked the respondents to compare his or her company with the top three competitors in the local market. Moreover, market performance and financial performance are measured respectively.

Using Hofstede's culture indices (Hofstede, 1993; 2001), the *cultural distance* is calculated based on the deviation along each of the four dimensions (i.e., power distance, uncertainty avoidance, masculinity/femininity, and individualism) of each country from the China ranking. The calculation method in Kogut and Singh (1988) is adopted. The same approach was used in Gong (2003b) and Luo (2001). Algebraically, the index is built as following:

$$CD_{j/China} = 1/4\Sigma[(S_{ij} - S_{iChina})^2/Vi]$$

where S_{ij}=the score for cultural dimension *i* of parent country j; S_{iChina}=the score for cultural dimension *i* of mainland China; and V_i =variance of the dimension *i*.

The *resource dependence* refers to the relative importance of the resource provider to the subsidiaries. The resource dependence can be classified to three categories: dependence on parent's resources, dependence on local resources, and dependence on host institutions. The measurement of the construct is adopted from Prahalad and Doz (1981) and Ghoshal and Bartlett (1990). The measures also were used in Hannon et al. (1995). *Decision participation* refers to the involvement of the local managers in the firm's decision process. Decision participation is firm-specific characteristics. Even though the local managers assumed most senior positions, the participation to decision making might be very inactive. Some firms have formal and fixed policies (such as regulatory meetings and reports) that the local managers should be included in the decision-making. Other firms only have informal routines and climate for decision participation. We asked the respondents about whether formal regulation or informal routines are developed to motivate the local managers to exert their authority. *Localization emphasis* was measured by a group of items about attitude toward localization, localization plan, and local managers' training.

Except management localization, all above variables are measured by 7-point Likert scale. Please refer to Appendix A for the items used.

4.2.3 Control variables

We include the firm-specific variables to control for the firm variations. Firm-level variables are the amount of invested capital, number of employees, length of operation, entry mode (wholly owned subsidiary vs. joint venture, coded as 0 and 1 respectively). Interaction term between localization and length of operation was also included.

CHAPTER 5. RESULTS

5.1 Results of in-depth interviews

The in-depth interviews with eight typical FIEs and three consulting companies support that the localization concept practically exists and is conceptually consistent and convergent. Although the respondents' descriptions about of localization are multidimensional, the basic content of localization was clearly linked to "local-oriented" and "making local". Moreover, they all agree that localization not only is an important practical issue in international human resource management (IHRM) but also stands in the strategic level in the FIE operations. Three of the eight interviewed FIEs have formal policies and schedules to localize their high-level management team. With the help from consulting companies, some of them also have developed localization programs, implemented localization strategy, and had measures to evaluate the outcomes. Although there was no consensus on the detailed benefits, most of the FIEs believed that localization has had positive implications for their performance in China. Three possible beneficial outcomes can be identified: cost reduction; career opportunity for local employees; and improvement of local business development.

The results show that localization has three levels: 1) substituting the expatriates with locals; 2) the local-oriented products, i.e., design or develop products according to the local market; and 3) localizing the management practice, e.g., adopting human resource management and financial management with local characteristics (Please refer to Table 1 for the content of localization).

Table 1: The Dimensions of Localization

Content	**No. of interviewees**	**Selected journal articles**	**Classification**
Substituting the expatriates with locals	11	Wong and Law, 1999; Fryxell et al, 2004; Gamble, 2000	Management localization
Localizing management practice	6	Chen and Wilson, 2003; Katrin, 1996; Latta and Cummins, 1999	Instrumental localization
Localizing products	3	Sugiura, 1990	Technical localization

Note: "No. of interviewees" represents the number of interviewees who have mentioned that content.

Based on the results of the interviews, we discriminate the three levels of localization from each other in terms of transition difficulty, consideration, and consequences (See Table 2), which shows the discriminant validity.

Table 2. Discriminant Validity

Dimension	Consideration Ex Ante		Consequence			Transition difficulty
	Operational	Strategic	Strategic	Effectiveness	Efficiency	
Technical localization	High	Middle	Middle	Middle	High	Low
Instrumental localization	Low	High	High	Middle	High	High
Management localization	Middle	High	High	High	Low	Middle

5.2 Descriptions of survey data

The descriptive statistics suggest that among the valid responses, 61.8% are wholly owned subsidiaries and others are joint ventures. The FIEs' investments come from twelve countries and areas, such as USA, France, Germany, Japan, Korean, Hong Kong, and Taiwan. As for the country of origin of parent companies, 16 firms are from Europe, 20 from North America, 25 from Hong Kong and Taiwan, and 19 from other Asian countries. The invested capital ranges from 200,000 US dollars to 460 million US dollars; the number of employees ranges from 40 to 12,000; and the length of operation ranges from two years to twenty-six years. Thus, the sample represents different types of FDI operations in China.

After the data pre-processing, we tested the reliability of the measures for the key variables, which ranged from 0.69 to 0.88 and proved to be adequate. Please refer to the Appendix A for the results of reliability tests. Table 3 shows the correlations between variables.

Table 3. Mean, Standard Deviation, and Correlation Matrix

	Mean	Std. Deviation	X1	X2	X3	X4	X5	X6	X7	X8	X9
X1 Length of operation	9.760	5.642									
X2 Capital	59333015	147671249	-.109								
X3 No. of employee	1075.28	1853.62	.341**	-.003							
X4 Localization	.532	.251	-.030	-.070	-.379**						
X5 Local participation	5.050	.863	.312**	.016	-.076	.144					
X6 Cultural distance	2.001	1.252	-.209	.183	-.128	.135	-.028				
X7 Localization emphasis	4.930	.983	.162	-.025	-.005	.190	.321**	-.136			
X8 Resource dependence	4.397	1.221	.106	.008	-.006	.165	.040	-.148	.073		
X9 Market performance	4.789	.949	.151	.233*	.064	.254*	.114	.251*	.265*	-.063	
X10 Financial performance	4.456	1.069	.080	.332**	-.263*	.231*	.062	.241*	.299**	.030	.704**

Note: *: sig.<=0.05, **: sig.<=0.01.

5.3 Hierarchical regression analysis

Hierarchical regression analysis for market performance and financial performance was conducted. The multicollinearity tests showed there is serious multicollinearity among several terms (VIF>40). Therefore, we use mean-centered method to correct the multicollinearity problem (Aiken and West, 1991). After correction, all the values of the VIF are smaller than ten and most of them ranged from 1 to 2, which implies the successful correction. Due to the small sample size, we reported the results with significance level lower than 0.1. The same approach is used in Luo (1998).

Table 4 shows the results of the regression analysis using market performance as dependent variable. The high adjusted R-square of Model 3 (Adjusted R Square=0.293) shows that fit of the regression model is very good. In the base model (Model 1), the localization has no main effect on market performance. When we add other variables and the interaction terms (Model 3), the main effect of the localization is still not significant. Thus, H1 was supported. The positive coefficient of the interaction between localization and local resource dependence (Standardized Beta =0.336, $p<0.05$) shows that the higher local resource dependence, the more benefits the management localization can bring. Thus, H3 is supported. The interaction term between localization and localization emphasis (Standardized Beta =0.129, $p<0.1$) is significant and the coefficient is positive, which means the localization with higher emphasis can bring higher performance and supports H4. Similarly, the positive coefficient and the significance level of the interaction term between localization and local participation also support H5 (Standardized Beta =0.204, $p<0.1$). All the main effects of major variables, except localization emphasis (Standardized Beta =0.253, p<0.05), are not significant. In summary, H3, H4, and H5 for market performance are supported. However, the coefficient of the interaction between localization and cultural distance is marginal negative (Standardized Beta =-0.113). H2 is not supported.

In table 5, regression on financial performance as dependent variable did not show any significant predictor variables. The high adjusted R-square of Model 6 (Adjusted R Square=0.403) shows the good fit of the regression model. The main effect of localization is still insignificant, which shows H1 is supported. Similarly, the results show the significant positive impact of the interaction between localization and local resource dependence (Standardized Beta =0.404, p<0.01). Thus, H3 is supported. It is worthy of pointing out that main effect of localization emphasis is significant (Standardized Beta =0.356, p<0.01) for both performance measures. The positive coefficients suggest the importance of localization process. As long as the localization process was carefully planed and managed, better financial performance could be achieved in spite of the degree of localization. Except for the interaction between localization and local resource dependence, the other predicted relationships between interaction terms and financial performance are not significant, which show that other three hypotheses (H2, H4, and H5) were not supported for financial performance. The insignificance of the proposed relationships might be attributed to 1) the fact that financial measures could be biased more easily than market measures for performance; and 2) the possibility that there is no direct or strong effect on financial performance.

The directions and the significance of the most control variables in both regression functions also are consistent with relevant previous studies, providing support for our data and analysis process. The small sample size might be responsible for the non-significance and the low significance level of the proposed relationships. If the sample size increases, we believe that the proposed relationships could be more significant. Moreover, H2 was not supported by the regression results and even the directions are opposite to predicted. The alternative explanation is that the insignificance could be attributed to the measurement bias. First, the cultural distance might be not so accurate to be the proxy of environment differences although previous studies have adopted this method. The differences in terms of economic and social characteristics are not included in the cultural measures. Secondly, the coefficient estimation could be biased if some other excluded variables positively related to the performance have strong positive correlations with the culture measure.

In summary, except H2, all the hypotheses were supported or partially supported by the regression analysis on the collected data.

Table 4: Hierarchical Regression Analysis Results for Market Performance

Dependent Variables	Market Performance		
Model Fitness	Model 1	Model 2	Model 3
R-square	0.166	0.272	0.417
Adjusted R-square	0.106	0.172	0.293
Sig. F Change	0.025	0.062	0.008
F value	2.754	2.703	3.363
Sig. Level	0.025	0.010	0.001
Independent Variables			
Length of operation	0.106	0.118	0.236†
Entry mode	-0.053	0.008	0.002
Capital	0.270*	0.232*	0.234*
No. of Employees	0.152	0.151	-0.081
Localization (H1)	0.339	0.266	0.047
Localization emphasis		0.240*	0.238*
Local participation		-0.036	-0.137
Local resource dependence (RD)		-0.098	-0.023
Cultural distance (CD)		0.248	0.267
Interaction between Localization and CD (H2)			-0.046
Interaction between Localization and RD (H3)			0.279*
Interaction between Localization and Localization emphasis (H4)			0.157†
Interaction between Localization and Participation (H5)			0.204†

Note:
1) †: sig.<=0.1, *: sig.<=0.05, **: sig.<=0.01.
2) Entry mode: WOS-0; JV-1.

Table 5: Hierarchical Regression Analysis Results for Financial Performance

Dependent Variables	Financial Performance		
Model Fitness	Model 4	Model 5	Model 6
R-square	0.237	0.363	0.508
Adjusted R-square	0.182	0.275	0.403
Sig. F Change	0.002	0.018	0.003
F value	4.285	4.123	4.842
Sig. Level	0.002	0.000	0.000
Independent Variables			
Length	0.211†	0.274*	0.382**
Entry mode	-0.002	0.094	0.084
Capital	0.369**	0.333**	0.311**
No. of Employees	-0.281*	-0.304*	-0.504**
Localization (H1)	0.166	-0.062	0.065
Localization emphasis		0.327**	0.338**
Local participation		-0.168	-0.248*
Local resource dependence (RD)		0.014	0.051
Cultural distance (CD)		0.250	0.289
Interaction between Localization and CD (H2)			-0.273
Interaction between Localization and RD (H3)			0.336**
Interaction between Localization and Localization emphasis (H4)			0.037
Interaction between Localization and Participation (H5)			0.084

Note:
1) †: sig.<=0.1, *: sig.<=0.05, **: sig.<=0.01.
2) Entry mode: WOS-0; JV-1.

CHAPTER 6. DISCUSSION

6.1 Conclusions and discussions

Localization is a complicated but very important issue to the operations of the MNCs in China. However, academic study on localization is lacked due to the difficulty both in conceptualization of localization and in theorization. The present study tried to bridge the gap by clarifying the localization concept and developing a theoretical framework. Moreover, empirical data collected from FDI in China were used to test the hypotheses.

First, the present study has verified the conceptual validity of localization. The findings reconfirm the significance of localization research and show that localization is a multidimensional concept. The dimensions cover the technical and managerial cores of the subsidiaries. Among the forms of localization, two different dimensions are identified: managerial localization and technical localization. Managerial localization is categorized into two forms: instrumental localization and management localization.

Secondly, based on data from questionnaire survey, the present study has explored the strategic outcomes of management localization. Previous studies on localization are limited in micro level, i.e., in organizational behavior and HRM domain. Our study attempts to bridge the gap by showing that the localization of the TMT can bring better performance under certain circumstances. On one hand, the expatriates' knowledge and skills (i.e., managerial resources) is vital to the subsidiary; on the other hand, these knowledge and skills need to be upgraded in respond to the local environment. In China's transition economy, cultural difference, institutional uncertainty, and the changing environment call for the location-specific knowledge and skills. The proposition that local-related knowledge has implications for the performance of the subsidiaries is consistent with Makino and Delios (1996). However, the alien property of the expatriate managers might impede the effective exchange between the subsidiary and local environment. Involving local nationals in the TMT can internalize the local-related skills and knowledge that are especially useful to the local operations. These skills and knowledge embedded in local managers can be treated as important resources input to the subsidiaries.

The contingent effect of localization we proposed suggests that the benefit of management localization is not totally determined by the ratio of the local managers in the TMT. Even encountering a same environment in terms of resource dependence and cultural difference, the same localization ratio cannot bring the same benefits for FIEs in China. Under the localization strategy, FIEs can maximize the positive effect of the management localization by implementing a carefully planned localization process. FIEs should also consider how to delegate more power to local managers and to involve local managers into the decision making process.

Furthermore, our study gives a reasonable explanation for the debate about localization. Lasserre and Ching (1997) believed that localization is necessary and beneficial to FIEs in China and, however, Gamble (2000) and Kobrin (1988) suggested that expatriates provide a more important input to the subsidiaries. We propose that the value of locals and expatriates depends on the relationships between the subsidiary, parent company, and host country environment. When the host country environment is different from parent country but very important to the subsidiary compared with parent company, management localization can be a feasible strategy. Otherwise, keeping more expatriates could be a better choice.

Focused on the parent-subsidiary relationship, previous studies on localization also take into account control issues. For example, Kobrin (1988) argued that the expatriate manager is a necessity for MNCs to control their oversea subsidiaries. The reduction of the expatriates might weaken the relationship and thus could do harm to the performance of subsidiaries. Although our research has not touched the control issue as a possible consequence of management localization, our results do not prove the relationship that Kobrin (1988) predicted between localization and performance.

Although the theory framework in present study has some limitations on the control issue as a consequence, actually the control issue is so sophisticated that it is impossible to conclude that localization is "good" or "bad" for control. First, the control from MNCs over their oversea subsidiaries has several different forms, such as structural control, functional control, and personnel control. Even in international joint ventures, the parent companies could exert strict control on the subsidiaries besides the personnel channel (i.e., expatriation) due to their stronger bargaining power than that of local partners (Chen and Wilson, 2003; Child and Yan, 1999; Jaw and Liu, 2004). The reduction of expatriates does not necessarily lead to the decrease of control strength from parent companies. Secondly, the control only depending on the expatriate managers also is dangerous because they could behave opportunistically as well as the local managers. With no close supervision from parent company and with their strong discretion power in the subsidiaries, it is more likely that there is no efficient monitoring mechanism to deter the opportunistic behavior of the expatriate managers.

As mentioned in the definition part, we focus on the "pure" management localization, i.e. substituting the expatriate managers with the local managers. From RBV perspective, we can extend our results to the other two kinds of management localization. In terms of the local-related knowledge and skills, the *homologizer* management localization cannot be treated as localization. However, if the returnees are well trained by the parent company, their expatriation to their home country not only can reduce the adjustment problems but also lead to higher absorptive capabilities to learn from the local environment compared with non-Chinese expatriates due to their shared language and cultural root with the locals. *Quasi*-management localization, which means localizing the knowledge and skills of the expatriate managers, is also an endeavor for obtaining local-related resources. In our study, FIEs from Korea and Japan often spend a lot of money and time on training their expatriate managers to speed up the localization of the expatriates. Even before their expatriation to China, they learned to speak Chinese and studied the Chinese cultural, social, and economic background. The closer distance between both countries and China makes the learning and training process more effective compared with the FIEs from western countries. We believe that the reason might account for the preference for the expatriates to the locals by many Japan and Korea FIEs.

Essentially, the *homologizer* and *quasi*-management localization are the trade-offs for FIEs in China. On one hand, the shortage of local talents impedes FIEs from recruiting local nationals from the local market. Moreover, the challenge of the localization process makes it difficult to equip the locals with necessary knowledge and skills and shared value and norms within the FIEs. On the other hand, to obtain local-related managerial resources as soon as possible is crucial to the success of FIEs in China. Thus, the *homologizer* and *quasi*-management localization become more feasible and attractive.

6.2 Implications

Our research contributes to both the empirical research and practical implication of the management localization.

First, the present study refines the localization concept and benefits future research. The localization concept in previous studies is summarized and practical content of localization is investigated through in-depth interviews. The typology of localization makes the academic research consistent with practical understanding of localization.

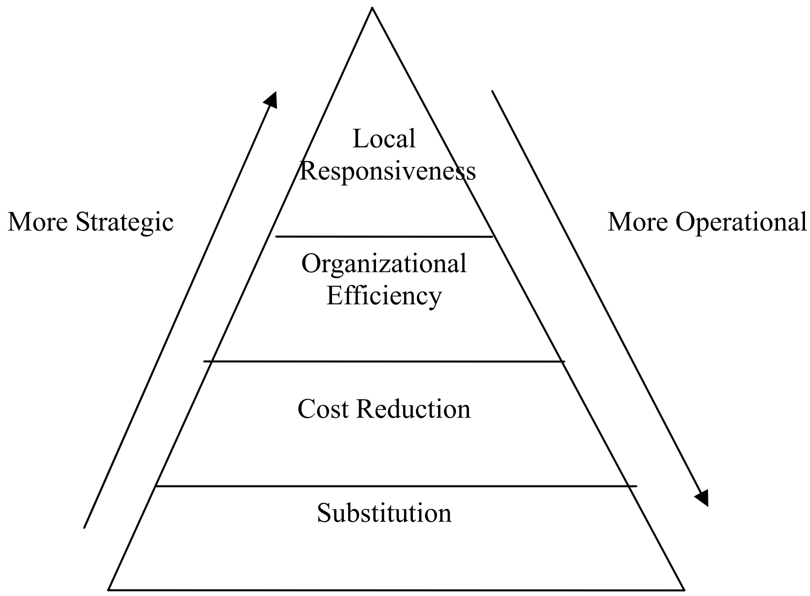
Secondly, a comprehensive model of the effect of the management localization of the TMT is proposed and it expands the academic research on localization. Most of previous research focuses on cost reduction (Dowling et al., 1998), training qualified locals to fill the positions held by the expatriates (Selmer, 2004b; Wong and Law, 1999), and its impact on internal efficiency (through internal transaction cost analysis) (Festing, 1997). There have been few studies to shed light on the strategic impact of the localization on the knowledge upgrading and organization-environment exchange. The present study developed a model to explain when, why, and how the management localization influences the performance of subsidiaries. In addition, the findings suggest that the effect of management localization on performance is conditional, which is different from what was advocated by many practitioners and consultants (Gamble, 2000).

Thirdly, our research also implies a strategy to balance the “local” and “global”. As a fundamental framework for international business, the GI-LR paradigm (global integration and local responsiveness) (Prahalad and Doz, 1987) was widely accepted as a guideline for IB research (e.g., Hannon et al., 1995). The GI-LR model might be generalized as how to balance the global standardization that can exploit the present resource and knowledge (e.g., cost reduction and scale economy) and the local contingency that is necessary to achieve success in local environment. On one hand, MNCs should efficiently transfer to their oversea subsidiaries their superior knowledge accumulated from their successful operations in their home countries or other host countries (Kogut and Zander, 1993). On the other hand, they face the risk that the knowledge may not match the new host countries' environment. The applicability of the "dominant logic" of the parent companies would be one of the influential factors to decide whether the parent companies adopt a global-based strategy or a local-based strategy. Moreover, the strong evidence from this study shows that with a strong local-oriented strategy, i.e., the management localization could help MNCs to overcome the disadvantages of global standardization.

The managerial implication of our research is that the localization should not only be considered based on operation level, such as cost reduction and expatriate failure, but in a more important perspective--the strategic need. Based on our study and previous literature, we can draw a more comprehensive hierarchy of considerations for management localization (See Figure 3). Putting management localization in a strategic level means that cost reduction could not be the only reason for localization. Management localization could be preferred if the subsidiary in a culturally distant host country is highly local resource dependent, even though the local compensation costs are higher than expatriates in this host country. On the other hand, expatriates might be preferred in a subsidiary in a culturally similar country and with less local resource dependence even though the expatriates are more costly than locals.

Moreover, the subsidiaries in China can maximize the benefits of localization strategy through integrating with other strategies. First, a carefully planned and implemented localization process can speed the knowledge exchange between local managers and expatriate managers and make the localization more efficient. Fro example, the parent companies can establish a formal training and substitution strategy for their subsidiaries. Secondly, the decision-making mechanism also can influence the utility of the capability of local managers. For example, developing an organic organization structure can achieve more interaction between local managers and expatriate managers and reflect the competencies embedded in the local managers.

Figure 3. The Hierarchical Considerations of Management Localization



As an application of resource-based view of the firm, we also provide an empirical test of the RBV. RBV has been widely criticized for its lacking contextual sensitivity and empirical evidence. Our study has approved that resources do have the capability to produce competitive advantage for the firm and, however, the capability might depend on the contextual factors. The environment the firm lies in and the firm strategy could influence the effect of the resources owned by the firm. Moreover, our analysis about the substitution during localization suggests that the value of the resource also depends on the value of the resources used to obtain it because under the market mechanism for the resource allocation the attainment of most resources is not costless.

6.3 Limitations and suggestions

The most serious limitation of the present study is the small sample size of the data. More data should be collected to test the relationships between variables. Secondly, future research should explore the effect of management localization in other countries so that the predicted relationships between localization, environment difference, and performance can be tested. Third, other correlates of management localization such as market orientation may lead to potential confounding effects and should be controlled in future studies.

There are several directions for future research. First, management localization might not only influence the performance but also have impact on the employee moral and satisfaction. Therefore, it is interesting in future research to include other consequences than performance. Secondly, to generalize our theory, the research should be replicated using the data from other host countries to wash out the country-specific factors. The hypotheses can be tested using the data from both those developing host countries such as Russia and Brazil and those developed host countries such as USA and Japan. Thirdly, to enrich the localization research, the antecedents of management localization need be investigated.

Moreover, as a practical issue in international business, localization is a multidimensional concept. There should exist correlations between management localization and other localization dimensions, such as instrumental localization, i.e. the localization of management practice. Our in-depth interview also suggests that management localization is often accompanied by instrumental localization. Therefore, the relationships between different dimensions of localization and their effects on performance could be explored.

The indirect effect of management localization is also worthy of studying. We only explored the direct impact of management localization on the FIEs' performance. Many MNCs prevent the knowledge spillover and leakage by using more expatriates than local hired local managers because the locals are more likely to spread the knowledge to competitors through turnover. Blomstrom et al (2000) also imply that the employee turnover could be the spillover channel. The possible spillover might bring indirectly negative impact on FIEs' performance by aggravating the competition. The unintended spillover effect brought by management localization might be influenced by the assets specificity of the knowledge and the industrial homogeneity. Combined model considering both the direct and indirect impacts could capture a more comprehensive picture of the effects of management localization. It is our hope that the present study will stimulate more academic research on the localization issue, which could be more and more important with the increasing global operations of businesses.

Appendix A. Measures and Reliability of Key Variables

Variables	Items
Market Performance (Alpha=0.786)	In comparison to your major competitors in the same industry in the following areas: (much lower-much higher, 7-point) 1. Our company's average annual sales revenues from this operation in the last three years were 2. Our company's average annual growth rate in sales revenues in the last three years was 3. Market share of our company in the industry in China in the last three years was
Financial Performance (Alpha=0.826)	In comparison to your major competitors in the same industry in the following areas: (much lower-much higher, 7-point) 1. Our company average annual gross pre-tax profit margin in the last three years was 2. Our company's average annual return on investment (ROI) in the last three years was
Local resource dependence (Alpha=0.693)	Absolutely disagree – absolutely agree, 7-point: 1. The operation of our company relies on local technological expertise in China. 2. The operation of our company relies on local managerial expertise in China. 3. The operation of our company relies on the strength of the relationships with local suppliers in China.
Localization emphasis (Alpha=0.690)	Absolutely disagree – absolutely agree, 7-point: 1. We have a formal and fixed plan to localize our management in China 2. We are satisfied with our effort in management localization. 3. Our program in management localization is right on schedule.
Decision participation (Alpha=0.882)	Absolutely disagree – absolutely agree, 7-point: 1. There are some formal or informal conventions that all the top managers should participate in the major decision-making processes. 2. We often make decisions basing on group discussion and democratic processes. 3. We often organize formal or informal meeting with all top managers to discuss company strategies and other issues. 4. Local managers play an important role in all major management decisions we make. 5. The local manager’s opinions are well considered in our planning and decisions.

Appendix B. The Framework for In-depth Interview

1. Do you know the term “localization” or its Chinese term “*Bentuhu*a” or “*Dangdihua*”? If you know, what do you think it means at first sight?

2. Is there any official or routinized understanding of “localization” in your company or your foreign headquarter? And else?

3. Among the management practices of your company, what practices do you think can be considered the content of localization?

4. Do you agree the following statement in true in your company? Localization is a very important issue in FIEs in China. Please list your reason to support your opinion basing on your own experience.

5. Please list all the strategies and policies (if has) related to the localization practice in your foreign headquarter and/or your company, as many and as detailed as possible.

6. Do you think localization can bring benefits to your operations in China?

   a) If have, please list according to the importance degree. (If the respondents have not mentioned, ask the following question.) Do you think localization has implication to the performance of your company?
   b) If not, how do you evaluate the outcomes of localization?

7. Is there any formal localization plan for the top level managers in your company or/and your foreign headquarter? If have, could you please give a brief introduction?

8. If your foreign headquarter emphasizes the localization of your company, please tell me what kind of localization is the most important to your company.

Appendix C: The Questionnaire

Management Localization at Foreign Invested Enterprises in China

Section 1. General Information

1. *Your Company Name: ____

2. Company Location: Province: ________________ City: ___________________

3. Your Position/Title: ____________________

*Please check the level of management position you are in: 1) ___ top level, 2)___ middle level

*Your position represents: 1) ___ foreign investor,
2) ___ Chinese investor (if a joint venture)
3) ___ not apply

Note: You must be a member of the senior management that represents the interests of the foreign investor, i.e., not representing the Chinese investor in the case of a joint venture. If so, please proceed to complete the questionnaire. If not, we thank you very much and apologize for any inconvenience. However, we appreciate it very much if you could kindly forward the questionnaire to a member of your senior management, such as CEO/President, Senior Vice President, and Director of Human Resources that represents the foreign investor.

4. Number of years you have worked at this company: ___ ___ years

5. *Telephone: (city code): ___ ___ ___ ___ -- (phone number): ___ ___ ___ ___ ___ ___ ___ ___

(Please be assured that you will not be contacted again for more questions. Your phone number is requested to confirm a very small number of randomly selected participants ONLY.)

****

Instructions for Completing the Questionnaire

****

Please read the questions carefully and follow the instructions when answering the questions.

1. Please note that we define local managers as 1) those Chinese nationals who are local hires and not on typical expatriate packages and 2) those Chinese who returned from overseas, are hired locally and not on the typical expatriate packages including items such as allowances for moving, housing, and children's education.

2. We define expatriates as 1) those foreign nationals who were sent by the headquarters from its home country or a third country to your company on the typical expatriate packages, and 2) those ethnic Chinese who may be foreign nationals sent by the headquarters from its home country or a third country (including Hong Kong and Taiwan) to your company on the typical expatriate packages.

3. Most questions are followed by a set of choices labeled as 1, 2, 3..., and so on. Please indicate your answer by circling the number or ticking the box that corresponds to your answer. **Please don't miss the "*" marked questions.**

4. In some cases, you need to put the specific information requested into the space next to the question. Please kindly answer all the applicable questions to your best knowledge. Leaving the answers blank would reduce the usefulness of the information.

5. For specific information that you may not have on hand, please check the accuracy of the information before completing the question. If you don't have the exact information, please make your best estimate and provide the most approximate answer.

6. Should you have any questions about the research, please contact me directly.

Section 2. General Information about Your Firm

1. *When was your company (the foreign invested company) first established in China?

Year : ___ ___ ___ ___

2. *Where is the national origin of your foreign parent company? If there are more than two foreign partners in the company, please indicate the country of origin of the parent company that had the highest equity ratio now?

Country of the foreign parent company: ________________________________
(Please note that the "foreign parent company" hereinafter refers to this company.)

3. *What kind of ownership structure does this subsidiary in China have now? Please check or circle the appropriate answer:

A. ___ equity joint venture
B. ___ contract joint venture
C. ___ wholly owned subsidiary (of the foreign parent company)
D. ___ others, please specify: ______________________________

4. What was the approximate total amount of utilized capital for this venture in US dollars for the initial investment?

US$: ___ , ___ ___ ___, ___ ___ ___ , ___ ___ ___
(billion) (million)

5. *If a joint venture, what is the foreign investors' equity ratio? (Skip the question if it is not an equity joint venture). If more than one foreign investor, please refer to the largest one.

Foreign investors' equity ratio: ___ ___ %

6. *Which industry is your company's primary business activity? Please circle the number before the right category.

1. Agriculture, Forestry, Stockbreeding, and Fishery
2. Mining
3. Food Processing, Foods/Beverage Manufacturing
4. Textiles
5. Clothing & Other Fibre Products
6. Wood Processing & Bamboo, Rattan, Palm, and Straw Products; Furniture Manufacturing
7. Paper Manufacturing & Paper Products
8. Printing & Reproduction of Recording Media
9. Educational & Sports Products Manufacturing
10. Oil Processing and Coking
11. Chemical Raw Material and Chemical Products
12. Medicine Manufacturing
13. Chemical Fibres Manufacturing
14. Rubber Products
15. Plastic Products
16. Non-metal Mineral Products
17. Metals Smelting & Rolling Processing
18. Metal Products
19. General Machinery and Special Equipment Manufacturing
20. Transportation Equipment Manufacturing
21. Electrical Machinery and Equipment
22. Electric and Communication Equipment
23. Instruments, Meters, Educational and Office Equipment
24. Other Manufacturing
25. Electricity, Steam, Hot Water Production and Supplies
26. Architecture
27. Transportation, Storage, and Post & Telecommunication.
28. Wholesale & Retailing, Catering service
29. Finance and Insurance service
30. Real estate
31. Community Services
32. Other industries not included (Please specify) _____________

7. *Currently, how many employees does your company employ directly at this subsidiary?

No. of employees: ___ ___ ___ , ___ ___ ___

8. Currently, what is the approximate total amount of assets for this venture in US dollars?

US$: ___ , ___ ___ ___, ___ ___ ___ , ___ ___ ___
(billion) (million)

9. *Between re-export and accessing the local China market, what is your company's (foreign investor's) primary objective for investing in China? Please circle the number that corresponds to your feeling on the following 7-point scale. Please note: 1 = totally for re-export, 4 = balanced combination of the two, and 7 = totally for accessing the China market.

To establish efficient manufacturing for re-export to other countries	<< **1 2 3** << **4** >> **5 6 7** >>	to access the local market and sell our products in domestic China market

10. *We like to know about the types of people sent as expatriate managers. Please respond to the following statements regarding **<u>the expatriate managers</u>** sent by your parent company by circling the number that corresponds to your feeling.

Please note:	1= Absolutely Disagree	2 = Strongly Disagree	3 = Somewhat Disagree	4 = Neutral	5 = Somewhat Agree	6 = Strongly Agree	7 = Absolutely Agree

10.1	The expatriate managers well adapted to the Chinese way of doing business.	1	2	3	4	5	6	7
10.2	The expatriates understand the difficulty Chinese experience when doing business with foreign firms.	1	2	3	4	5	6	7
10.3	The expatriates are aware of how the Chinese conduct business in China.	1	2	3	4	5	6	7
10.4	The expatriate managers have difficulty in understanding the cultural norms in China and adjusting to local work and social environment.	1	2	3	4	5	6	7
10.5	We have made significant investment in training and equipping our expatriate managers with the necessary knowledge and skills.	1	2	3	4	5	6	7
10.6	The expatriate managers have insufficient Chinese language skills and found it difficult to communicate with their Chinese counterparts.	1	2	3	4	5	6	7
10.7	Training and qualifying the expatriate managers has involved substantial commitment of time and money.	1	2	3	4	5	6	7
10.8	Our expatriate managers have the necessary skills							

and knowledge to communicate and coordinate with our foreign parent company.	1	2	3	4	5	6	7
10.9 The expatriate managers help to coordinate the strategies and activities with the parent companies and its other divisions.	1	2	3	4	5	6	7
10.10 Our expatriate managers have abundant general management knowledge and skills in different areas of operation.	1	2	3	4	5	6	7
10.11 Our expatriate managers have the necessary skills and knowledge that are specifically useful to our industry.	1	2	3	4	5	6	7
10.12 Our expatriate managers have sufficient skills and knowledge that are specifically useful to our company.	1	2	3	4	5	6	7
10.13 The types of knowledge and skills of our expatriate managers are not readily available among the potential candidates.	1	2	3	4	5	6	7

11. *Please indicate your level of agreement/disagreement on the following statements regarding **<u>your headquarters' attitude towards localization of management</u>** using a 7-point scale.

Please note:	1= Absolutely Disagree	2 = Strongly Disagree	3 = Somewhat Disagree	4 = Neutral	5 = Somewhat Agree	6 = Strongly Agree	7 = Absolutely Agree

11.1	Increasing the proportion of local staffs lowers our operation costs.	1	2	3	4	5	6	7
11.2	Compensation packages for the expatriates put severe financial strains on our subsidiary.	1	2	3	4	5	6	7
11.3	Financially, our subsidiary can not afford to have many expatriate managers.	1	2	3	4	5	6	7
11.4	The pay disparity between expatriates and local managers is a major problem for us.	1	2	3	4	5	6	7
11.5	Increasing the proportion of local staffs reduces the effectiveness of our global operations.	1	2	3	4	5	6	7
11.6	If local talents can be found, we believe in total localization of management staff.	1	2	3	4	5	6	7
11.7	At this moment, expatriate staffs are a must in our China operations.	1	2	3	4	5	6	7
11.8	We have a formal and fixed plan to localize our management in China	1	2	3	4	5	6	7
11.9	It is difficult to recruit qualified local people for top management positions.	1	2	3	4	5	6	7
11.10	Our salary and promotion package is not attractive enough to attract best local talents.	1	2	3	4	5	6	7
11.11	The supply of talented local staffs is limited and impedes our localization efforts.	1	2	3	4	5	6	7
11.12	Local managers provide good input to our company's strategy in China.	1	2	3	4	5	6	7
11.13	Localization of management reduces the control our headquarters have on the China subsidiary.	1	2	3	4	5	6	7
11.14	Localization of management jeopardizes the							

	subsidiary's integration and coordination with our global operations.	1	2	3	4	5	6	7
11.15	Local managers are good for optimizing our China operations.	1	2	3	4	5	6	7
11.16	Local managers help us reduce cultural gaps between the Chinese and our parent company culture.	1	2	3	4	5	6	7
11.17	Local managers help us adapt our products and services to the Chinese market.	1	2	3	4	5	6	7

12. *Please indicate your level of agreement/disagreement on the following statements regarding **your headquarters' attitude towards local managers** using a 7-point scale.

Please note:	1= Absolutely Disagree	2 = Strongly Disagree	3 = Somewhat Disagree	4 = Neutral	5 = Somewhat Agree	6 = Strongly Agree	7 = Absolutely Agree

12.1	Local staffs are not yet equipped to assume key leadership positions.	1	2	3	4	5	6	7
12.2	Local staff cannot communicate well with the headquarters.	1	2	3	4	5	6	7
12.3	Local staffs lack management knowledge and skills to move to the top-level management.	1	2	3	4	5	6	7
12.4	We are satisfied with the qualifications of the local managers.	1	2	3	4	5	6	7
12.5	The local hires have sometimes promised to do things without actually doing them later.	1	2	3	4	5	6	7
12.6	Sometimes, the local managers slightly alter or exaggerate things in order to get what they wanted.	1	2	3	4	5	6	7
12.7	Turnover of management personnel is a serious problem in our company.	1	2	3	4	5	6	7
12.8	After completing the training, local managers may request a promotion or job hopping.	1	2	3	4	5	6	7
12.9	Confidential company information may leak out during or after training.	1	2	3	4	5	6	7
12.10	Generally speaking, the company is facing a serious problem of losing excellent employees.	1	2	3	4	5	6	7
12.11	The local managers always negotiate things to their own benefits.	1	2	3	4	5	6	7
12.12	Local Chinese managers have abundant general management knowledge and skills in different areas of operation.	1	2	3	4	5	6	7
12.13	Local Chinese managers have the necessary skills and knowledge that are specifically useful to our industry.	1	2	3	4	5	6	7
12.14	Local Chinese managers have sufficient skills and knowledge that are specifically useful to our company.	1	2	3	4	5	6	7
12.15	Some employees may take advantage of the company's support to achieve personal goals.	1	2	3	4	5	6	7

13. What kind of role that the local top managers (if any in your company) take in the

operation of your company? Please respond to the following statements on the scale of 1-7 regarding **the local managers' participation in management decision**.

Please note:	1= Absolutely Disagree	2 = Strongly Disagree	3 = Somewhat Disagree	4 = Neutral	5 = Somewhat Agree	6 = Strongly Agree	7 = Absolutely Agree

13.1	There are some formal or informal conventions that all the top managers should participate in the major decision-making processes.	1	2	3	4	5	6	7
13.2	We often make decisions basing on group discussion and democratic processes.	1	2	3	4	5	6	7
13.3	We often organize formal or informal meeting with all top managers to discuss company strategies and other issues.	1	2	3	4	5	6	7
13.4	Local managers play an important role in all major management decisions we make.	1	2	3	4	5	6	7
13.5	The local manager's opinions are well considered in our planning and decisions.	1	2	3	4	5	6	7
13.6	Normally, local managers almost have no managerial discretion whatsoever.	1	2	3	4	5	6	7
13.7	The major decisions are mostly made by the expatriates.	1	2	3	4	5	6	7
13.8	Usually, the major decisions are made by foreign parent company.	1	2	3	4	5	6	7

14. *On the scale of 1-7, please respond to the following statements regarding **the human resource management** at your company by circling the number that corresponds to your feeling.

Please note:	1= Absolutely Disagree	2 = Strongly Disagree	3 = Somewhat Disagree	4 = Neutral	5 = Somewhat Agree	6 = Strongly Agree	7 = Absolutely Agree

14.1	Our efforts in management localization (to replace expatriates with qualified local managers) are successful.	1	2	3	4	5	6	7
14.2	Overall, our employees are happy with the company.	1	2	3	4	5	6	7
14.3	Our employees are satisfied with the positions given to them.	1	2	3	4	5	6	7
14.4	At our company, most managerial positions are held by local Chinese managers.	1	2	3	4	5	6	7
14.5	It is clear that many managerial positions are being localized – filled up by local Chinese.	1	2	3	4	5	6	7
14.6	We are satisfied with our effort in management localization.	1	2	3	4	5	6	7
14.7	Our program in management localization is right on schedule.	1	2	3	4	5	6	7
14.8	Most of our top-level managers are either local Chinese or those overseas Chinese who are not expatriates.	1	2	3	4	5	6	7

14.9	Generally speaking, our employees are satisfied with the company.	1 2 3 4 5 6 7
14.10	Our employees are confident about the prospect of our company.	1 2 3 4 5 6 7
14.11	Our employees are motivated and willing to help the company get through difficulties if the need arises.	1 2 3 4 5 6 7

15. *What is the number of people in your company's top-level management (including the President/CEO, all the VPs and department heads, and other senior-level managers)? Please also indicate the number of **top-level** managers from each of the following ethnic background.

Ethnic Background of **Top-level** Managers	No. of **Top-level** Managers
A. a local Chinese national (non-expatriates)	No.: ___ ___
B. an overseas Chinese who is a foreign national (including HK and Taiwan) (expatriates)	No.: ___ ___
C. a non-Chinese expatriate who is a foreign national (expatriates)	No.: ___ ___
D. Others including foreign managers who are not expatriates	No.: ___ ___
Total:	No. ___ ___ ___ (100%)

16. Please indicate the **ethnic origin** of the person in the following positions. Please check or circle the appropriate category that applies to your company.

Please note:	A= a local Chinese national (non-expatriates)	B= an overseas Chinese who is a foreign national (including Hong Kong and Taiwan) (expatriates)	C= a non-Chinese expatriate who is a foreign national (expatriates)

16.1 Chairman of the Board of the company	A	B	C
16.2 CEO/President/General Manager of the company	A	B	C
16.3 Vice President/deputy manager of the company	A	B	C
16.4 Accounting department head	A	B	C
16.5 Finance department head	A	B	C
16.6 Marketing and Sales department head	A	B	C
16.7 Productions Operations department head	A	B	C
16.8 Human resources department head	A	B	C
16.9 Purchasing, Supply and Logistics	A	B	C
16.10 Advertising and Public Relations	A	B	C
16.11 Research and Development department	A	B	C

If your company is joint ventured company with local partner, please indicate the number of local managers in above positions who are the representatives of China parent company (if have):

No. of representatives:______________

17. *Please also indicate the number of **mid-level** managers from each of the following ethnic background: Mid-level management should include managers at the below-top-level or the intermediate level management such as brand officers, assistant managers to department heads.

Ethnic Background of **Mid-level** Managers	No. of **Mid-level** Managers
A. a local Chinese national (non-expatriates)	No.: ___ ___ ___
B. an overseas Chinese who is a foreign national (including HK and Taiwan) (expatriates)	No.: ___ ___ ___
C. a non-Chinese expatriate who is a foreign national (expatriates)	No.: ___ ___ ___
D. Others including foreign managers who are not expatriates	No.: ___ ___ ___
Total:	No. ___ ___ ___(100%)

18. *On the scale of 1-7, please rate your **company's performance in comparison to your major competitors in the same industry** in the following areas.

Please note:	1 = much lower	2 = lower	3 = a little lower	4 = the same	5 = a little higher	6 = higher	7 = much higher

18.1	Our company's average annual sales revenues from this operation in the last three years were	1	2	3	4	5	6	7
18.2	Our company average annual gross pre-tax profit margin in the last three years was	1	2	3	4	5	6	7
18.3	Our company's average annual growth rate in sales revenues in the last three years is	1	2	3	4	5	6	7
18.4	Market share of our company in the industry in China in the last three years is	1	2	3	4	5	6	7
18.5	Our company's average annual return on investment (ROI) in the last three years is	1	2	3	4	5	6	7

19. Does your company export to other countries/regions (including Taiwan and Hong Kong)?

Yes ☐ No ☐

*If Yes, please indicate what percentage of your sales come from export to other countries last year?

Percentage of export from total sales: ___ ___ %

20. Approximately, what percentage of sales do research & development (R&D) expenses constitute in your company?

Research & Development as a percentage of sales: ___ ___ %

21. Approximately, what percentage of sales do marketing, advertising and promotion expenses constitute in your company?

Marketing expenses as a percentage of sales: ___ ___ %

22. *To your best knowledge, what is the average annual turnover of management personnel? In other words, what percentage of managers leave the company per year for reasons including resignation, retirement, and termination?

Management personnel turnover: ___ ___ %

23. Including this project, total how many operations (subsidiaries) does your foreign parent have in China, defined as separate legal accounting entities?

No. of independent operations in China: ___ ___ ___

24. *What approximately were your company's total sales (domestic sales plus export sales) revenues last year in US$?

US$ ___ ___ ___, ___ ___ ___, ___ ___ ___, ___ ___ ___

25. *What's the ratio of the total China sales of your company (including both export and China domestic sales) to the total sales of your parent company last year?

___ ___ . ___ ___%

26. *How many years has your foreign parent company engaged in international business (having operations in other countries other than your home country)?

No. of years: ___ ___ ___ for which our foreign parent company has operated overseas

27. *How many countries/ regions (including Hong Kong and Taiwan) does your foreign parent operate in (having separate business operations there)?

No .of countries: ___ ___ ___ our foreign parent company operates in

28. *Last year, what percentage of your parent company's total sales comes from overseas sales outside its home country?

___ ___ % of overseas sales

29. *Please indicate your own ethnic origin by checking the appropriate one:

____ A = a local Chinese national (non-expatriate)
____ B = an overseas Chinese who is a foreign national on expatriate package
____ C = a non-Chinese expatriate who is a foreign national

Thank you very much for participating in the study!

If you wish to receive a copy of the research report, please kindly leave your mailing or e-mail address below. It will be used only for sending you the report!

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