

Strategic management staffing decisions among German subsidiaries in Japan

Agency concerns and resource endowment issues



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Abstract: This study discusses the composition of strategic management teams in foreign subsidiaries beyond decisions solely about the general manager, i.e. encompassing third-country nationals; locally hired “foreigners” as well as managers on short-term assignments. We extend the discussion about expatriates by developing hypotheses about those issues based on the resource-based view of the firm and the principal agent theory and find that both are important for understanding staffing decisions. This research analyses these issues by means of a data set on German subsidiaries in Japan and shows that recent changes in the global environment are providing multinationals greater latitude when staffing foreign-based subsidiaries, including choices that have not been given due weight in IHRM literature.

Keywords: Foreign subsidiary staffing characteristics · Japan based German subsidiaries · Frequent fliers · Strategic management team

JEL Classification: M16 · M10 · M12

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1 Introduction

Some recent studies have investigated both General Manager *and* Strategic Management Team (SMT) characteristics in multinational enterprises (Jaw and Lin 2009; Cruz et al. 2010), but not at the (foreign) subsidiary level, where the relationship between both may be of critical importance. When discussing staffing decisions on the executive level in foreign subsidiaries, current IHRM literature has generally covered two broad areas: Some major works cover general issues, but concentrate predominantly on the highest management position, the general manager (hereafter GM) and/or on the distinction between expatriates versus locals (Harzing 1999, 2001; Belderbos and Heijltjes 2005; Thompson and Keating 2004; Gaur et al. 2007; Gaur and Lu 2007). Other studies cover fragmented niche topics, focusing for instance on frequent fliers, etc. (Welch et al. 2007; Collings et al. 2007).

This research tries to fill a void left by the current literature in integrating several layers of the executive-level staffing decisions in a unified framework. The view taken so far is either simplistic or very fragmented and disregards several critical factors for the staffing success of a foreign based subsidiary:

- Focussing on the GM ignores both the complexities and the opportunities of organising leadership within the Strategic Management Team (SMT) in a foreign-based subsidiary. As an extreme, choosing the nationality of a GM may only be of ceremonial value, while in reality, executive functions are shared by a team of managers with specialised competences.
- Foreign country nationals in a given subsidiary may be either expatriates or hired in the host country under local conditions. This latter type of manager will differ in his/her characteristics from an expatriate sent by the headquarters.
- Distinguishing between parent-country nationals and locally hired foreigners is still not sufficient, as there may be third-country nationals (TCNs). The characteristics of such executives may differ from parent-country national executives and locally hired foreigners, and their presence would be hardly surprising in a globalised business framework.
- By assuming that all executive functions are conducted locally, one disregards the option that some tasks may be performed by frequent fliers from the parent company or from regional headquarters. This also includes the possibility of a “virtual” presence through new technological options, e.g. video conferences, online access, data warehousing, etc.

The latter point already suggests that recent changes in the international business environment have made these considerations more important than before. The existence of recent environmental changes has been recognised by several researchers. One example is Gaur et al. (2007), who, while distinguishing solely between host country nationals (HCN) and parent country nationals (PCN), recognize that “. . . third country nationals are an increasingly popular option for MNCs” (p. 612).

To investigate staffing choice, the present study is framed in two relevant fields for expatriate choice, namely the resource-based view of the firm and principal-agent theory (Tan and Mahoney 2006). This research has a country focus on Japan because of recent changes that make appropriate and possibly readjusted – personnel strategies particularly

important. For instance, it is widely noted that the country has recently opened up to foreign direct investment inflows much more convincingly than before (Araki 2004; Jetro 2010). This also includes structural changes in its labour market, which makes it easier for foreign companies to employ promising Japanese personnel of both genders and even in mid-career. Ever more non-Japanese top managers seem to be available on the secondary labour market at local conditions as well (Hasegawa 2006). Moreover, it is frequently argued that language has become less of a barrier in recent years, and cultural differences in general may have become less pronounced, suggesting the need for a fresh look at executive choices for foreign subsidiaries in Japan.

We will trace four major options tied to executive staffing decisions:

1. The SMT-level composition connected to the GM
2. The locally contracted non-Japanese manager who does not fit the classical distinction between HCN and PCN
3. Third-country nationals (TCN)
4. Frequent fliers

After introducing our theoretical framework and discussing the need for a differentiated view of executive choice, we introduce our hypotheses about the strategic management team, GMs, locally hired non-Japanese, TCNs and frequent fliers. Our study design allows us to test these hypotheses with a data set gathered through a survey of German subsidiaries in Japan via questionnaire. After explaining our empirical approach and presenting results, the last section of the paper provides a discussion as well as study conclusions.

2 The need for a differentiated view of executive choice

In a path-breaking study, Edstroem and Galbraith (1977) distinguish three reasons why expatriates are sent to a foreign based subsidiary. First, the case of “filling positions” where there is no adequate host-country national available. A second function is “management development” where promising employees from headquarters are sent out as expatriates to a foreign-based subsidiary in order to gain experience. Finally, a third reason for sending a manager from headquarters to a foreign-based subsidiary is “organizational development”; it occurs when, for instance, headquarters intends to control and to transfer knowledge to a foreign subsidiary through its “own” people.

While the work of Edstroem and Galbraith opened a new field of studies on expatriate choice, it lacks a coherent theoretical frame to incorporate novel developments. Here, we propose the resource-based view and the principal-agent perspective to provide a helpful theory-based view, as they are particularly relevant in the given circumstances. As Tan and Mahoney (2006) suggest, integrating different theories may provide a better understanding of staffing practices than relying on a single approach. Integrating different theories as a research option has been used in the field of vertical integration by Wahrenburg et al. (2006) or in the field of equity joint ventures by Tsang (2000). Madhok (1997) also integrated theories in his study of strategic alliances. Other examples consist of studies conducted by Silverman (1999) concerning diversification or by Peng and York in measuring export performance (2001).

In this research, the resource-based view of the firm (Barney 1991, 2002) provides the first theoretical approach for executive staffing decisions. We do not apply the basic four strategic elements model—value, rareness, imperfect imitability and non-substitutability of resources—to receive a sustained competitive advantage (Barney 1991), but rely on more recent work (Barney 2002), in which sustained competitive advantages are defined in line with Porter (1985) in terms of an improved efficiency in the form of cost reductions and an increased effectiveness in the form of increasing value. As for resources, we focus only on human resources (De Cieri and Dowling 1999; Taylor et al. 1996; Wright et al. 2001) and hold that managers are not only a potential source of value creation, but also a reflection of costs for a given firm (Holcomb et al. 2009).

We develop resource-based-view (RBV) explanations of sustainable comparative advantage focusing on the capabilities of managers with different nationalities as a bundle of resources (see Kraaijenbrink et al. 2010, for a critique of the RBV). According to this view, organizations differ in their use of human resources (Wernerfelt 1984) and resource configurations, also called combinations, are likely to explain performance better than focusing on a single resource (Newbert 2007). Headquarters that send PCNs, TCNs or frequent fliers to foreign-based affiliates can be expected to develop a superior bundle of human resources, leading to a sustainable competitive advantage for a given subsidiary. These sustained competitive advantages count especially for executives (Lin and Shih 2008). It should be noted that in terms of human resource options, we only distinguish between different nationalities and contract types of managers. Obviously, in real life, there are variables or dimensions responsible for diversity like gender, education level or occupational background that could also be discussed. However, they are not within the scope of this study.

The second theoretical approach applied to explain executive staffing decisions is principal-agent theory. According to this theory, the principal task for management is to reduce incentive misalignment conflicts between headquarters and the affiliates (Jensen and Meckling 1976). Managers in a subsidiary have to build stable and smooth relationships with headquarters (Hennart 1991). The headquarters is understood as the principal and the expatriate (PCN, TCN, or locally hired non-Japanese) as its agent(s). From this perspective, misalignment conflicts may arise between principals and agents that can lead to significant economic costs (Jensen and Meckling 1976; O'Donnell 2000). Principal-agent theory defines a trade-off between the cost for the headquarters in dealing with the affiliate and its risk transfer (Bjorkman et al. 2004; Eisenhardt 1985). An expatriate is understood as directly sent from headquarters. In that case, headquarters can establish strong ties to the foreign-based subsidiary. Even if parent-country nationals do not contribute directly to the success of the subsidiary, there may still be advantages to relying on them in the foreign-based affiliates, as they will align the affiliate with headquarters' preferences and thus reduce the risk of a major betrayal (Connelly et al. 2007).

Thus, by combining the principal-agent-theory and resource-based-view approaches taken by firms in this study, we proffer a sufficiently encompassing, but also reasonably focused perspective on the choice between a HCN, PCN, TCN, locally hired non-Japanese or frequent flier.

Turning to our empirical case of German subsidiaries in Japan, we employ the resource-based view of the firm in particular where we discuss options with respect to an open labour market for finding suitable resources, considering their efficiency (in form of cost reduc-

tions) for an assignment in the Japan-based foreign subsidiary (Barney 2002; Reynolds 1997). The term “open labour market”—with reference to the secondary or inter-firm labour market—is based on our understanding that Japan has become more accessible and that foreign subsidiaries located in Japan can now consider a wide choice of employment, beyond the conventional types of PCN and HCN.

In terms of cost efficiency, parent company nationals, here used in the sense of expatriates, are the most expensive choice financially. Third-country nationals are the second most expensive choice for the headquarters. Gaur et al. consider TCNs as “(o)ne option to countering the financial costs of PCNs . . .” (2007, p. 614). However, it is conceivable that, on average, TCNs are almost as expensive as PCNs. In a multinational enterprise from country X with a globalised personnel policy there may even be no discernable difference between an expatriate originating from country X working in country Z, or someone from Y working in Z¹.

A locally hired non-Japanese, to some extent, will be more expensive than an HCN (in our case a Japanese manager), as the company would have to offer some fringe benefits to attract this kind of manager, e.g. covering school costs for his/her children. Finally, the frequent fliers are regarded as the least expensive option for headquarters, as these managers are only occasionally active in the foreign (here Japan) based subsidiaries.

In terms of an “open labour market”, firms act to employ the best human resources they can obtain. The more open it is, the more choices are available. Since it takes time to build such a bundle of human resources, it cannot be reproduced easily by competitors in the market and, therefore, can be regarded as a sustained competitive advantage in the resource based view of the firm. Having the subsidiary equipped with HCNs and PCNs can be regarded as a traditional way of conducting staffing policy. In contrast, a more non-traditional way of staffing personnel is the employment of a locally hired non-Japanese or a TCN. These options are considered a staffing choice with regard to an “open labour market”. Frequent fliers have increased lately but were always an option for many firms to a lesser extent in the past. Therefore, they are to be considered as an alternative between the HCN and the locally hired non-Japanese (as well as the TCN). One of the reasons could be that headquarters might not be able to find non-Japanese that can be hired with a local contract or have not yet tried to find them, so that they still rely on frequent fliers.

Overall, the type of (human) resource, its cost-based efficiency and the degree of openness of the labour market will lead to different staffing strategies at the headquarters (see Fig. 1).

Next, we turn to applying principal agent theory. As illustrated in Fig. 2, we distinguish between alignment with headquarters strategy (on the one axis) and host country market alignment (on the other axis). A company can traditionally realize different points depending on which kind of managers are appointed to the subsidiary. By appointing a parent-country national, there is a high probability of a stronger alignment with headquarters strategy, but a lower host-country market alignment. The opposite can be expected to hold for a host-country national. In this case, host-country-market conflict/misalignment reduction should be high but the alignment with headquarters strategy may be limited, as host-country nationals are not supposed to be particularly familiar with the headquarters. Apart from that, frequent fliers are also supposed to lack host-country-market familiarity, due to their long periods of physical absence from the respective subsidiary (Collings et al. 2007; Minbaeva and Michailova 2004). As for locally hired non-Japanese, they should

Fig. 1: Use of human resources: realizing a wide resource base under cost considerations

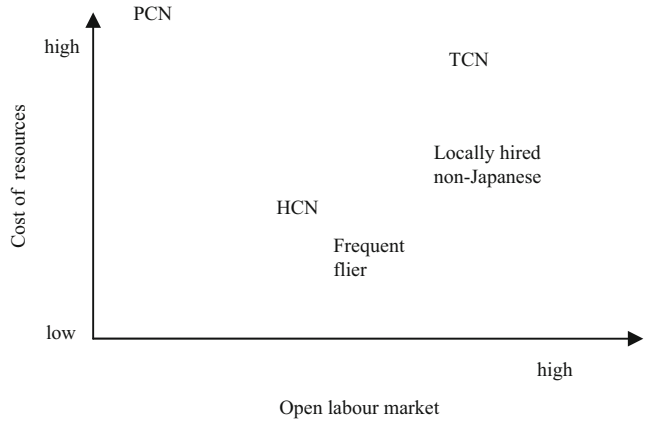
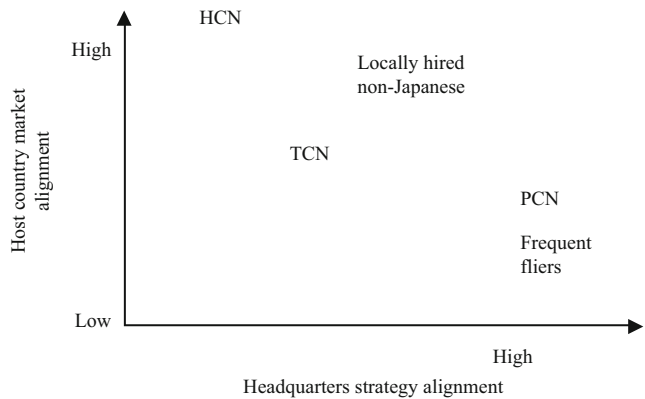


Fig. 2: Effects of various employee types according to the principal-agent perspective



have more host-country market knowledge than traditional expatriates, which leads to an enhanced local-market alignment compared to PCNs, but less than that from HCNs.

As subsidiaries in Japan in recent years have more options to employ staff apart from parent- and host-country nationals, a locally contracted non-Japanese manager could also be contracted². It may be easier to align his interests with the parent company than for a host-country national, because the latter may be embedded in local networks that influence his behavior.

Another option would be a third-country national. One advantage to such an employee could be superior local market knowledge compared to a parent-country national. However, it may be somewhat more difficult to align his interests with the parent company, because a reliable globalized personnel strategy is difficult to introduce and sustain. Third-country nationals also offer advantages in comparison to host-country nationals, as they might be more suitable to link the subsidiary to international or parent demands (see Fig. 2).

As has been discussed so far, both the principal-agent theory and the resource-based view of the firm offer potential explanations for staffing characteristics in foreign subsidiaries. The next section develops hypotheses on the management team composition, on locally hired non-Japanese, on TCNs and on frequent fliers.

3 Hypothesis generation

3.1 Strategic management team

The characteristics of the strategic management team were investigated in the seminal work of Hambrick and Mason (1984), grounded in the upper-echelon theoretical perspective. This upper-echelon theory postulates the structure and characteristics of a strategic management team and how it influences corporate strategy. Carpenter and Wade (2002) state that the CEO and the management team have a different status of power and that GMs have disproportionate influence. Recent research analyses the board at the headquarters level, noting that distinguishing between the CEO and management team is important to understand a firm's internationalization (Simsek et al. 2005; Jaw and Lin 2009).

Here, we extend the focus from the headquarters to the strategic management team (SMT) at subsidiary level and therefore, extend recently discussed MNC level issues. We also extend existing subsidiary-based research solely discussing the general manager level (Thompson and Keating 2004). Several studies focus on the GM level probably because of the limited availability of secondary data, gathered via archival research. However, how are GM staffing practices related to the strategic management team composition? Through a parent-country manager, communication misalignment conflicts with headquarters can be reduced, but this does not necessarily have to be the GM. It is conceivable that filling the position of the chief financial officer with a parent-country national offers similar strategy alignment advantages for headquarters as using the GM position for that purpose. Why should headquarters send more expatriates than, for instance, the GM or a single, but critical member of their subsidiary's strategic management team, for instance the chief financial officer?

Strategic management team composition considerations using the resource-based view of the firm as well as a principal-agent perspective lead to substantiated, and to some extent conflicting, expectations as compared to considering filling the top position alone.

According to the resource-based view, it is preferable to bring together different backgrounds and capabilities in the SMT, with respect to managers' nationalities and contract types, in order to realize a maximum width of capabilities. Put differently, the nationalities of the GM and other senior managers from the SMT should be rather diverse. That means either a non-Japanese GM would lead a Japanese strategic management team or a Japanese GM would lead the strategic management team, in which (at least) some of the members are non-Japanese citizens.

In contrast, in order to reduce principal-agent-related misalignment conflicts in the subsidiary, frictions between the strategic management team and the GM should be minimized; as when the GM and his/her strategic management team have the same nationalities. This implies that the GM and the rest of the strategic management team of the subsidiary should either solely consist of Japanese managers or of non-Japanese citizens. Summing up, we have two hypotheses that are somewhat conflicting. Depending on which concern is more serious for the subsidiary, either using a wide range of capabilities or handling misalignment issues, we would expect opposite outcomes:

H 1.a: The more width of capabilities desired, the more heterogeneous the nationalities of managers among the GM and SMT (RBV).

H 1.b: The more misalignment conflicts are to be reduced, the more homogeneous the nationalities of managers between the GM and SMT (AT).

3.2 Locally hired non-Japanese

As for recent labour market developments in Japan, it is known that the market has been opening to some degree for Japan-based foreign enterprises. In recent years, foreigners have increasingly been entering Japan, through research and study programs for instance (Bebenroth 2007). A Japan-based foreign MNC could use this chance of employing headquarters country nationals at local conditions. We call this phenomenon an “open labour market”. Based on the resource-based view of the firm, the main advantage of employing locally hired non-Japanese managers is their knowledge of the host country market, of the social environment, and personal contacts in a given country. In this line of argumentation, a subsidiary should try to make use of the advantages offered by locally hired non-Japanese managers.

In contrast to this, the principal-agent view states that parent country nationals, sent with expatriate contracts, offer the advantage of a better alignment between headquarters and a Japan-based subsidiary and its environment. Therefore, even if subsidiaries were able to find adequate local employees, the subsidiary would still rely on parent-country nationals from the headquarters. This leads to somewhat competing hypotheses about the role of locally hired non-Japanese:

H 2.1a: The higher the availability of locally hired non-Japanese, the more likely their chances of being hired at the subsidiaries to realize superior resources (RBV).

H 2.1b: Even if locally hired non-Japanese are available, headquarters will continue to send expatriates to their subsidiaries for strategy alignment (AT).

Next, we investigate the role of cost considerations in staffing choices (Barney 2002) to find out whether this has an impact on headquarters for either employing expatriates, locally hired non-Japanese, or simply to rely on host country nationals. Cost differences with respect to each type of appointment can be extremely large, not only because of different bargaining power with respect to salaries, but also more concretely because of fringe benefit payments like housing, school fees for children, etc. (Selmer 2001; Harzing 2001). We reason as follows: As expatriates often bring (apart from agency-related aspects) similar resources to the subsidiary as locally employed non-Japanese—at least in comparison to host-country nationals—cost differences should be a major driver for tapping locally hired non-Japanese, if resource considerations are of prime importance among the staffing needs. This would be in line with the resource-based argumentation. If, however, expatriates are preferred despite considerable cost differences, then the agency concerns seem to be more important, because even though locally hired non-Japanese may be much cheaper, they are far less able than expatriates sent from the parent company to act as reliable go-betweens and agents for headquarters. This leads us to two competing hypotheses:

H 2.2a: The larger the difference in perceived cost between expatriates and less expensive locally hired non-Japanese, the more locally hired non-Japanese will be employed in the subsidiaries (RBV).

H 2.2b: In spite of the potentially high costs for dispatching expatriates, the headquarters continues to rely on them rather than employ locally hired non-Japanese managers (AT).

3.3 Third country nationals

Based on the diversification and the opening of labour markets for foreign subsidiaries, there could be a growing role for third-country nationals as well (similarly argued by Gaur et al. 2007). This holds especially for the position of GM, although most of the existing literature on this topic has not given due weight to this consideration. We argue that a better organized headquarters with a functioning department for overseas HR employment issues will lead to a higher chance of having TCN GMs operating at subsidiaries.

According to the resource-based view of the firm, the personnel office at the headquarters should select the best manager to lead the subsidiaries regardless of nationality. In contrast to this, if headquarters does not implement a functioning HR policy, the headquarters board will lack explicit knowledge of the group's worldwide resources. Therefore, without a functioning HR policy at the headquarters, it is assumed that a manager from the headquarters rather than another entity in the worldwide group would be transferred to a foreign based subsidiary. The principal-agent theory would hold that the GM has to align him/herself to the headquarters, which can be better done by a parent country national. Therefore, we have two hypotheses:

H 3.1a: With a functioning HR-sending policy at the German HQ, a higher utilization of third-country nationals as GMs is used to access the best from the group's worldwide resource pool (RBV).

H 3.1b: Without a functioning HR-sending policy at the German HQ, a lower utilization of third-country nationals as GMs is used. Instead, traditional expatriate sources will be preferred as a means to lessen misalignment conflicts between the HQ and the subsidiary (AT).

While the opening and diversification of the labour market is a global phenomenon, it is debatable whether cultural affinities or regional proximity between third-country nationality and the headquarters' country of origin play a role as well. The resource-based view of the firm would suggest that the best manager available worldwide would be selected for staffing the subsidiary, irrespective of such regional bounds.

In contrast, according to the principal-agent view, third-country nationals could be expected to have closer bonds to headquarters, if they have similar cultural or geographic backgrounds. While a complex operationalisation of "proximity" could be sought, for simplicity we suggest that in the case of German parent companies, a European background for a third-country national is a reasonable proxy for closeness to the headquarters. In this line of argument, the nationality of an employed third-country national will not be random but have closer cultural affinity to the parent country. This will be reflected in the citizenship of third country nationals and leaves us with two competing hypotheses:

H 3.2a: In the event TCNs are employed, the best manager available worldwide will be hired for the subsidiary, regardless of his/her country or region of origin (RBV).

H 3.2b: When TCNs are employed at subsidiaries, their nationality will reflect close bonds to the parent country (AT).

3.4 Frequent fliers

As discussed above, through ongoing globalization, frequent fliers increasingly have become an option for staffing issues (Collings et al. 2007; Minbaeva and Michailova 2004). Frequent fliers can be dispatched from the global headquarters but also from regional headquarters, in this case from an Asian location like Singapore. A key question is, what the frequent flier is expected to accomplish in the subsidiary he/she is sent to. Employing either a resource-based view of the firm or the principal-agent view can lead to quite contrasting expectations. With respect to a resource-based view, the recent decline of transport and communications makes it easier to utilize a headquarters-related manager for special projects in the foreign subsidiary, e.g. integrating computer systems or other technical assignments. In such a case, the seconded manager would bring scarce resources to the subsidiary that are unavailable locally. In contrast, from an agency-related point of view the main role for frequent fliers could be expected to handle or foreclose misalignment conflicts between the headquarters and the subsidiary. When looking at the reasons for dispatching frequent fliers to foreign subsidiaries, we are thus confronted with two somehow contrasting hypotheses:

H 4.1a: Frequent fliers are primarily used in a foreign subsidiary for specific projects for which they possess superior expertise (RBV).

H 4.1b: Frequent fliers are primarily used in a foreign subsidiary to handle or foreclose misalignment conflicts between headquarters and subsidiaries (AT).

A further question of interest is whether frequent fliers might replace expatriates as a less costly solution. From a resource based perspective, frequent fliers would be expected to bring expertise to the subsidiary that is not available locally. As the frequent fliers will normally be non-Japanese, it can be assumed that they would substitute for unavailable (or costly) home or third-country nationals in particular. When asked whether frequent fliers are substitutes or complements for expatriates, we would thus expect that subsidiaries predominantly consider them as substitutes.

From a principal agent theory perspective, we argue that the utilization of frequent fliers would be rather complementary. In this view, temporary visits are seen as an effective way of overcoming principal agent misalignment conflicts between headquarters (as principle) and the foreign subsidiary (as an agent). The frequent fliers, therefore, are considered to complement other senior staff by offering another, possibly crucial, lever for overcoming principle-agent divergences. However, they would not be regarded as a replacement for expatriates. Therefore, we have two competing hypotheses:

H 4.2a: As frequent fliers bring scarce resources to a subsidiary, they are an alternative to costly expatriates and will usually be regarded as a substitute for the latter (RBV).

H 4.2b: As frequent fliers can help to alleviate agency-related issues, they will usually be understood as complementing expatriates (AT).

The next section will introduce the study design and the data used for this study.

4 Study design and data

To investigate the executive staffing decisions in the pluralist theoretical framework outlined above empirically, we make use of a recent data set on German subsidiaries in Japan (Bebenroth et al. 2007). To prepare a more encompassing survey, we conducted interviews with eleven GMs or other strategic management team members of German affiliates in Japan, mainly in the Tokyo area. These interviews took place in May 2006. The interviewees had German or Japanese nationality and came from subsidiaries or parent companies of various sizes and thus provided a broad first impression of the staffing situation of German affiliates in Japan.

Based on our research and these interviews, a questionnaire was sent out in cooperation with the German Chamber of Industry and Commerce Japan to all member companies, covering 451 entities. We sent each company one questionnaire, directed to the GMs or another top staff member, in order to accumulate opinions of senior personnel about the executive staffing decisions in their affiliates. To receive a wider range and more balanced sample of responses, we sent the questionnaire in three languages, German, English, and Japanese, so that each of the respondents could choose his/her most convenient language. Our questionnaires were back-translated by several people—the state of the art in this kind of study—in order to minimize differences in the nuances of meanings in the three languages.

In the first section of the questionnaire, we asked about the status quo of the staffing decisions in the affiliate: Under which circumstances are PCNs sent to the affiliates? Does the firm also employ locally hired non-Japanese or TCNs, and finally, does the headquarters use frequent fliers? In the second section, we asked about the importance of sending PCNs to the affiliate in contrast to other alternatives. In this part, we also included questions about the set-up of the strategic management team. As there is anecdotal evidence that parent-country nationals/expatriates are the most expensive choice for a staffing decision, in the third section, we investigated the costs of the different staffing choices. The fourth section covered basic information about the respondent and the affiliate: the sizes of the affiliate, the parent company as well as the whole group. Other questions related to the industry and the nationality of the respondent.

We received 121 completed responses, encompassing responses from 86 different subsidiaries, 24 Joint Ventures, 7 representative offices and 4 companies designated “other”. Our response rate for the questionnaire was 26.8%, which we consider a satisfactory level. Among our 121 completed responses, we retrieved data from the 86 subsidiaries for this study. Joint Ventures do not easily fit the considerations outlined above, as the staffing situation is different depending on the constellation and power distribution. The same holds for representative offices, as they are smaller in size and are usually associated with quite peculiar functions, like market studies. Therefore, we do not consider them any further in our study. In the following section, we use mainly quantitative data from

our 5-point Likert-scale type of questions. We generated univariate statistics (analyses of variance[ANOVA] and Chi-square tests) to determine similarities and differences between our somewhat competing hypotheses.

5 Results

5.1 Descriptive statistics of the sample

Among the 86 cases of the sample, 38 are led by a German GM, 36 by a Japanese one and 12 by a third-country national. Also in terms of SMT composition, we find a reasonable number of different set-ups, for instance subsidiaries employing German expats, third-country nationals, foreigners under local contracts or solely Japanese managers. The average age of the subsidiaries is 33.4 years, with a mean size of 275 employees in the subsidiary and 10,614 of the headquarters. Generally speaking, there is reasonable diversity within the sample to hope for meaningful empirical results. More information on the sample and on the characteristics of the replies can be found in Table 1.

5.2 Results for strategic management team set-up

The first hypothesis concerns the heterogeneity of nationalities between the GM and the other strategic management team members. In regard to our 86 subsidiaries, among GMs there were 38 German, 36 Japanese and 12 third-country nationals, as reported above. With respect to the strategic management team (excluding the GM him/herself), in 46 subsidiaries we found German expatriates and in 20 subsidiaries TCN expatriates as well.

We test our hypothesis of whether the national backgrounds of the GM and of the strategic management team are similar or not. Our ANOVA test reveals significant results to support the principal-agent perspective ($F = 4.43, p < 0.001$). We find reasonable evidence from our data that if the GM is a non-host country national, there is a high probability of having other non-host country nationals in the strategic management team as well. In our case, if a German GM heads the subsidiary, we find in almost all cases other PCN, TCN or at least locally hired non-Japanese. Furthermore, of the 50 cases in which a non-Japanese GM (German or TCN) is leading the subsidiary, there are only three cases in which the whole strategic management team is Japanese. All of the other 47 subsidiaries have non-Japanese members in their strategic management team. In the 35 subsidiaries led by a Japanese GM, we find 18 subsidiaries that have only Japanese strategic management team members. Put differently, 18 (of 35) strategic management teams led by a Japanese GM are solely staffed with Japanese senior managers. Evidence for this case the other way around is even more impressive. When we look at the strategic management team first, we have 21 strategic management teams that are solely staffed with Japanese managers. Of these 21 cases, there are only two in which a German GM leads the subsidiary. In all other cases, the GMs are Japanese nationals.

While the sample does not allow us to speak of a clear-cut result, this finding lends support to a generalization that a subsidiary led by a Japanese GM has a tendency of having a homogeneous strategic management team of Japanese citizens. To state this

Table 1: Basic questions from the questionnaire and some descriptive statistics

Area 1: General Manager and Strategic Management Team	
H 1.1: Do GM and SMT have heterogeneous or same nationalities?	
Nationality of the general manager?	
Country	No of cases
German	38
Japanese	36
TCN	12
Issue of Strategic Management Team at subsidiaries	
Executives of the SMT?	
SMTs where German expats are available	46
SMTs where TCN are available	20
SMTs where German locals are contracted	23
SMTs where other local hired TCN are available	24
SMTs without any other managers than Japanese	21

Area 2: Non-Japanese local hires				
H 2.1: Do subsidiaries actively employ non-Japanese local hires?				
Availability of foreign executives with local contracts.				
Very important;	important;	intermediate;	less important;	not important at all
5	17	20	18	3
H 2.2: Do cost differences lead to changes in hiring?				
Costs of an expatriate in Japan compared to a Japanese manager?				
<100%	100%	100-150%	150-200%	>200%
0	5	23	23	7

Area 3: TCN	
H 3.1: Does existing HQ HR-sending policy affect TCN general manager employment?	
Human resource policy available regarding the use of sending issues at headquarters?	
Yes: 67; No: 19	
H 3.2: Are TCN GM bound close to headquarter country?	
Nationality of the GM, European or not?	
European= 12; others 76	

Area 4: Frequent fliers			
H 4.1: What are frequent fliers doing, special project or reducing misalignment issues?			
Importance of "frequent fliers" in Japan?			
5=very important; 4=important; 3=intermediate; 2=less important; 1=not important at all			
	Total Sample		
Job Responsibility	N	M	SD
Special projects	84	4.12	1.06
Strategy	82	3.38	1.19
Operative day to day business	79	1.81	0.85
Sales	82	2.65	1.12

Table 1: (continued)

Marketing	81	2.85	1.05
HRM	80	2.11	0.79
Controlling	82	2.34	1.02
F&E	70	2.79	1.22
H 4.2: Do frequent fliers substitute or complement expatriates?			
Do “frequent fliers” rather substitute or complement expatriates?			
completely substitute	usually complement	only complement	both
7	22	22	5

Other variables: Average firm size and age of the subsidiaries

Average firm size in employees			Quartiles			
	N	M	SD	<25%	<50%	<75%
Subsidiary	85	275	677.3	16	48	168.5
Headquarter	72	10,614	23,279.9	750	2,000	8,750
Group	74	41,008	87,053.9	1,650	6,750	35,000
Age of subsidiaries						
	N	Mean (in years)		SD		
	86	33.4		23.74		

more generally, headquarters either have an expatriate GM and also other non-host country strategic management team members in their team, or they tend to rely completely on host-country nationals, here Japanese citizens. If a GM is sent abroad, then most likely there are other strategic management team members with a non-host country background as well. This supports hypothesis 1b, because the homogeneous set-up of many leadership teams lends support to the view that a reduction of agent misalignment conflicts is a serious consideration.

5.3 Results for locally hired non-Japanese managers

In our next two hypotheses, we investigate locally hired non-Japanese. We argue that in Japan currently, there is an extensive interchange involving foreign-study-based programs, international internships, etc., so it has become much easier to hire non-Japanese staff under local conditions. In our questionnaire, we find that 23 out of 86 subsidiaries (already) employ locally hired German citizens. Moreover, there are 24 cases in which other non-German local hires are employed in the strategic management team. That means, from our 86 investigated companies we find that around one out of four subsidiaries utilizes the employment of locally hired non-Japanese. Our findings support a resource based view that the availability of locally hired non-Japanese makes subsidiaries more active in realizing the advantages of potentially available human resources. Our Anova test is 5% significant ($F = 2.64, p = 0.04$).

In regard to the consequences of significantly higher expenses related to expatriates compared to locally hired non-Japanese, only five from our company sample responded that the cost for staffing a parent-country-national expatriate to their subsidiary is the same as staffing the position with a host-country national (we did not explicitly ask about a locally employed non-Japanese). All other subsidiaries replied that expatriate parent company nationals are more expensive than any other choice available. For 23 companies, the cost of having a parent-company national sent from headquarters is between 100–150%, and another 23 companies even regard it in the range of 150–200%. For seven companies, the cost is beyond 200% when staffing a position with an expatriate compared to a host-country national. However, when analyzed statistically and looking for an impact of higher cost differentials on choosing between expatriates and locally employed non-Japanese, we can not find a significant correlation between the two variables ($F = 0.65$, $p = 0.58$). Therefore, even if we have some evidence that firms do care about the costs, there is no evidence that it affects their staffing policy.

5.4 Results on third-country nationals as GMs

With regard to the role of third-country nationals at the GM level, we find a surprisingly high number of 12 among our 86 subsidiaries in our sample data. We also found 20 subsidiaries' strategic management teams had third-country nationals with an expatriate status and in 24 other subsidiaries these TCNs are included under a local contract. This is clearly in contrast to the earlier literature maintaining that TCNs do not play a role in staffing decisions (e.g. Harzing 1999, 2001; Gong 2003).

Our data not only suggests that there is a significant utilization of TCNs but also that headquarters with a functioning HR sending policy have a higher chance of employing third-country nationals at their subsidiaries. Our Anova test is marginally significant in supporting our hypothesis 3.1 in regard to a resource-based view ($F = 3.02$, $p < 10\%$). In addition, we investigated whether TCNs are taken from areas geographically close to headquarters. Our questionnaire results show that this is indeed the case. 10 out of 12 non-German and non-Japanese GMs are from Europe, with the other two from Canada and China. As we only have data from 12 cases, this is not enough to lend support to a sweeping generalization. However, these first attempts clearly point into the direction of a correlation between the location of headquarters and close regional origins of third-country national GMs. Our Chi-square results, therefore, support hypothesis 3.2b, based on a principal-agent view, namely that headquarters prefers to use Europeans, while from a resource perspective there should have been no preference for regional proximity or intimacy ($\chi^2 = 5.33$, $p < 0.05$).

5.5 Results for frequent fliers

Finally, we investigate whether the forces of globalization have led to a new mode of strategic management team style: the "frequent fliers". Based on the interviews, we learned that many companies have begun to utilize this new type of management. Almost all of our interviewees agreed that (global or regional) headquarters send frequent fliers to their subsidiaries relatively often. Asking about the positions frequent fliers take, according

to our evidence “special projects” is much more important than “reducing misalignment conflicts”. In our five-point Likert scale, ranging from “not important at all” (1) to “very important” (5), the highest score receives “special projects” with a score of 4.08 followed by “strategy” with 3.39. All other variables are below the average of 3. This is supported by a Chi-square test which lends support to the resource based view of the firm, namely that frequent fliers are used to make scarce or locally lacking resources available ($\chi^2 = 57.19$, $p < 0.01$).

Another focus was placed on a possible substitution of expatriates through frequent fliers. Informed by a resource-based view of the firm, it could be assumed that frequent fliers perform similar jobs that a more costly traditional expatriate would normally do, i.e. substitute for him/her. In contrast to this, the principal-agent perspective would suggest that frequent fliers can (only) complement expatriates, but would be overburdened if expected to handle misalignment conflicts themselves. Our empirical Chi-square analysis shows that frequent fliers are clearly complementing traditional expatriates much more than replacing them. In only 7 out of 56 cases, companies replace traditional expatriates through frequent fliers. In all other cases, frequent fliers complemented them ($\chi^2 = 18.42$, $p < 0.01$). This result, therefore, supports the principal-agent theory.

5.6 Summary of results

We have summarized the individual results on the various hypotheses in Table 2. There are two main overall results. The first is that new or unconventional forms of solving staffing decisions among GMs and strategic management teams clearly have come to play a major role. The distinctions made by a lot of the existing literature, often based on the scarcity of available data, are not enough to cover the rich options open to multinational enterprises in today’s world, even if we could only present evidence on German subsidiaries in Japan.

How can one analytically capture these new options? We have looked at two important theory-based foundations and found that while the principal-agent view is supported with respect to three hypotheses, the resource perspective is also corroborated with respect to three hypotheses. This lends support to the idea of considering both approaches to explain managerial staffing practices in foreign-based subsidiaries.

6 Discussion and conclusion

Our study contributes to filling a research void about expatriation issues while focusing on Japan-based German subsidiaries. For this, we consider two theories, the resource-based view of the firm and the principal-agent theory. We divide non-Japanese managers into three groups, parent-country national expatriates (German nationals) sent by headquarters, third-country nationals (non-German and non-Japanese nationals), and locally hired non-Japanese, which are directly hired in Japan and based on Japanese labour contract conditions; this latter group has either a German or another third-country (non-Japanese) citizenship. To complete the choices for staffing decisions, we also investigate frequent fliers. This allows us to consider the applicability of both theories in more detail, compared to a mere look at longer-term expatriate staffing patterns.

Table 2: Support of hypotheses between the resource-based view of the firm and the principal-agent theory. (Source: Data from questionnaire)

Area	No.	Content of hypothesis	Resource based view of the firm (RBV)	Principal agent theory (AT)	F	Prob. > F	Sign.
GM-SMT	1.1.	Do GM and SMT have heterogeneous or homogeneous nationalities?		Support	ANOVA 4.43	0.000	1%
Locally hired non-Japanese	2.1.	Do subsidiaries actively employ non-Japanese local hires?	Support		ANOVA 2.57	0.0474	5%
	2.2.	Do cost differences lead to changes in hiring?	–	–	ANOVA 0.65	0.5896	No
TCN	3.1.	Does existing HQ HR-sending policy affect TCN general manager employment?	Support	–	ANOVA 3.02	0.086	10%
	3.2.	Are TCN nationalities bound close to headquarters country?		Support	Chi square 5.333	0.021	5%
Frequent fliers	4.1.	What are frequent fliers doing, special project or reducing misalignment issues?	Support		Chi square 57.190	0.000	1%
	4.2.	Do frequent fliers substitute or complement expatriates?		Support	Chi square 18.429	0.000	1%

The first hypothesis was concerned with the relationship between the GM and the (rest of) the strategic management team. We found evidence that the nationality of a GM and of senior managers is most often homogeneous. In other words, GMs and the strategic management team are either completely composed of Japanese citizens, i.e. host-country nationals, or both the GM and several members of the strategic management team are foreigners. An explanation for this is offered by the principal-agent theory, which argues that such a set-up reduces principal-agent misalignment conflicts within the subsidiary. A background reason for this constellation could be the presence of two different strategic approaches taken by the headquarters. The “foreign influenced” strategic managing team might reflect a stronger assignment of control or coordination activities by headquarters (Belderbos and Heijltjes 2005), while the “fully Japanese” (host country) dominated strategic managing team subsidiary is more autonomous in its set-up.

In the case of locally hired non-Japanese managers, a resource-based view of the firm was supported. This kind of manager has obviously risen in importance in recent years—at least judging from our sample of Japan-based German subsidiaries. Firms striving for the best talent will staff their positions with managers beyond the conventional dual choice of host- or parent-country national. We see two possibly complementary explanations for this. On the one hand, the high costs for the headquarters of sending expatriates to subsidiaries may be critical. On the other hand, recently there are more potential candidates available as study and internship programs in Japan have increased the number of Non-Japanese managerial candidates there. This multifarious situation leads some firms to use this potential.

Also, we offer evidence that third-country nationals are becoming an important issue as already suggested by Gaur et al. (2007). As the resource-based view of the firm points out, firms utilize the additional human resources available in today’s labour market in order to improve their human resource base. We could show that headquarters with a functioning HR policy on sending issues will tend to send the best person available worldwide to a subsidiary, not necessarily the traditional expatriate dispatched from headquarters. On the geographical proximity of third country-nationals and headquarters nationality, our data supports the notion that this factor does play a role, which is in line with the principal-agent view.

Frequent fliers are strongly involved in “special projects” rather than in reducing “misalignment conflicts”. This result is in line with a resource-based view of the firm. However, in our further question about a possible replacement of expatriates through frequent fliers, we have support for the relevance of a principal-agent perspective as well. According to the responders, frequent fliers complement expatriates far more than they substitute them at their subsidiaries.

With respect to the four areas investigated, we find that both the principal-agent view and the resource-based view of the firm are supported in three hypotheses. We thus conclude that it is important to consult both theories when staffing foreign based subsidiaries.

It remains an open question which of the two views is more relevant for a given issue. We did not find a clear pattern to answer this puzzle. At this stage, our research can only show that it is meaningful to combine the insights from various existing theories, as expectations based on one chosen perspective may be too simplistic and deceptive.

Our results have theoretical and practical implications. We show that the dimensions of practical employment in foreign-based subsidiaries have changed and that academic research should be in step with these developments. In a practical sense, headquarters-based HR managers should take a fresh look at their expatriation strategies to realize more appropriate choices and to understand that the market has widened far beyond the simple expatriate vs. local staff choice.

Our study is not without weaknesses. Industry effects need to be further investigated. There may also be unique elements of Japan-based German subsidiaries that could have influenced our results. The results may also have been influenced by the strategic direction of an individual firm. Another weakness of our study is that it is based on a rather small questionnaire sample and that the data from the questionnaire survey are not always sufficient to statistically support our hypotheses convincingly. Our results have to be verified and tested in future research with a bigger sample beyond Japan-based German subsidiaries. Small sample size also had some negative, but unavoidable effects on the possibility for using statistical methods. For instance, it was hardly meaningful to control our findings for subsidiary age, size, or ownership patterns.

Also, some of the parent-country nationals, third-country nationals or local hires could be of dual identities (Vora et al. 2007). We also could not be sure whether in some cases a local hire might have had an expatriate status before he/she received the current post.

In spite of the shortcomings, this research has shed some important new light on staffing issues in foreign based subsidiaries, going well beyond the familiar distinction of parent-country nationals (expatriates) versus host-country nationals and beyond fragmented and narrow analytical approaches.

Endnotes

Clarification of choices for filling the subsidiary strategic management team

PCN: Parent-country national, here referring to a German citizen dispatched and contracted from headquarters.

HCN: Host-country national, here referring to a Japanese citizen employed and contracted by the subsidiary.

TCN: Third-country nationals, here referring to a non-Japanese and non-German citizen, which are sent to Japan via a contract with headquarters.

Locally hired non-Japanese: Usually German (or third-country) citizens, who are already living in Japan and are directly contracted by the subsidiary via a subsidiary contract.

Endnotes

- 1 In our sample, the status of TCNs is similar to expatriate PCNs sent from headquarters. As an example, we found no reason to assume that the Spanish-citizen GM of a leading German carmaker's subsidiary in Meguro, Tokyo, receives less salary and fringe benefits than do German parent-country-national GM expatriates. However, for other senior management team members, it is conceivable that a TCN, on average, does not receive as favourable conditions as a German

PCN. The reason is that a PCN sent from headquarters at least in some cases will enjoy a better negotiation power vis-à-vis the headquarters than a TCN.

- 2 This could, for instance, be a German citizen who years ago came to Japan through one of the study and research programs (Bebenroth 2007). As this person is living in Japan already, he/she will be contracted to the subsidiary, not by headquarters.

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