Staffing Strategy of Japanese Companies in China (JCC) : Selection of Chief Executive Officer (CEO)

Lau Chung Ming, Kevin
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Abstract

HRM practice is regarded as a source of sustained competitive advantage for organizations and a key of success for global business of MNCs. Effective staffing strategy becomes important for Japanese MNCs' selection of top management like Chief Executive Officer (CEO)[1]. This paper is based on the underlying factors affecting the staffing decision, and tries to verify whether or not several hypotheses apply to Japanese companies in China (JCC)[2]. According to the data analysis with 1914 samples of JCCs from the statistical data by "The 21st Century China Research Institute", the result told us the majority of JCCs adopting Japanese as their CEO, regardless of a diversity of conditions, except for the locational disadvantage of inland regions and the joint decision-making due to contractual alliance of joint undertakings. The impact on the effectiveness of global management due to over-reliance on staffing from headquarters cannot be neglected. Managerial implications of the staffing strategy of Japanese MNCs are discussed for the purpose of improving their global HRM practices.

JEL Classification Codes: F6, L6, L8, M1, M5

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[1] A chief executive officer (CEO) commonly describes the position of the most senior corporate officer in charge of managing a business organization in US, similar as managing director (MD) or president in Japanese companies.

[2] In this paper, Japanese companies in China (JCC) is defined as any company, which is solely or partially invested by Japan, and located in China, including Hong Kong.

Keywords: Japanese MNCs; Globalization; Companies in China; CEO; HRM; Staffing strategy

1. Introduction

Globalization is not a recent phenomenon, but how to succeed in becoming an astute global player is still a hit topic and growing field of HRM for most of MNCs. In synthesis, the execution of global HR strategies effectively ultimately depends on the ability to judge the extent to which MNCs should implement standard practices across the world or adapt them to suit local conditions (Brewster et al., 2002). For this reason, global staffing is recognized as one of important HRM practices. In particular, the extents to which the expatriates are adopted in overseas establishments directly affect the outcomes of global investment (Boyacigiller, 1990, Hamill, 1989, Oki 2013). Since Chief Executive Officer (CEO) plays a key role in leading the company to operate a business successfully, the selection of CEO becomes a crucial and tricky task of HRM (Herrmann and Datta, 2002). As a leader of the company, CEO makes high-level decisions of company policy and strategy, advises the board of directors of business direction, motivates employees, and drives change within the organization. In addition, the CEO of overseas subsidiary also serves as a "bridge" between the MNC and the subsidiary in order to ensure the communication and flow of strategic direction effectively (Gong, 2003, 2003a). Whether to appoint a local employee from the host country or deploy one from the headquarters as a CEO remains a significant decision to the company (Tseng and Liao 2009). For the purpose of formulating an appropriate strategy, deep understanding and analysis of factors affecting global staffing strategy, which were discussed previously, are crucial to the success of MNCs. Ma and Trigo (2012) state that most Japanese companies tend to employ a large amount of Japanese expatriates in order to well control the operation of overseas subsidiaries, and are therefore the least localized, when compared with Western and Overseas invested companies (Delios and Bjorkman, 2000). Even though some past studies and data have already shown that majority of Japanese MNCs deploy the expatriates from headquarters for managing the business operations in their overseas affiliates, there is a dearth of research with the consideration of individual factor influencing such decision. As per aforesaid worsening trend of world competitive ranking of Japan MNCs, lack of appropriate global HR strategy is considered as one of major factors of failure in their global business. In addition, the business environment in China is changing after years of economic development and becoming more severe. Further study of CEO's selection of Japanese companies in China (JCCs) is expected able to provide more comprehensive views and supporting information for those Japanese MNCs with investment in China (Taylor, 1999). The objective of this paper is going to verify some particular factors of affecting staffing strategy of CEO whether they can apply in JCCs with data analysis, and to provide insights for future studies.

The study of this chapter is solely based on secondary data, and the required data have been collected from published statistical data, journals, books, materials from internet, and so on. This chapter starts with the comparison of the deployment of expatriates from headquarters and local staffing with some illustrations of previous researches. According to the underlying factors of affecting global staffing strategy was discussed in other researches, five factors are selected as research questions set for the purpose of verifying specified underlying factors whether they can apply in the same manner based on the context of JCCs. Finally, the data analysis of findings is presented and discussed accordingly. This paper concludes with any implications for global HR strategy of JCCs as well as some suggestions of any improvement in related CEO's selection.

2. Trend of Japanese MNCs' Selection of CEO for their Subsidiaries

MNCs face with a great variety of cultural and institutional variations, which make managing in a multinational context particularly complex (Doz and Prahalad, 1986). Significantly, managing staffing arrangement in overseas subsidiaries of MNCs is increasingly realizing the importance of HR practices in ensuring the profitability and viability of their business operations. Playing a balance between the need for control and coordination of foreign subsidiaries and the need to adapt to local environment are important to all overseas companies (Adler and Ghadar, 1990, Myloni, Harzing, and Mirza, 2007). Developing future global leaders becomes a key priority in the management of human resources in the global organization (Scullion and Starkey, 2000). With regard to the HRM in global context, the complexities of operating in different countries and the employment of various national categories of workers are the major difference compared with domestic concern. In general, there are three types of employees of any overseas subsidiaries, including PCNs, HCNs, and TNCs[3].

Global staffing is the critical issue faced by MNCs with regard to the employment of home, host and third country nationals to fill key positions in their overseas operations. A couple of reasons can be explained why the global staffing becomes important. There has been a

[3] PCN and HCN will be focused on this report for discussion. Besides PCN and HCN, there are another options for staffing decision in MNCs. TCN (Third Country National) is a staff whose ethnic of origin is other than the MNC's home country and host country. In recent years, the MNCs' employment of staff who is residing in a country of subsidiary but the ethnic of origin is from parent country, or who is living or studying in parent country but ethnic of origin is from host country are prevailed as well.

considerable increase in the mobility of human resources due to the more rapid growth of internationalization and global competition (Black, Morrison, and Gregerson, 2000, Paik and Ando, 2011). The performance of expatriates continues to be problematic and the evidence suggests that the costs of poor staffing decisions in international business are often costly in human and financial terms (Dowling and Welch, 2004). Besides, many MNCs continue to underestimate the complexities of global staffing and lack of knowledge of labor markets in a variety of countries and how to recruit in these markets is a major challenge for MNCs (Briscoe and Schuler, 2004). Shortages of international managers are also another growing problem for international companies and the implementation of global strategies are increasingly constrained by shortages of international management talent (Scullion, 1994). A growing recognition of the success of global business depending most critically on recruiting the desired quality of senior management in the MNCs and their subsidiaries prevails (Schuler, 2000). Basically, there are various types of overseas investment existed no matter of involving international competitors undertaking mutual investment in one another, or relates to the trade aspect of regional integration. Horizontal FDI and Vertical FDI are widespread used green field investment by MNCs. Horizontal FDI is driven by market access considerations with same business activities in multiple countries whilst vertical FDI takes place as MNCs divide the production process internationally, locating each stage of production in the country with least factor cost (Helpman 1984). Besides, there are certain amounts of FDI serving both functions. Regardless of each kind of FDI, CEO of each overseas company has to direct the company to achieve the primary objective determined by MNCs, and hence most MNCs also come across similar challenges when they consider the selection of their overseas subsidiaries' CEO. With reference to previous studies, most Japanese MNCs, had a tendency of appointing PCN to be top management in their subsidiaries since they were well trained under the corporate policy and got specialized skills which are considered important in Japan headquarters. Tung (1982) states in her study regarding the selection and training procedure of MNCs in various countries that the Japanese MNCs employ considerably more PCNs in their overseas operations at the senior and middle management levels in comparison with U.S. and European companies.

In general, the motives for MNCs transferring personnel abroad include filling position, management development, and organization development (Edstrom and Galbraith, 1977). As shown in Table 1, majority of Japanese MNCs appointed PCN to act as directors of overseas subsidiaries, regardless of the districts of investment (Wang, Li, and Rao, 2007). Besides, Figure 1 also indicates the difference of the MNCs from Japan, US, and Germany for their expatriation of senior management staff in Asian subsidiaries (METI, 2000). US and Germany ones rely predominantly on HCNs to manage the overseas companies, while Japanese ones relied on the PCNs as the senior management staff. The common explanation of heavily using expatriates to manage the overseas operations in Japanese MNCs is related to the traditional Japanese management characteristic. In comparison with American and European companies, Japanese companies tend to be relatively more ethnocentric. In an ethnocentrically managed company, PCNs will hold majority of positions at overseas operations. Besides, the company direction is significantly influenced by the head office. Those MNCs would like to apply the method of management and operation exactly which have been successful in home country, and ignore any concerns of domestic situation and local needs. In addition, the intensive use of expatriates has been linked to the traditional HRM practices in Japanese organization such as lifetime employment systems, extensive job transfer systems, seniority-based pay, and an emphasis on control through socialization (Tung, 1984; Baliga and Jaeger, 1985; Beechler and Yang, 1994; McMillan, 1996). In the Japanese highly hierarchical companies, they are considered that serious barriers exist between local managers and Japanese expatriates. It implies that Japanese companies still hesitate to expedite the promotion of local management positions and it is considered one of the major obstacles of the improvement of global competitive position. Another typical problems of this management style also include an inability to fully utilize the talents of non-home-country nationals, discontent among local national managers, high turnover rate of local national managers, repatriation problems for expatriates returning to the home country (Heenan and Perlmutter, 1974). On the other hand, another study by Bae, Chen, and Lawler (1998) indicates that the executive from HCN has increased in other countries, especially in lower management positions. It is implied that the advantages of appointing HCNs as management staff, in overseas subsidiary are still well recognized by many other countries' MNCs.

Table 1: Ethnic origin distribution of Japanese companies' director in each district

(In %)

	HCN			PCN			TCN		
	2001	2003	2005	2001	2003	2005	2001	2003	2005
China	16.5	22.9	12.9	82.2	75.5	83.6	1.5	1.6	3.5
Other Asian	0.0	19.6	23.9	0.0	78.9	75.7	0.0	1.1	0.4
North America	25.3	30.5	25.6	73.8	68.0	73.8	0.2	0.7	0.6
Mid/South America	15.0	15.6	14.4	84.0	83.9	83.2	1.0	0.7	2.4
Europe	17.7	20.1	23.3	80.1	75.5	74.6	2.6	4.3	2.1
Overall	19.3	20.2	19.4	79.4	77.7	78.9	1.4	1.9	1.7

Source: Japan Institute for Labor Policy and Training, Year 2001–2005
Wang, Li, Rao (2007)

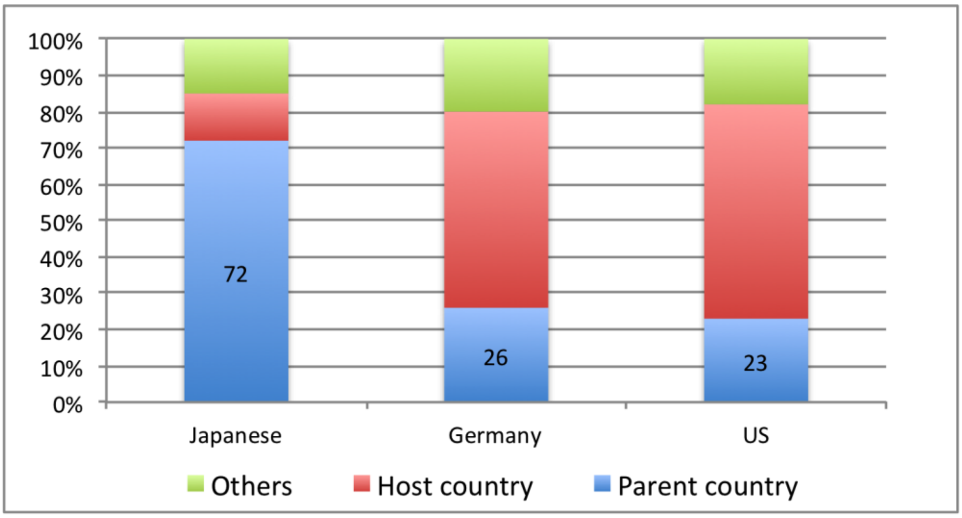


Figure 1: MNCs' assignment of Senior management staff in Asian subsidiaries

Source: White Paper on International Economy and Trade 2000 (METI)
East Asia Economic Cooperation in New Century P.452
Wang, Li, Rao (2007)

Since those problems are not only limited to Japanese MNCs, any US and European MNCs which adopt similar ethnocentric policies and practices may engender common motivation problems among local employees, including dissatisfaction with communication and approval procedure, and frustration with limited promotion opportunities (Zeira et al. ,1975 and Zeira, 1976). In consequence, it creates difficulty in recruiting and retaining high-caliber local employees. On the other hand, vertical Japanese industrial groups or vertical keiretsu, which are networks of suppliers, related or spin-off manufacturers, and wholesale and retail distributors, also poses significant impact on the degree of management control over other group companies, facilitated by shareholdings, financial ties, and dispatch of managers from headquarters (Goto, 1982; Gerlach, 1992; Belderbos, 1997, Belderbos and Heijltjes, 2005).

Most researches addressing the subject of Japanese MNCs have already focused on the unique issues facing by Japanese companies or even compared the factors influencing the global HRM practices of MNC. However, there is little data to substantiate the previous findings able to apply in China subsidiaries of Japanese MNCs or not. Since FDI in China is still regarded as significant to Japanese MNCs, it will be meaningful to further clarify the underlying factors influencing the selection of CEOs in China subsidiaries. Thus, the aim of the following parts is to provide data from which such analysis can be made.

3. Hypotheses Development and Methodology

With reference to above discussions and the incorporation of the factors of affecting the global staffing strategies, five of those factors which are commonly recognized as influences on selecting local elite as a top position of the foreign investment company are chosen to further verify whether they can apply in Japanese MNCs' subsidiaries in similar manner or not. The target of this paper is to focus on the JCCs, which is considered as one of critical overseas management area to Japanese MNCs nowadays.

3.1 Influence of Locational Advantage of the Host Country

Most of MNCs preferred to start their China business by establishing the company along the coastal area due to the efficiency-seeking objectives, and it will weigh more of geographical proximity to the home county to minimize the transportation cost. Since FDI is considered as a long-term capital investment and irreversible in a short run, FDI into transition economies will be mainly driven by the host country's market size, availability of skilled workers and sufficient infrastructure (Kinoshita and Campos 2002). Company in inland region or coastal area within the same country should have different regional characteristics in terms of size, population, infrastructure, standard of living, and so on. It is expected the regional location may pose certain influence on staffing decisions of CEO due to the distance of culture, technology, and cost. However, an increasing labor cost creates the burden to most of FDIs in China, hence some of them had considered the re-location of their establishment in recent years. One of the choices is to relocate to the inland area within China. Since the average labor cost in inland area of China is still considered relative low, one of the pitfalls of staffing policies in case of appointment of Japanese as top management, and they receive more benefits and salary than host-country nationals and inconformity on the amount of operation cost cannot be ignored (Goralski and Salgado 2014). On the other hand, in order to penetrate the local market and capture the share, MNCs will send expatriates to manage the venture and train the local employees (Goralski and Salgado 2014). Because of the differences in cultural values, MNCs of different country origins tend to have different degrees of adaptation to local conditions. Since companies have to obey local regulations and domestic environmental conditions, they may influence the HRM practices of MNCs' investment operating in the host country as well (Ngo, Turban, Lau, and Lui 1998). An overseas company which can actively involve in the local networks and industrial clusters will accrue significant benefits in promoting productivity and innovation, and acquiring resources and information for the purpose of smoothing the business operations (Luo, 2001a).

On one hand, a research by Tung (1982) states that HCNs are used to a much greater extent at all levels of management in developed region of the world as compared to the less developed regions because of expecting the more developed nations with a larger pool of personnel who possess the necessary manpower and technical skills to staff management-level positions. On the other hand, an overseas expatriate CEO will find certain difficulties or spend long time to adjust the living environment in case of inconvenient location with poor transportation network in the case of the overseas company located in inland area. Consequently, the work efficiency and performance may be affected. Thus, a local national CEO is more advantageous than an expatriated CEO in terms of his or her enhanced familiarity with the local environment and superior connections with local networks and connections, appointing a local national as the subsidiary CEO becomes a tendency and is considered as beneficial to acquire and utilize various locational advantages (Gong, 2003a). Therefore, this study proposes the following hypothesis:

Hypothesis 1: The locational advantages of the host country are negatively related to the likelihood of Japanese MNC staffing CEO in JCC with HCNs.

3.2 Influence of Equity Ownership

A Japanese MNC enters China markets by establishing either wholly owned subsidiaries or joint ventures. The Wholly Foreign Owned Enterprise (WFOE) is a limited liability company wholly owned by the foreign investor in China, whereas Equity joint ventures (EJV) is a business agreement in which the parties agree to develop, for a finite time, a new entity and new assets by contributing equity. The partners share profits, losses and risk in equal proportion to their respective contributions to the venture's registered capital. In general MNCs are more likely to adopt the joint venture mode when an unsatisfactory institutional context is present because of the difficulty in acquiring legitimacy. As such, foreign subsidiaries are more likely to use the wholly owned subsidiary mode with improving FDI legitimacy, due to the dynamic interaction between institutions and mounting FDI (Peng and Beamish 2007).

According to the case of Japanese MNCs, the conventional Japanese management characteristics may pose certain obstacles to inject an overseas investment by joint venture mode. Especially for manufacturing business, Japanese MNCs prefer to have thorough control of production system for the purpose of pursuing the high quality requirement. Japanese style tends to be conservative and prefer to have deep considerations before any conclusion. Cultural distance is another reason to hesitate to cooperate with other countries' management team to run a company due to the lack of common language for communication and different business practices. "Inside-outside (*Uchi-soto*)" in the Japanese language is the distinction between in-groups and out-groups. This distinction between groups is not merely a fundamental part of Japanese social custom, but is also directly reflected in the Japanese language itself. Theoretically, it is possible for a foreigner to become a part of Japanese society. However, in reality it is very difficult for non-Japanese to be accepted as an "uchi" member of Japanese society. In following Japanese customs of collectivism, deciding individually to become a part of a certain group does not mean that one actually is a part of that group.

The selection of CEO of joint venture may not be fully controlled by Japanese MNC. One of the reasons to invest by EJV is to utilize the caliber of host country for the purpose of penetrating the local market. In order to reduce risk and resource commitment (Hill et al., 1990), and increase strategic flexibility (Harrigan, 1985), Japanese MNCs may have to cooperate with local dominant players by relinquishing some control and using lower levels of expatriate in overseas subsidiaries. Therefore, the local HCN will be largely used as CEO of EJV. On the other hand, when Japanese MNCs enter the China market by using WFOE mode, they may tend to assign PCN to act a CEO of subsidiary in order to have completely control and to make alignment with headquarters' directions. Therefore, the following hypothesis is proposed:

Hypothesis 2 : Investment in China by equity joint ventures is positively related to the likelihood of MNC staffing CEO in JCC with HCNs in comparison of investment by wholly foreign owned enterprises.

3.3 Influence of the Legislative System of the Host Country

Little empirical evidence can be found on whether FDI gaining legitimacy poses influence on the expatriate staffing or not. Even rare is evidence on the relationship with the country of origin of top management staff, like CEO. Legitimacy is a belief, which produces distinctive collective effects in society, including making collective social order more efficient and consensual (Tyler, 2006). It is a generalized concept or assumption in various theories that the actions of an entity are desirable, proper, or appropriate with some socially constructed system of norms, values, beliefs, and definitions (Suchman, 1995; Scott, 2001). Institutions refer to formal rules (laws and regulations) and informal constraints (cultures, customs and norms) that structure incentives in political, economic and social relationships in a society. There are three pillars of institutions, namely, the regulative, normative and cognitive (Scott, 2001). The regulative pillar refers to rules, laws and sanctions that provide legal legitimacy. It is argued that regulative legitimacy is the most salient type of legitimacy for FDI in this study, in which the legal system and related institution of the host country are assumed to have certain impacts of staffing decision with PCN or not. In order to interpret how FDI gains legitimacy, the development status of legislative system is used to show the country risk of business operation for FDIs. As the legislative system is well established in the host country, FDI can gain legal sanctions and meet the social expectations more easily. In consequence, FDI gains legitimacy and the level of business risk in overseas decreases. As such, MNCs can feel more comfortable in employing HCNs as subsidiary managers (Harzing, 2001a).

Peterson et al. (1996b) show that Japanese MNCs are more likely to increase their use of expatriates when the level of institutions is improved. Expatriates can serve to exert personal and cultural control, in both a direct and an indirect way (Harzing, 2001a). Control through expatriates is especially important when formal, output based control is not appropriate in countries with unfavorable institutions (Hamilton and Kashlak, 1999; Martinez and Jarillo, 1991). As FDI gains legitimacy, MNCs may arguably be more willing to implement an output based control mechanism (Hamilton and Kashlak, 1999), and reduce their adoption of expatriates from parent companies. Like Hong Kong, most MNCs have a confidence setting up business there by taking advantage on its competitive capabilities of free trade and free flow of funds to operate as a regional hub and service center. The Government of Hong Kong provides an appropriate economic and legal environment for the maintenance of Hong Kong as an international financial center and metropolitan city (Saeed and Ajay 2000). Although Hong Kong retains own currency, legal system, and parliamentary system for fifty years after handover to China, the Hong Kong Special Administrative Region (SAR) is still a part of China. Almost 20 years after Hong Kong's return to Chinese sovereignty, the city's economy is becoming increasingly integrated with that of the mainland. Hong Kong's continued prosperity will depend on further pursuing that integration, and Hong Kong companies will continue to play a major role in the mainland's development, for example by investing in mainland infrastructure and raising funds for mainland businesses. This consequence also suggests that Hong Kong is used by companies in mainland as a stepping-stone in their globalizing process, and that these companies accumulate substantial benefits in terms of enhanced experience of their expatriate staff.

Actually, it is quite difficult to measure the level of legislative system of the country, even though there are several measures trying to attempt to compare each country in the market. Annual Report of Economic Freedom of the World is one of economic research based on the foundation of economic freedom (Gwartney, Lawson, and Hall, 2015). Their realization is dependent on the presence of sound money, rule of law, and security of property rights, among other factors. Economic Freedom of the World seeks to measure the consistency of the institutions and policies of various countries with the dimensions of economic freedom and country risk. In particular, the component of "Legal system and property rights" is considered to reflect the institution status of the country. The key ingredients of a legal system consistent with economic freedom are rule of law, security of property rights, and independent and unbiased judiciary, and impartial and effective enforcement of the law. Besides, security of property rights provides the foundation for both economic freedom and the efficient operation of markets. Therefore, the efficient allocation of resources gives individuals and businesses confidence and incentive to engage in productive activity. The fundamental concept of this research is regarded as a relevant index to indicate the business environment of each country, whether it is to facilitate the investment of MNCs. With reference to their annual report in 2014, the rating of Hong Kong was the top amongst 152 countries of the world. Even though China has shown a significant improvement in past 35 years, in which the rating was increased by 75% from 1980 (3.64) to 2013 (6.44), there is still far below compared with Hong Kong (See Table 2). The rating of "Legal system and property rights" showed the similar gap between them as well. Therefore, according to aforesaid contentions, there is a tendency of MNCs staffing CEO with HCNs in its subsidiary if the host country can provide sufficient legitimacy for any foreign invested companies through a sound legislative system.

Table 2: Comparison of Country Data Tables between Hong Kong and China

(Rating: points out of 10)	Hong Kong					Mainland China				
	1980	1990	2000	2010	2013	1980	1990	2000	2010	2013
Summary rating	8.72	8.73	8.86	8.96	8.97	3.64	4.09	5.75	6.26	6.44
(Rank)	(1)	(1)	(1)	(1)	(1)	(96)	(100)	(100)	(120)	(111)
Size of government	9.75	9.31	9.35	8.93	9.39	2.63	3.65	3.43	4.48	5.00
Legal system and property rights	8.13	5.94	7.23	8.18	7.95		5.79	4.95	6.25	5.86
Sound money	8.51	9.02	9.11	9.31	9.38	6.18	6.73	8.12	7.89	8.26
Freedom of trade	9.94	9.97	9.72	9.37	9.11	2.72	2.72	6.46	6.68	6.73
Regulations	7.25	9.43	8.89	9.02	9.03	3.04	1.58	5.79	6.01	6.38

Data Source: Economic Freedom of the World: Report 2015 (Gwartney, Lawson, and Hall 2015)

Hypothesis 3: The development of legislative system in the host country is positively related to the likelihood of a MNC staffing CEO in JCC with HCNs.

3.4 Influence of Industry of JCC

Insufficient previous studies put efforts to compare any differences of staffing strategies among various industries like manufacturing, service, retail, etc. Especially in China, the tendency of manufacturing orientation has been changing to focusing on the service industries more in recent years. It is believed that the HRM strategies in overseas affiliates should have several diverse concerns due to different characteristics in each industry. In particular, manufacturing business requires certain level of technology and knowledge of production systems. For the overseas subsidiaries, they may be lack of sufficient skill, even after years of operations, for continuous process improvement. Persistent monitoring and regular updating the new manufacturing technique are necessary to ensure the quality of product. PCN from headquarters can be a powerful means to transfer technical expertise and management know-how to foreign ventures (Smale, 2007). Bonache and Brewster (2001), and Kuhlmann and Hutchings (2010) indicate that much knowledge transferred between units of companies is not explicit but tacit, meaning that it is not explicitly articulated. Tacit knowledge is deeply rooted in an individual's experience, and can only be shared with others through its application or by being made explicit. Given that tacit knowledge cannot be written or codified in manuals or through policies, international assignments may become a suitable means for the diffusion of such knowledge to the overseas operations.

Knowledge transfer within MNCs through the assignment of PCN expatriates traditionally deals with competencies needed but not held locally (Widmiera et.al, 2008). We would expect that, in conditions in which the parent company has got greater proprietary knowledge, expatriates must be used to transfer the parent's knowledge to the foreign subsidiary. In addition, the quality concern of Japanese management system is highly important. In order to ensure the overseas subsidiary aligning with headquarters' quality policy, various activities, like quality circle, 5S, other Kaizen programs would be adopted in similar way in overseas subsidiary (Miroshnik and Basu, 2014). As well as varying by the type of knowledge possessed by the parent company, the perceived need to use expatriates to transfer knowledge to foreign subsidiaries is likely to vary across host countries. Therefore, it is suggested that MNCs in technologically industries will be particularly likely to assign expatriate working in a developing country like China, where foreign companies face an inadequate supply of skilled local people for technical and managerial positions (Goodall and Wamer, 1998). Therefore, this chapter proposes the following hypothesis:

Hypothesis 4: A MNC has relatively lower likelihood of staffing CEO with HCNs if the JCC is in manufacturing industry instead of non-manufacturing industry.

3.5 Influence of Years of Business Operation

With reference to aforesaid determinants of expatriate/ local staffing decision, it is believed that the FDI in each stage of period should have different concerns of HRM under a diversity of conditions. Although previous studies stated that Japanese MNCs prefer to assign Japanese as CEO in their subsidiaries for various reasons, the advantages of appointing the HCN cannot be neglected. Therefore, it is considered that decisions on their global businesses are primarily made by manages in the headquarters but still expected that their foreign establishments will be run more autonomously with capable local staff in the future (Thite, Srinivasan, Harvey, and Valk 2009).

Youssef (1973) suggests that MNCs will increase their use of local managers as the company gains more experience in the host country. During the initial establishment stage, there were a lot of unknown, difficulties, and unstable conditions of business set-up. Especially for the first investment of the select country, the local legislations and common practices in host country, and other environmental issues were not well known by MNCs. For the purpose of ensuring the progress of business operation and development congruent with the original plan, more PCNs were adopted to enhance the confidence of MNCs. After years of practices, subsidiaries may gradually become more proficient in transacting with regular operations and familiar with headquarters' directions through a learning- by-doing process. Learning enables more relevant information exchange and reduces the degree of information asymmetry and associated problems, and therefore enables to have better governance. Another study of subsidiary-headquarters relations states that the autonomy of the subsidiary increases with age (Alsegg 1981, Boyacigiller 1990). HCN can help the company to improve local legitimacy after they have gained knowledge of local practices, and obtained the skills from PCN or business activities with headquarters' management team.

With time the MNCs' management can both develop local managers and build up the trustworthy between them, the MNC's familiarity and trust in overseas management reduce the perceived risk of granting autonomy accordingly. Therefore, a longer presence of FDI in a host country, MNC may facilitate the development of trust relationships with HCN through repeated transactions with satisfied results (Axelrod, 1984, Gong 2003). To summarize, longer operation in host country reduces agency costs and operation risks, strengthens local isomorphism, and consequently decreases dependence on PCN. Therefore, this study proposes the following hypothesis:

Hypothesis 5: A MNC has higher likelihood of staffing CEO in JCC with HCNs while the business operation of JCC becomes long.

In order to know whether Japanese MNCs staff their CEO in JCC with PNCs or HNCs, the data source of "The 21st Century China Research Institute (2013) of JCC" is used to clarify the ethnic origin of each CEO. Among 3,586 listed companies in Japan, 1,721 companies with any establishments invested in China (Including Hong Kong and Macau) are included in this book, in which 1,142 companies are listed in First Section of the Tokyo Stock Exchange. The data of 7,313 JCC located in 30 provinces or cities with aforesaid listed headquarters in Japan are collected. In consideration of the representative data, five major regions of Mainland China located in coastal area and two located in inland area are selected, with the first one of every three data in sequential order as a sampling method. Similarly, data of Hong Kong, which is a special economic region of China and considered having significant differences in legal, economic, and social environments compared with Mainland China, is included additionally in order to have a comprehensive analysis. Accordingly the total sampling size is 1,914 out of the selected total of 5,981 (32%) with categories of different provinces and industries as presented in Figure 2 and Table 3.

Figure 2: Map of China
Edited by author

Table 3: Number of sample by province and industry

Province/ Industry		Sample											Total	%	Note
		Agriculture, mining, metal	Construction, Property	Automobile	Manufactur	Manufactur	Sales, Sma	Information	Bank, Finai	Other Serv	Others	Sample Total			
Coastal	Beijing	0	8	4	29	10	39	26	3	28	7	154	468	33%	
	Shanghai	23	13	19	86	77	311	40	9	92	23	693	2,088	33%	
	GuangDong	19	1	33	85	51	65	4	2	35	9	304	971	31%	
	Jiangsu	27	3	27	90	79	20	6	0	17	12	281	935	30%	
	Liaoning	8	3	5	27	22	22	12	0	13	7	119	377	32%	
Inland	chongqing	1	2	24	1	4	5	0	0	2	0	39	48	81%	1
	Sichuan	3	0	7	6	6	8	2	0	3	5	40	56	71%	1
Hong Kong		5	2	0	40	15	188	7	1	23	3	284	1,038	27%	
Total:		86	32	119	364	264	658	97	15	213	66	1,914	5,981	32%	

Data Source: The 21st Century China Research Institute (2013)

Note1: Due to the small number size of two regions in Chongqing and Sichuan, all relevant data was and included.

According to Figure 3, almost all JCCs invested by Japanese MNCs before 1990 are located in Hong Kong. It is shown that the economy of Hong Kong provided a good investment platform since long time ago because of its competitive and prosperous image to global investors, like MNCs of Japan. On the other hand, Shanghai was the top popular location where Japanese companies had invested in mainland China.

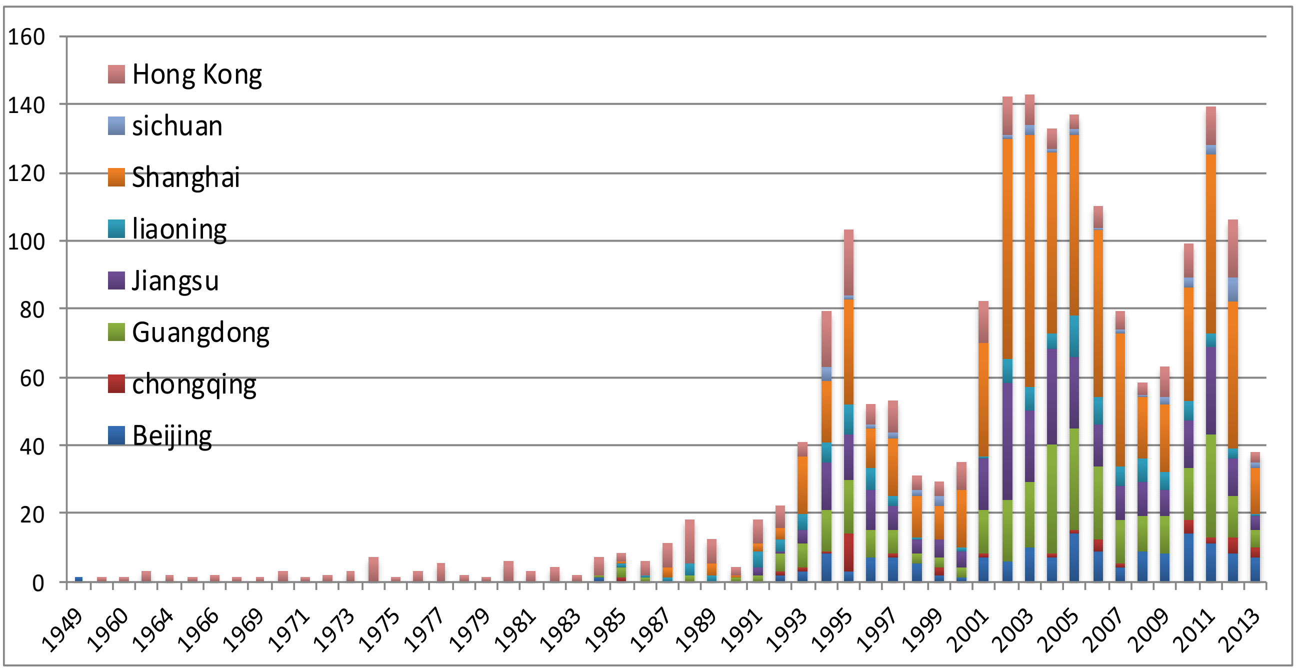


Figure 3: Yearly trend of sampling number of establishment of JCC (By Location)

Data Source: The 21st Century China Research Institute (2013)

In further breaking down the sampling by equity ownership, Whole Foreign Owned Enterprise (WFOE) and China Equity Joint Venture (CEJV) are categorized. According to the result of

Figure 4, majority of JCCs in Hong Kong and coastal region are whole foreign owned by MNCs, whereas about 66% JCCs in inland region are joint venture with China companies. It is assumed that Japanese MNCs needs certain supports from local government or existing companies in inland area for the purpose of facilitating the business operations.

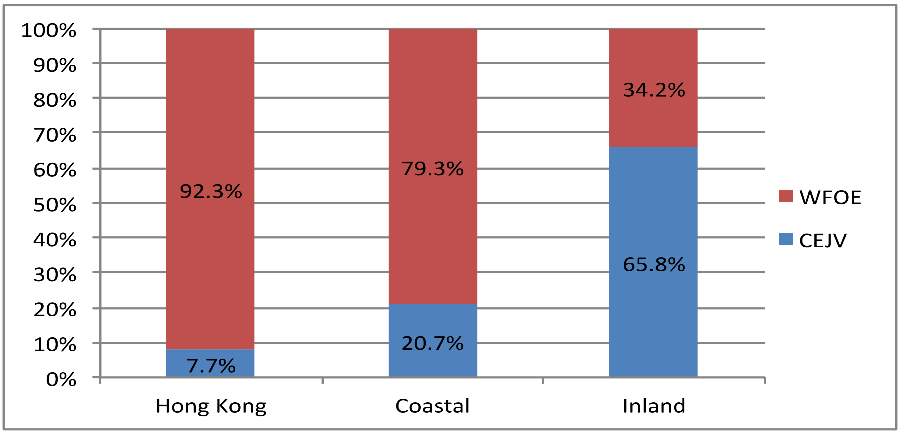


Figure 4: Percentage Share of Samping regions by Equity ownership
(WFOE: Whole foreign owned enterprise, CEJV: China equity joint venture)
Data Source: The 21st Century China Research Institute (2013)

As illustrated in Figure 5, the number of JCCs had significantly increased over past years. Amongst all JCCs, the majority of companies, over 70% of total, invested in mainland China were located in coastal area. Due to the affections of subprime mortgage crisis in 2008, the related number decreased to 55 and 54 companies in 2008 and 2009 respectively. Although the number had been going up again afterwards, the significant drop was occurred after 2011 and the number was down to 35 in 2013. Since the remarkable economic growth in China, the high labor cost and appreciation of China Yuan had induced the business environment getting exacerbated. Even though China government had taken several action plans to improve the conditions, some investment had been shifted from China to inland area or other countries. Another reason of sharp decrease of coastal investments may be due to high operation cost had posed an operation pressure to the company, and investors expedited to shift to another area with more competitive operation cost as noted early. On the other hand, inland investment had been kept the stable number and shown slightly increase from the past until present. It seems that there are rooms for attracting MNCs to have FDI over there.

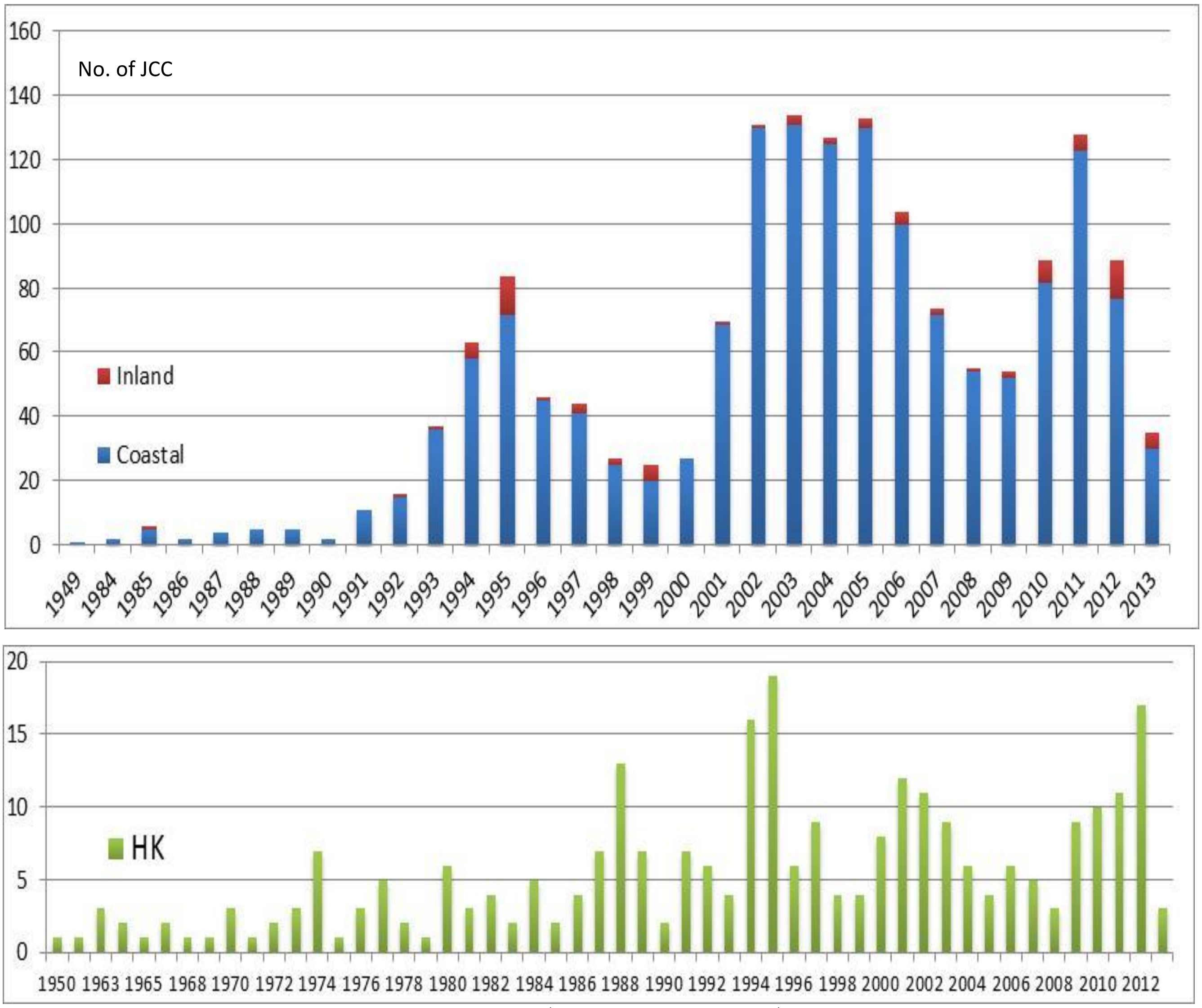


Figure 5: Yearly trend of sampling number of JCC (HK, Coastal vs Inland)

Data Source: The 21st Century China Research Institute (2013)

4. Findings and Discussions

With reference to the sampling data of the CEO's ethnicity of JCC, the majority of Japanese MNCs would like to assign Japanese (80%) as CEO in their China's subsidiaries (Shown in Figure 6), and only about 19% appoint local Chinese to take charge of the overall operation of the company. In order to find out other implications, the data were further analyzed with reference to each hypothesis as follows.

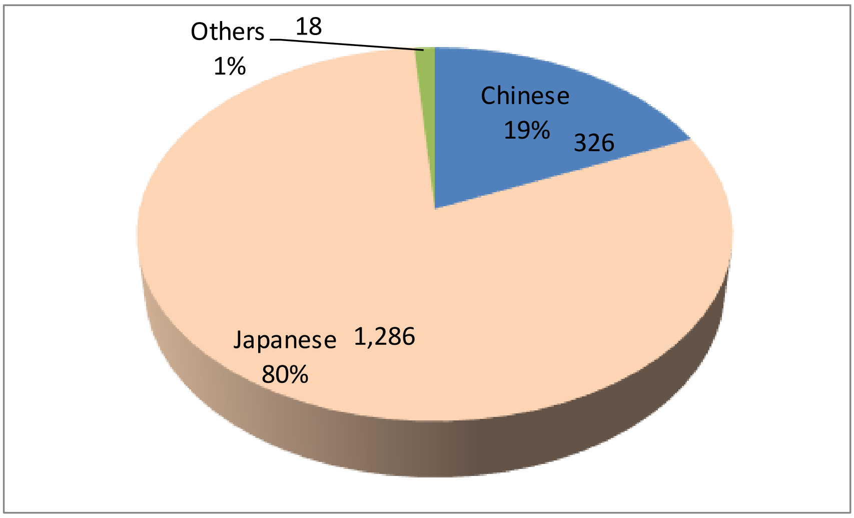


Figure 6: Percentage Share of CEO's Ethnic Origin of JCC
Data Source: The 21st Century China Research Institute (2013)

4.1 Locational Advantages of the Host Country

As illustrated in Figure 7, the minority of the samples in mainland China, only 20%, has shown that the local Chinese were adopted as CEO of JCCs. In the case of Hong Kong, the data has indicated even worse result that less than 10% of JCCs located in Hong Kong has appointed local Chinese. Regarding each country's analysis, as indicated in Figure 8 and 9, companies of each country located in coastal area had shown around 15% ~ 30% to appoint the local CEO or company representative. On the other hand, Chongqing and Sichuan, which are located in inland area, had shown a relative higher ratio of the local top management at 62% and 52% respectively.

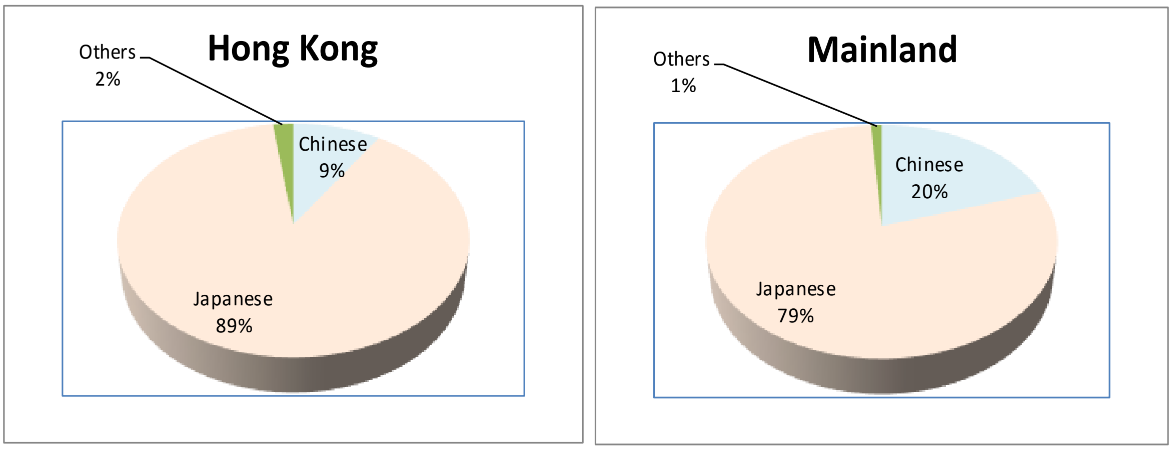


Figure 7: Percentage Share of CEO's Ethnic origin (Hong Kong and Mainland China)
(In consideration of Locational advantage)
Data Source: The 21st Century China Research Institute (2013)

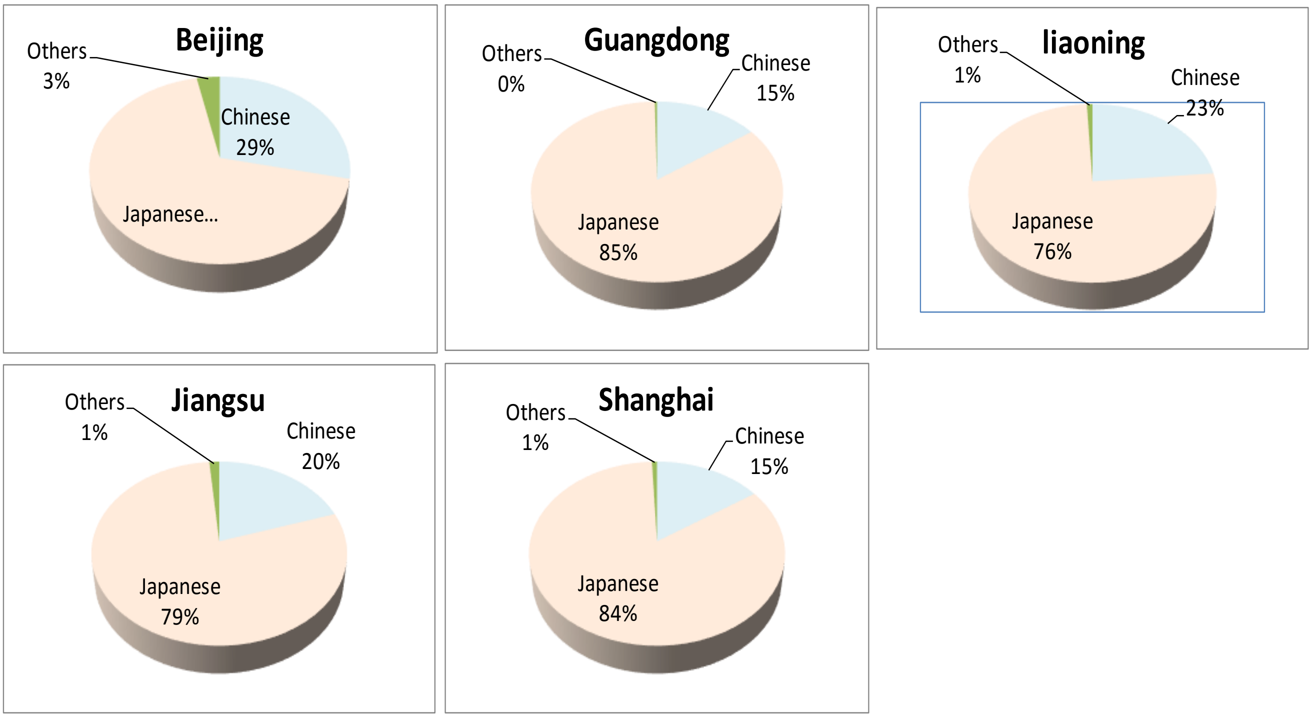


Figure 8: Percentage Share of CEO's Ethnic origin (JCC located in coastal area of mainland China)
Data Source: The 21st Century China Research Institute (2013)

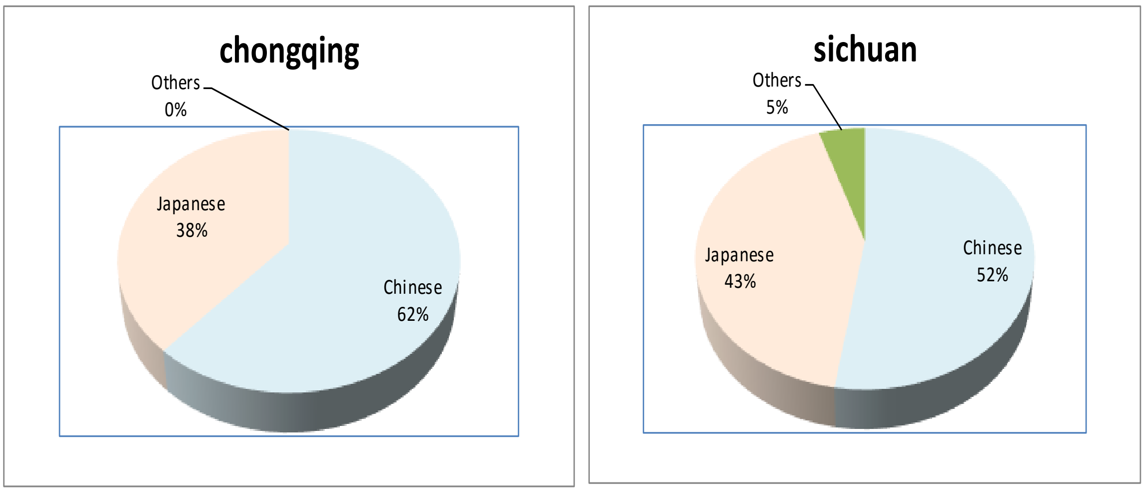


Figure 9: Percentage Share of CEO's Ethnic origin (JCC located in inland area of mainland China)
Data Source: The 21st Century China Research Institute (2013)

Figure 10 sets out the summary of overall coastal region and inland region, only 18% of companies in coastal area appointed local Chinese as CEO. However, the chart of inland area has displayed over half of sampling companies (57%) would like to assign local Chinese to act their key position of the companies, and this percentage is considered significantly high. The cause of this result should be due to the inconvenience location and insufficient infrastructure support in comparison with other coastal regions. PCNs hesitate to go there or find difficulties in daily life.　Therefore an appointment of local CEO becomes preferable.

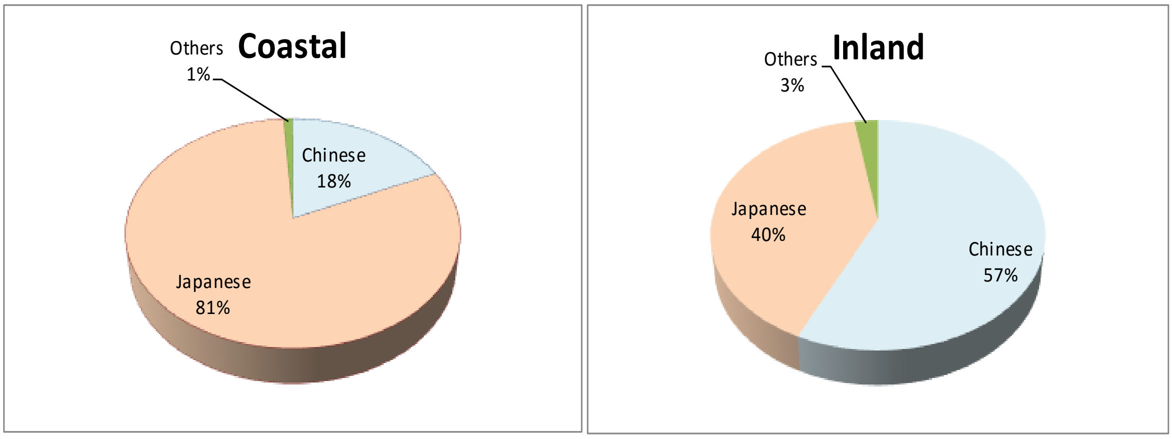


Figure 10: Percentage Share of CEO's Ethnic origin (Coastal vs Inland)
Data Source: The 21st Century China Research Institute (2013)

According to the above analysis, the result is consistent with the hypothesis 1 and indicates that the locational advantages of the host country are negatively related to the likelihood of Japanese MNCs staffing CEO of JCCs with HCNs.

4.2 Equity Ownership

With reference to Figure 11, it is obvious that CEJV adopted significant higher percentage of local Chinese as CEO in comparison with WFOE.　Similarly, as shown in Figure 12 with further breakdown, no matter of inland region, coastal region or even Hong Kong, the results are still same that the tendency of CEJV assigning local Chinese as CEO is higher than WFOE. However, the inland region particularly shows that the difference between both equity ownerships is not significant as other coastal regions.　It has shown that the effect of shareholdings affecting the CEO's selection might be moderated by the locational advantage as stated in hypothesis 1.

According to the above analysis, the result can explain that the investment in China by equity joint ventures is positively related to the likelihood of Japanese MNCs staffing CEO of JCCs with HCNs in comparison of investment by wholly foreign owned enterprises, as stated in hypothesis 2.

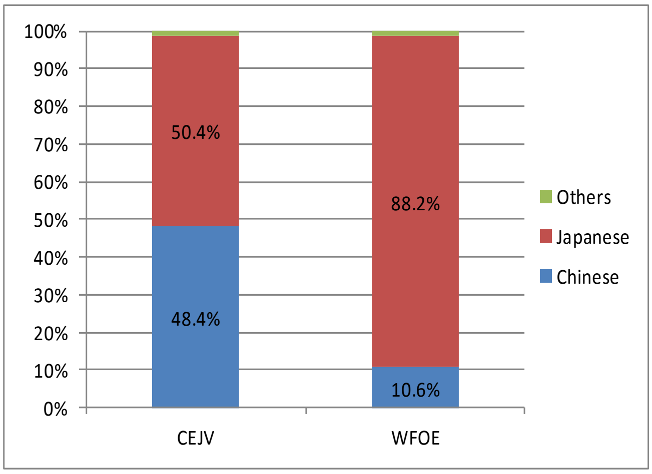


Figure 11: Percentage Share of CEO's Ethnic Origin
(By Equity ownership)
Data Source: The 21st Century China Research Institute (2013)

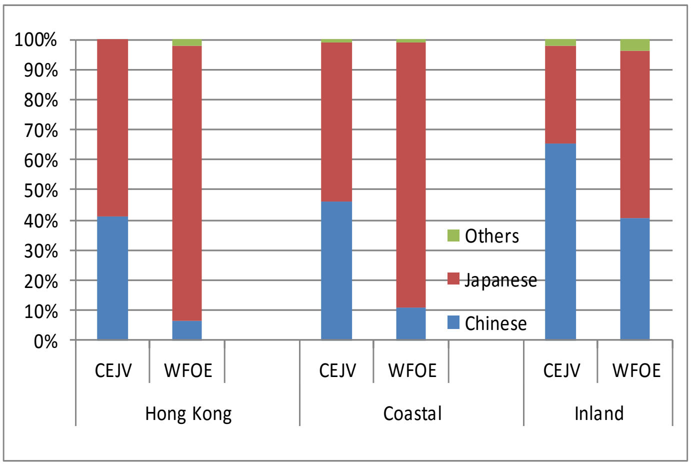


Figure 12: Percentage Share of CEO's Ethnic Origin
(By Equity ownership and region)
Data Source: The 21st Century China Research Institute (2013)

4.3 Legislative System of the Host Country

Hypothesis 3 predicts that an increasing legitimacy of JCC in host country is more likely to have a higher level of local CEO adoption. The development and status of legislative system are used to reflect whether JCC is able to gain sufficient legitimacy. It is important for any investors having confidence with sufficient legal protection in overseas countries, and in consequence it is expected MNCs will feel comfortable to adopt on local management staffs to operate their subsidiaries. However, the result shown in Figure 13 has quite interesting that both Hong Kong and mainland China have low level of CEO's assignment with local Chinese. Especially in Hong Kong, no matter the overall ranking or the level of legislative system, the rating is also the top range in the world (Gwartney, Lawson, and Hall 2015). However, a startling result has shown that almost 90% of JCCs in Hong Kong are still adopting Japanese to be their CEO. Even though Hong Kong has shown its very high status of legislative system worldwide and ability to gain legitimacy for companies from various evidences, the result is slightly disappointed with lower utilization of local elites.

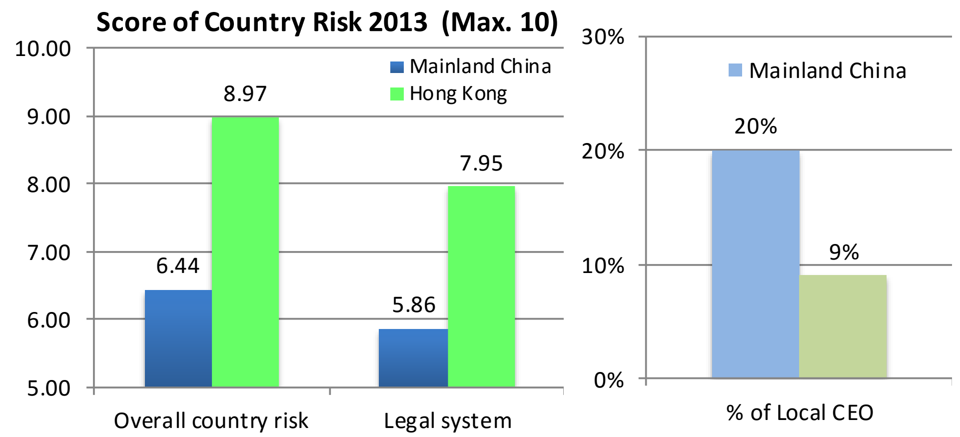


Figure 13: Comparison of country risk and % of Local CEO adoption

Source: Hermes E. "Country Risk Report, Year 2013" and "The 21st Century China Research Institute (2013)"

In order to verify in further, the legislative system ranking of individual municipalities or provinces in China by using one of latest survey about the level of judicial status in China is used for further verification. The report on "China Justice Index 2015" was one of significant project supported by the Cooperative Innovation Center of Judicial Civilization (Zhang 2015). The primary objectives of the center are to promote judicial civilized nation building, upgrading Chinese judicial civilization recognition and voice in the world of contemporary civilization system. It is believed that the index of China Justice can reflect the level of legal standings, which have certain impacts on the business operation, on each China municipality or province. In this survey, 10 dimensions of China justice index, which are regarded as the first level indicators, were used to show the level and ranking of major 20 municipalities or provinces in China. Amongst those dimensions, like "Parties' Litigation Rights", "Open Justice and Public Trust" and "Judicial Culture" are regarded to have direct impact on the confidence of foreign investors. According to the result of this study, Shanghai has the highest score amongst 20 municipalities, and it is assumed that Shanghai has to give foreign investors sufficient confident for business operation and adoption of local elites as top management staff. However, the percentage of using local CEO in Shanghai JCCs is regarded very low, less than 30%. With reference to Figure 14, the trend of local CEO adoption in Shanghai JCCs with various establishment years has been shown similar result regardless of the year of establishment of the JCCs. This result has told us that even the country with well-developed legislative system is not sufficient to induce Japanese MNCs to appoint the HCN as CEO in their subsidiaries located in mainland China.

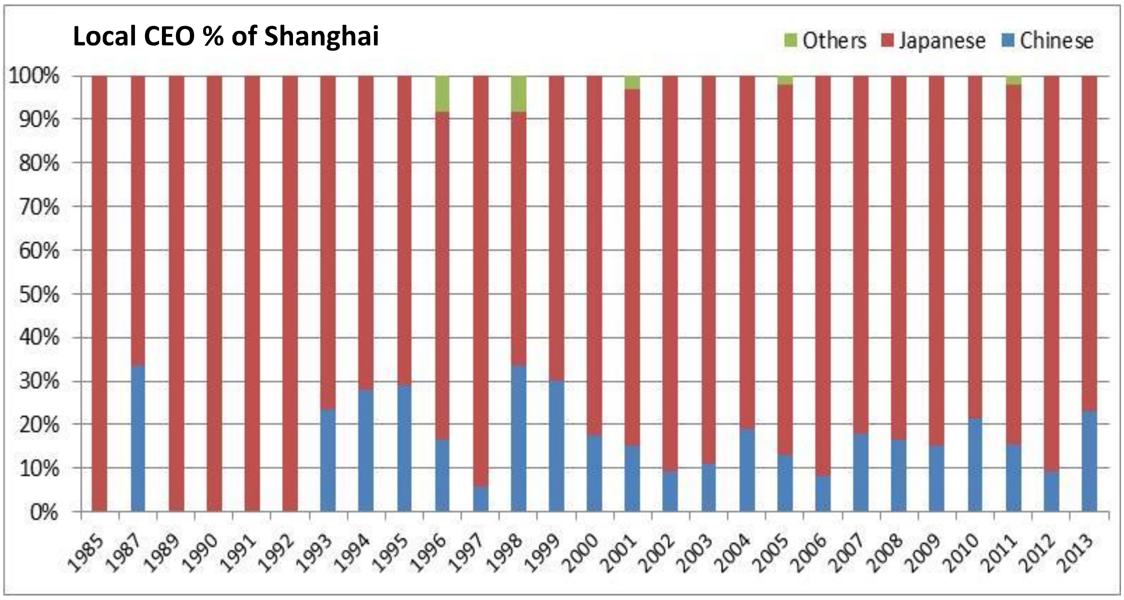


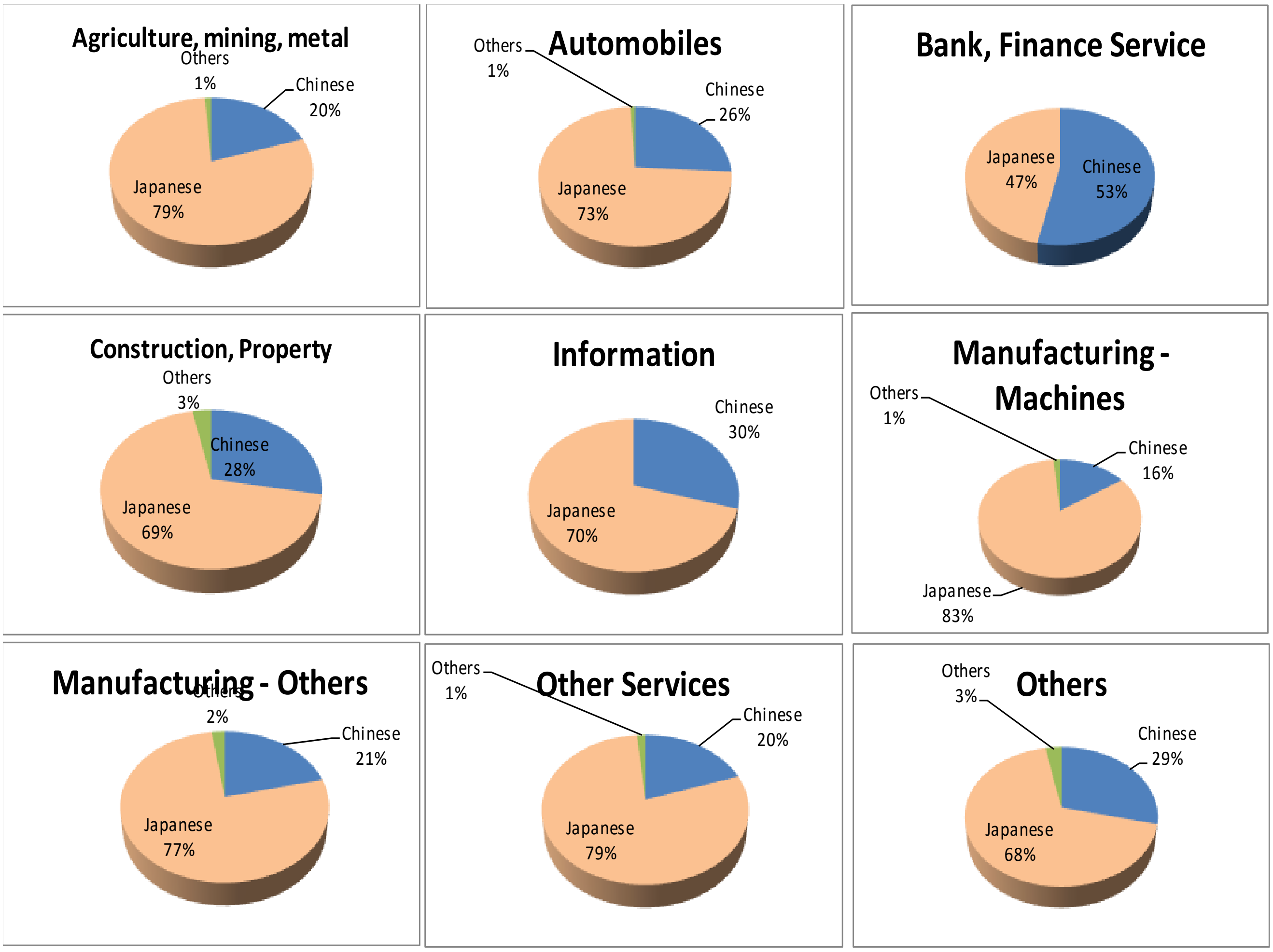
Figure 14: Local CEO adoption in Shanghai with year of establishment

Data Source: The 21st Century China Research Institute (2013)

Although the result of above analysis does not tend to support the hypothesis 3 that the status of legislative system of the host country has not shown positively related to the likelihood of Japanese MNCs staffing CEO with local HNCs in JCCs, other factors like the locational effects may outweigh the impact of JCCs able to gain legitimacy and eventually influence the result of adoption of local HNCs.

4.4 Industry of JCC:

For the purpose of verifying any significant differences between each industry, Figure 15 has shown the result by ten categories of industry in China. With reference to the result, it has illustrated insignificant differences between most of industries, only about 20~30% companies in most of industries appoint the local CEO instead of Japanese. Even though bank and finance industry has shown a higher percentage (53%) to adopt the local CEO, the number of samples is small and it may not be representable. In summary, as shown in Figure 16, the result cannot show the relatively higher tendency of CEO appointment with Japanese PCNs in manufacturing sectors than in non-manufacturing sectors.



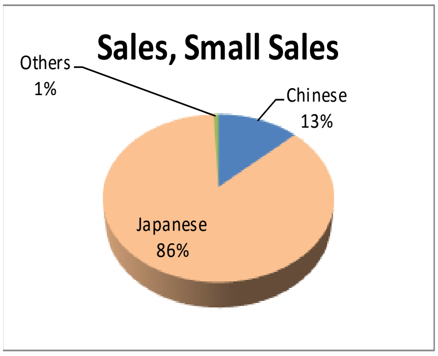


Figure 15: Figure 6: Percentage Share of CEO's Ethnic origin (By Industry)

Data Source: The 21st Century China Research Institute (2013)

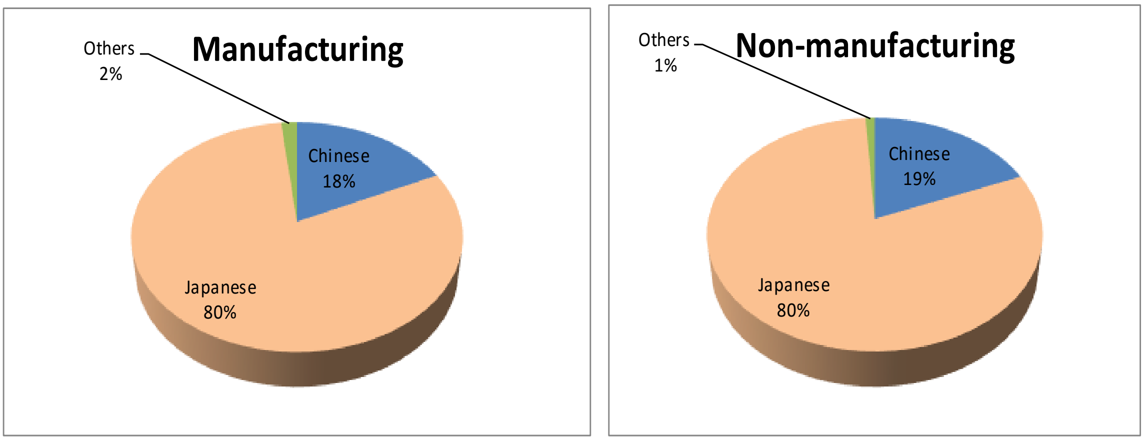
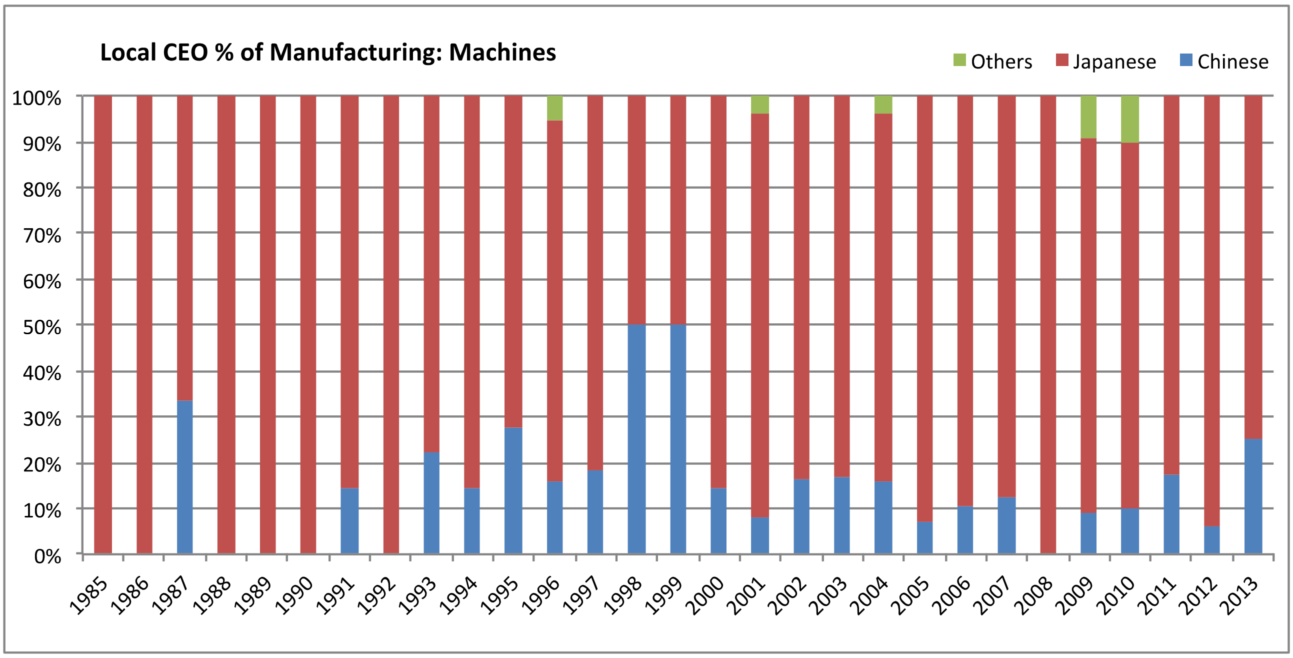


Figure 16: Percentage Share of CEO's Ethnic origin (Manufacturing vs Non-manufacturing)
Data Source: The 21st Century China Research Institute (2013)

In order to have further understanding the comparison of CEO's adoption between manufacturing and non-manufacturing, 'Machines' and "Sales, small sales' are selected to have deeper analysis because of being as the biggest number of samples of JCCs in manufacturing and non-manufacturing fields respectively. Figure 17 has shown the yearly trend of local CEO adoption in 'Machines' and "Sales, small sales', and both result do not have significant difference regardless the year of establishment of JCCs. The ratio of adopting local CEO is less than 20% in average.

According to the result of above analysis, hypothesis 4 is unlikely supported. Japanese MNCs have not shown relatively lower likelihood of staffing CEO to its subsidiary with HCNs when the subsidiary is in manufacturing sector in comparison with non-manufacturing ones.



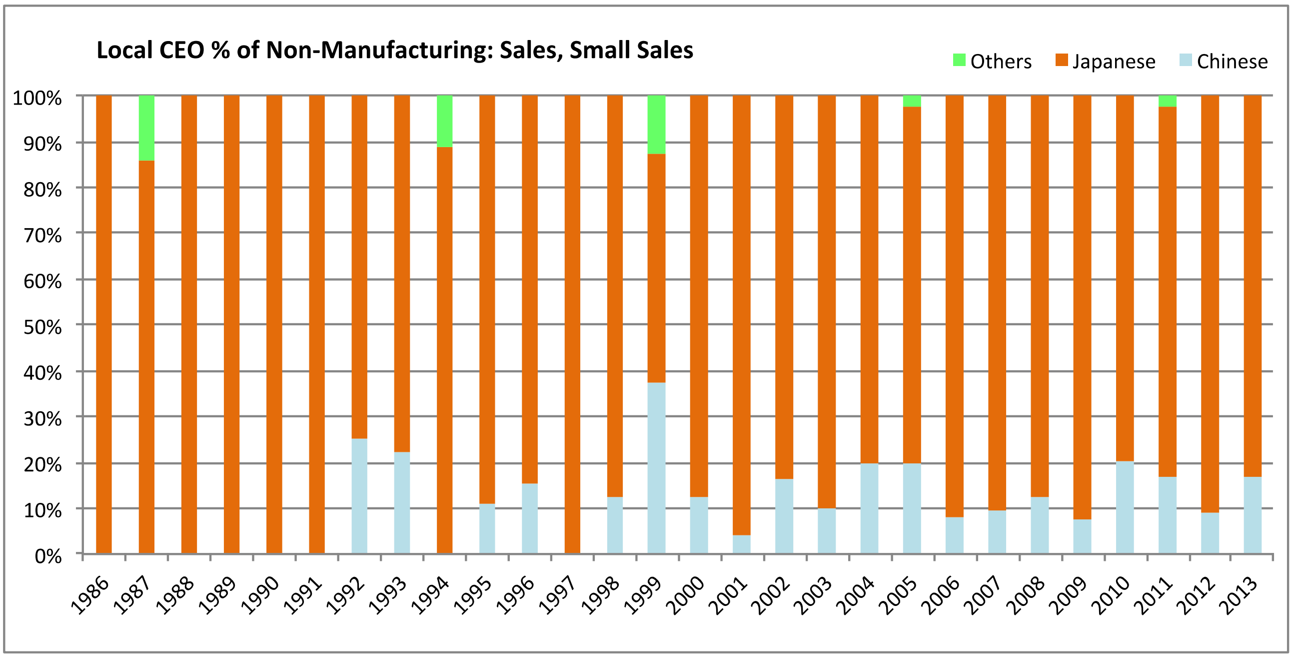


Figure 17: Local CEO adoption in Manufacturing (Machines) and Non-Manufacturing (Sales, Small Sales)

Data Source: The 21st Century China Research Institute (2013)

4.5 Years of Business Operation

When we had seen the trend of business operation's year, with reference to Figure 17, similar result as previous analysis has been shown. Regardless of years of business operation, majority of Japanese MNCs appoint Japanese CEO in both Hong Kong and mainland China companies. With further analysis, Figure 18 has shown another startling result by different group of years of business operation. Previous studies stated that the longer the JCC has operated in overseas countries, the higher tendency of appointing local staff in management level. According to the result, however, those JCCs over 30 years business operation, mainly Hong Kong's ones, are still adopting Japanese as their CEO. In comparison of the hypothesis, the result has unexpected discrepancy.

According to the above analysis, it is indicated that the result is not favorable to support hypothesis 5. Japanese MNCs have not shown higher likelihood of staffing CEO to their subsidiaries with HCNs when the JCCs have been in longer business operation.

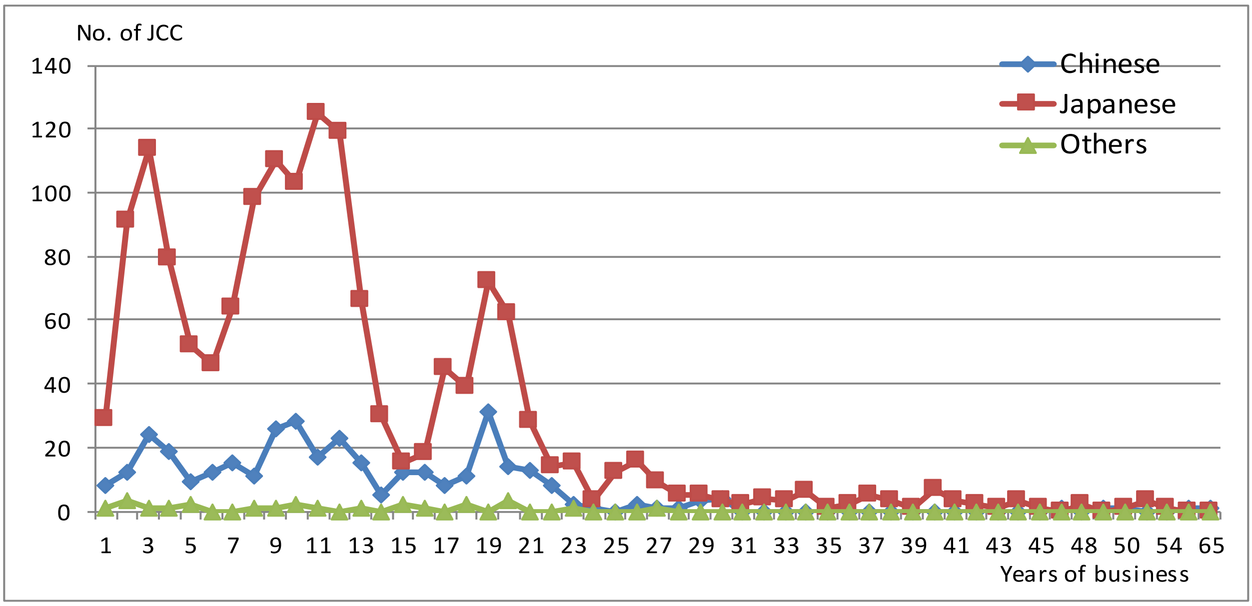
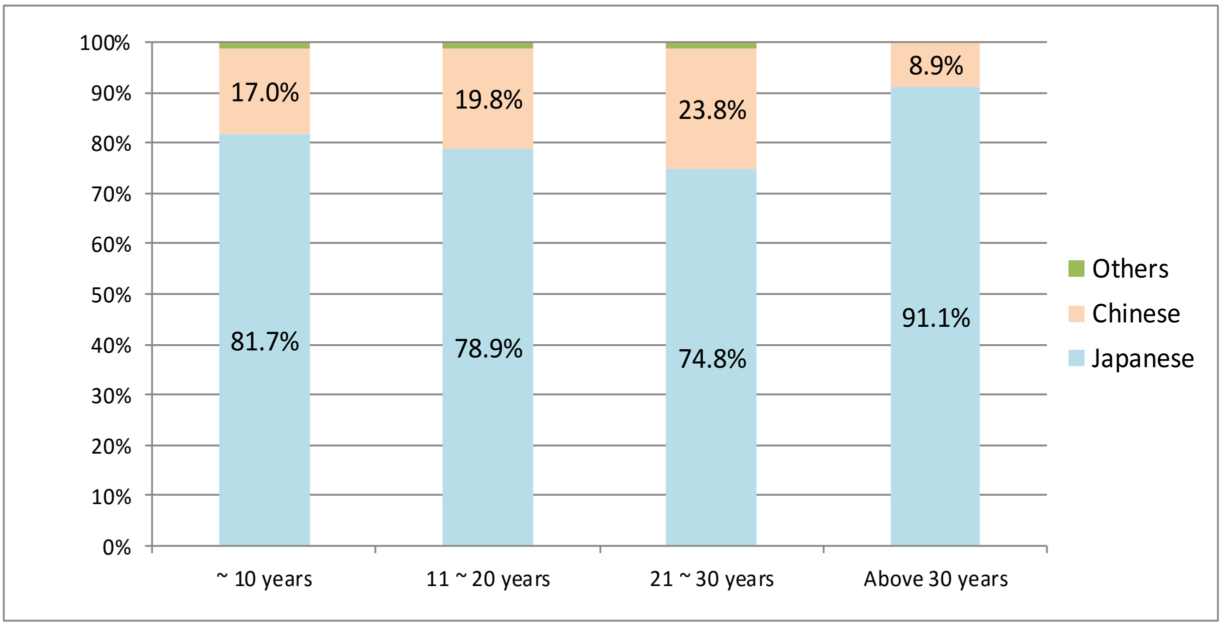


Figure 18: Trend of CEO's Ethnic Origin (By Years of Business operation)
Data Source: The 21st Century China Research Institute (2013)



Others	12	10	2	0	24
Chinese	164	148	35	5	352
Japanese	786	591	110	51	1,538
Total:	962	749	147	56	1,914

Figure 19: Percentage Share of CEO's Ethnic Origin (By Years of Business operation)
Data Source: The 21st Century China Research Institute (2013)

This analysis attempts to verify the common determinants of MNCs selecting a CEO to assign in their foreign investment affiliate companies, whether they can apply to Japanese MNCs in similar way or not. According to the result of the analysis, we can find out majority of JCCs, regardless of the level of legislative system, investments shareholding, industry, and year of business operation, also selecting Japanese as their CEO to manage their business operation. Except locational advantage and the equity ownership of JCC, they are obviously to have significant influence on the Japanese MNCs' selection of CEO to their overseas subsidiaries. The percentage of inland investment companies with the selection of local CEO was higher than those located in coastal. There may have three reasons for inland companies to explain this result. First, due to the transportation problems, companies located in inland area may focus on more domestic demand. In order to capture the local market demand, the company representative should understand well the local network, customers and local government policy. Therefore, local CEO has higher priority to be adopted due to their better bargaining power than overseas expatriates. Second, the transportation, living environment, and other infrastructure of inland region are not good enough as coastal region. Eventually the performance of an overseas expatriate CEO might be affected because of certain difficulties or they have to spend long time to adapt the living environment. Third, the size of inland investment may not be significant as coastal ones in which MNCs would like to put more resources and efforts on them. Therefore, the ratio of appointment of local CEO in inland companies becomes high. On the other hand, it is not difficult to imagine that the tendency of CEO appointment with local Chinese for those joint venture companies, which are not solely decided by Japanese MNCs. On the contrary, Japanese MNCs may intend to use the advantage of local competency to facilitate their business operation in China through the partnership with local owned companies.

Except the hypothesis 1 and 2, other three hypotheses do not have obvious indications being supported. That means those factors commonly regarded as positive relationship for supporting the assignment of local CEO in MNCs' overseas subsidiaries unable to apply in Japanese's ones. It is surprising that the sound legislative system and free trade economy of Hong Kong are well known in the world, and a lot of high-calibre candidates should be competent for the position of CEO in foreign investment companies. However, less than 10% JCCs in Hong Kong are adopting the local Chinese as their CEO. As FDI gains legitimacy, the competition also intensifies. Companies should adjust their staffing strategies based on a thorough understanding of the tension between institutional and competitive pressures with the utilization of local competency (Peng and Beamish 2007). On the other hand, it is unarguable that foreign investment companies will become more proficient in transacting with regular operations and get sufficient understandings of headquarters' policy after years of practices. Besides, the autonomy of the subsidiary is improved with age (Alsegg 1981). Again, the analysis result shows that the selection of CEO with majority of Japanese expatriates is not affected by the years of business operation of JCC.

5. Conclusions

This paper contributes to have further verification of certain underlying factors, which were well recognized in other countries, affecting the global staffing choice of top management. As per aforesaid the competitive position of Japanese companies in China becoming critical, the feasible improvement idea should be figured out for their management reference, especially for those companies with FDI in China continuously. Besides, through the analysis of JCC, the findings provide us additional evidences on the divergence of global staffing strategy of Japanese MNCs in China investment in comparison with other countries' ones. Based on the verification of above five hypotheses, it is clear that most of Japanese MNCs would not intend to select local Chinese to be a CEO in any situations with aforesaid explanations, except there are not favorable environments for their daily livings or not under their own choices of decision. In consideration of major challenge of global staffing strategy, getting the right skills where they are needed should be included. Since exclusive reliance on PCN-based staffing can directly impact the effective management of global HRM, MNCs should try to widen their range of staffing options (Harvey, Speier and Novicevic 2001). The ignorance of local competency is regarded as one of major reasons for Japanese MNCs unable to breakthrough the current dilemma in global business. As companies move from the regionalization into the globalization stage, they need to effectively utilize the best and brightest talent regardless of their ethnic origins. In addition, global stage requires finding out the optimal configuration of global integration and local responsiveness and producing the product, process, and business innovation needed to facilitate continuous growth beyond geographic expansion. Thus, heavy reliance on adopting PCN is thought unable to achieve this goal (Stewart and Morrison 2010).

The analysis in this paper still has rooms for further follow-up. First, regarding the age of subsidiary, data have included the number of PCN's adoption in subsidiary at the specific period of time. With reference to aforesaid determinants of expatriate/ local staffing decision, it is believed that subsidiary in different periods of stage should not have the same status and concerns. Only a few studies have compared different periods of time in single subsidiary whether diverse staffing strategies will be adopted. However, Dai (2007) has also stated that each development stage of the subsidiary, like Microsoft (China), has diverse considerations of the staffing decision of top management staff. Therefore, it will be worth to verify the trend of staffing decision in any single company in different periods of time to see how the staff strategy is changing along their business life. Second, even though above analysis included the comparison of different industries, the result does not show any significant difference. It is considered having rooms to put effort to conduct in-depth analysis of staffing strategies among various industries like manufacturing, service, retail, etc. Especially in China, the tendency of manufacturing orientation has been changing to more focusing on the service industries in recent years. It is believed that the HRM strategies in overseas affiliates should have several diverse concerns due to different characteristics in each industry. Third, since the target of this study is to focus on the Japanese companies in China, the sample was limited and not included other countries, like US or Europe. Hence, the generalizability of our findings is open to question and it can be improved if the similar studies can be conducted with the data of other countries. Forth, this research only examined the ethnicity of CEO. Each functional department has to require various competencies, which can be equipped by PCN or HCN. Therefore, it will be contributory to this study if including any further analysis or case study which can involve other management positions of Japanese companies in China, like directors and division managers for the purpose of providing more comprehensive pictures of global staffing strategy. Fifth, even though staffing decision is regarded one of most important strategies in global HRM practices, other area including compensation, training and development, and performance appraisal should not be neglected. An in-depth interview or case study with related companies for the purpose of understanding other HRM's difficulties and problems can provide valuable insights for Japanese MNCs able to figure out a comprehensive global HR strategy.

No matter what kind of staffing decision is made by MNCs, the most important thing of the arrangement is whether it can help the overseas subsidiary to run the operation well and become profitable. Even though a few studies have tried to measure the performance against the number of using PCN or HCN, the results are still questionable and arguable since the company performance can be affected by various factors and other external environments simultaneously.

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