ABSTRACT

We use insights from resource dependence, institutional theories and social movement theories to examine the indigenization of subsidiary management in the multinational company (MNC). We discuss the effects of interdependence with local organizations, access to critical resources, and MNC legitimacy in the host country on the indigenization of subsidiary management. We consider the impact of local and extra-local social movement activity as well as the local political opportunity structure in the host country. The organizational variables in the framework include international strategy and experience. We suggest implications for further international management research and practice involving the operation of foreign subsidiaries.
INTRODUCTION

Previous international management research provides convincing evidence on the organizational benefits of placing expatriate managers in foreign subsidiaries. Expatriate managers tend to exhibit high commitment to their parent organization (Gregersen & Black, 1992), reduce agency costs (Gong, 2003) and facilitate knowledge transfer (Tung, 1984). As a public corporation, however, a multinational company (MNC) is ‘as much a political adaptation as an economic or technological necessity’ (Roe, 1991, p. 10). The long-term survival of the MNC depends not only on its organizational efficiency but also on its ability to adapt to the local institutional conditions of different countries (Kostova & Zaheer, 1999). Employing indigenous managers can help MNCs to increase their understanding of the laws and value systems of different countries, to improve their ability to overcome the liability of foreignness and to meet the demands of different interest groups (Foster, 2000; Gaur, Delios, & Singh, 2007; Gregersen, Hite, & Black, 1996; Zhang, George, & Chan, 2006).

In this paper we explore a set of critical factors that may lead to the indigenization of subsidiary management by MNCs. Indigenization of subsidiary management is defined as the transfer of subsidiary management from expatriate to indigenous managers of the host country where the MNC’s subsidiary is located. Indigenous managers in our conceptualization are not simply local nationals but professionals with strong ties to their home countries via their education, language, culture and work experience. Whereas most previous research considered international human resource practices to follow: (a) uniform MNC staffing policies around the world, (b) practices of the MNC’s home country, or (c) policies of the host country, our framework acknowledges variations in country institutional conditions in which MNCs operate. Therefore, we build on the stream of literature that has identified differences in human resource management practices among the subsidiaries of MNCs (e.g. Björkman & Lu, 2000; Hannon, Huang, & Jaw, 1995; Rosenzweig & Nohria, 1994). We expect to see differences in subsidiary staffing mainly because of the pressures exerted by the local institutional environments in countries where the subsidiaries are located (Gooderham, Nordhaug, & Ringdal, 1999). The examination of specific environmental, institutional, and organizational factors and their effects on the level of subsidiary management indigenization is the goal of our paper.

Our framework of subsidiary management indigenization is built upon different theoretical perspectives with convergent assumptions: resource dependence, institutional theories and social movement theories. From a resource dependence perspective, we focus on the roles of interdependence
and critical resources in the local task environment (Hillman, Withers, & Collins, 2009; Pfeffer & Salancik, 1978). From the perspective of institutional theory, we emphasize the influence of normative pressures on MNC behaviour (Kostova & Zaheer, 1999). We also consider the effects of social movement activity and political opportunity structure on indigenization at different levels of analysis (Davis, McAdam, Scott, & Zald, 2005; Strang & Soule, 1998). Social movements targeted at the MNC are powerful political forces that may challenge and modify the implementation of MNC strategies (McAdam & Scott, 2005). Local social movements are the expressions of a broader national movement within countries where the subsidiaries of the MNCs are located (Beveridge, 1991; Wilson, 1990). In addition to social movement activity in the host country, we consider the rise of movement activity around the world, including social movement in the home country of the MNC. Increased extra-local movement activity focusing on MNC behaviour is expected to lead to the further indigenization of subsidiary management.

We assume that the indigenization of subsidiary management is a means to increase the MNC’s chances of survival in uncertain host country environments. Specifically, we argue that greater interdependence, a need for critical local resources, and legitimacy in the host country require MNCs to employ indigenous managers in their local subsidiary. We theorize that indigenization will further depend on organizational characteristics of the MNC. We expect greater levels of social movement activity in host countries regarding the role of MNCs that will lead to increased indigenization in the management of the MNC’s local subsidiary.

In the following sections, we first review relevant research on international subsidiary management. Next we consider the trade-offs in subsidiary management indigenization using resource dependence, institutional perspectives and social movement perspectives. In this section, we present our propositions on the relationships between relevant environmental, institutional, and organizational factors and indigenization. We conclude with implications for international management theory and the practice of subsidiary management.

INTERNATIONAL SUBSIDIARY MANAGEMENT AND ENVIRONMENTAL PRESSURES

A large body of literature offers insights on how the management of international subsidiaries can help MNCs maintain fit with existing strategies,
improve control and acquire knowledge (Edström & Galbraith, 1994; Zhang et al., 2006). Models from a contingency perspective considered the fit or reciprocal interdependence between the subsidiary management and the strategies of the MNC (Bird & Beechler, 1995; Brewster, 1995; Fey & Björkman, 2001; Lengnick-Hall & Lengnick-Hall, 1988). Extensions of the contingency model, however, noted that the complexities associated with the management of international subsidiaries might require MNCs to look beyond their expatriates. Factors that can increase the complexities of international subsidiary management include the need for flexibility and the difficulties of negotiating the cross-national environment (Bouquet & Birkinshaw, 2008; De la Torre & Toyne, 1978; Milliman, Von Glinow, & Nathan, 1991).

The management of international subsidiaries presents a unique agency problem as well. MNCs often face high-level uncertainty in different countries owing to cultural and institutional variations and the divergent interests of subsidiary and headquarter managers (Nohria & Ghoshal, 1994). Some of the resultant agency costs can be reduced by implementing suitable staffing practices and reward systems (Tan & Mahoney, 2003). The commitment of foreign subsidiary managers can be improved by using appropriate incentive mechanisms, including managerial compensation (Roth & O'Donnell, 1996) and selecting expatriates with longer tenure (Gregersen & Black, 1992).

Expatriate managers are also valued because of their central role in the transfer of knowledge and organizational capabilities between the headquarters and subsidiaries (Beechler & Yang, 1994; Gupta & Govindarajan, 1991; Kamuche, 1996; Taylor, Beechler, & Napier, 1996). Asea Brown Boveri AG (ABB), for example, employs over 500 ‘missionaries’ to get its international subsidiaries in line with its worldview. Although ABB’s expatriate managers often work with local managers to improve efficiency, their global perspective allows them to make sensitive local changes, such as lay-offs and plant closures (Guyon, 1996).

Even though the transfer of expatriates to international subsidiaries yields several benefits to MNCs, commitment by expatriates wanes as MNCs enter new countries or manage their portfolio of subsidiaries for a long period of time (Edström & Galbraith, 1994; Gaur et al., 2007). For instance, some MNCs prefer host country managers because of their familiarity with the local task environment and lower costs. Furthermore, MNCs can avoid the adjustment problems faced by expatriates in culturally distant host countries by hiring indigenous managers (Harzing, 2001). Conformity to the local socio-economic environment also implies a more prominent role for
indigenous managers (Kostova & Roth, 2002). Morgan and Kristensen (2005), for example, argue that managerial authority is related to reputation in the local environment in coordinated market economies, such as Denmark or Japan. Because they lack legitimacy, expatriate managers may trigger opposition and destroy the capabilities of their subsidiaries with their actions. Furthermore, current business opportunities for international expansion tend to be in multicultural emerging economies, such as China, India or Russia. Legitimacy in these and other emerging economies can be established through an intimate understanding of local values, including nationalism and concerns about foreign direct investment (Inglehart & Baker, 2000; Zhang et al., 2006). MNCs may be able to respond effectively to local institutional constituents, such as customers, governments, and interest groups, by hiring indigenous managers (Foster, 2000; Gaur et al., 2007).

**SUBSIDIARY MANAGEMENT INDIGENIZATION: PROPOSITIONS**

*The Effects of Resource Dependence in the Task Environment*

From a resource dependence perspective, the basis of subsidiary survival is its access to critical resources (Casciaro & Piskorski, 2005; Hillman et al., 2009; Pfeffer & Salancik, 1978). When hiring expatriate managers, local subsidiaries improve their access to the resources of the headquarters and other subsidiaries (Björkman & Lu, 2000; Newburry, 2001; Martinez & Ricks, 1989). Indigenous managers may have better skills to cope with local environmental contingencies (Hannon et al., 1995; Schuler, Dowling, & De Cieri, 1993). Accessing local resources and recognizing local interdependence are particularly difficult tasks for MNC headquarters because of the diversity of country environments in which subsidiaries tend to operate. Perhaps the most complex among these interdependencies is the relationship between the MNC and the local political environment of individual countries (Ring, Lenway, & Govekar, 1990). The indigenization of subsidiary management can be a means to reduce uncertainty, improve performance and increase the chances of survival. When considering the task environment of their subsidiaries in a foreign country, MNCs need to address conflicting demands from different actors. To examine the importance of subsidiary management indigenization, we consider two focal issues...
in resource dependence theory: how MNCs cope with critical interdependencies and how they access resources (Oliver, 1991).

Firms can reduce uncertainty by developing links with other organizations. Their involvement with others, however, leads to increased interdependence with limited freedom for future decisions (Provan, 1982). Interdependencies emerge ‘whenever one actor does not entirely control all of the conditions necessary for the achievement of an action or for obtaining the outcome desired from the action’ (Pfeffer & Salancik, 1978, p. 40). Interdependencies can be competitive and symbiotic (Pfeffer & Nowak, 1976). Competitive interdependence exists between functionally similar firms in terms of markets, products, or services. Symbiotic interdependence can arise along the vertical value chain, including interdependencies between the firm and its buyers and suppliers. Although interdependence is important in any environment, it tends to increase as MNCs cross borders. Thompson (1974), for example, suggests that within nation-states, the polity can guarantee a relative stability of the infrastructure and thus impede interdependence. Such guarantee is often lacking between nations leading to increased interdependence for MNCs operating in different countries. Using expatriates to manage local subsidiaries under conditions of high interdependence with other native organizations may lead to a reduction in decision-making autonomy (Provan, 1982). Indigenization can help MNCs to effectively cope with interdependence within different countries and increase the autonomy of the subsidiary. Indigenous managers may be able to reduce the MNC’s uncertainty by their knowledge of the local task environment.

**Proposition 1.** The greater the degree of interdependence with local organizations in a host country, the higher the need for indigenization in the MNC’s subsidiary management.

Indigenization may also help MNCs to improve their subsidiary’s access to critical resources in the local environment. As MNCs enter international markets, they face increased uncertainty and instability regarding steady resource inputs for their operations. Beyond the growing difficulties associated with the intra-organizational resource flows, MNCs’ access to their existing suppliers may become limited (Martin, Swaminathan, & Mitchell, 1998). Furthermore, the discretion of MNCs over the acquisition and allocation of resources is often restricted in foreign countries. MNCs often operate with shared discretion because of the variety of laws and norms and the high density of organizations and interest groups. Limited control over resources in the international environment is another factor...
that can adversely influence MNC subsidiaries in different countries. To exert control over their resources, MNCs need to rely on the social systems of foreign countries, which form the basis of ownership rights protection (Pfeffer & Salancik, 1978). On the one hand, subsidiaries staffed with expatriates may have problems forming relationships with local suppliers or buyers. For instance, expatriates may have limited knowledge about local property laws and thus can only partially control the intellectual property rights of their MNC. On the other hand, indigenous managers in the local subsidiary can facilitate the MNC’s access to critical resources by securing supplies from local firms. They can also improve discretion and control over the MNC’s existing skills and knowledge.

**Proposition 2.** The greater the need for local resources in a host country, the higher the need for indigenization in the MNC’s subsidiary management.

**The Effects of Normative Pressures in the Institutional Environment**

In addition to the importance of local resource dependence, managerial practices across subsidiaries within the MNC likely vary because of the cross-national differences in institutional structures (Gaur et al., 2007; Gooderham et al., 1999; Rosenzweig & Singh, 1991). The local institutional environment often mandates cultural requirements, regulations, manufacturing, and accounting practices (Rosenzweig & Nohria, 1994). The adaptation of local subsidiaries is complicated by the diverse interests of constituents, including the state, public opinion and local and external interest groups (Scott, 1987). The environment of the local subsidiary is ‘the dynamic outcome of the actions of many formal organizations seeking their own interests’ (Pfeffer & Salancik, 1978, p. 190). Legitimacy in the local environment reflects the acceptance of the subsidiary’s actions by other local societal actors and thus is highly influenced by constituents outside the MNC organization, such as customers, suppliers and governments (Pfeffer & Salancik, 1978; Polos, Hannan, & Carroll, 2002). MNCs can justify the operation of their local subsidiary if they can demonstrate that the subsidiary’s existence is consistent with the goals of local constituents in a country.

Although MNCs tend to invest significant amounts of resources to establish their status upon their entry into foreign markets, they often experience problems with respect to social justification. The perception of the MNC’s local operation by the outside constituents in a country can increase
the costs of doing business over the costs normally faced by local firms. These costs are studied under the umbrella of liability of foreignness in the international business literature (Zaheer, 1995; Zaheer & Mosakowski, 1997). The perceived legitimacy of a subsidiary is further complicated by legitimacy spillovers in a country environment if other subsidiaries of the MNC in the same country experience legitimacy problems (Kostova & Zaheer, 1999). Increased level of indigenization in the subsidiary management provides an opportunity for MNCs to form their subsidiary’s goals consistent with that of the local social system and thus effectively establish and maintain their legitimacy. Furthermore, indigenous managers can help to communicate with and respond to the demands of the local public during times of legitimacy crises (Kostova & Zaheer, 1999).

**Proposition 3.** The greater the legitimacy pressures within a host country, the higher the need for indigenization in the MNC’s subsidiary management.

**THE EFFECTS OF ORGANIZATIONAL CHARACTERISTICS**

Although MNCs in general face with increased uncertainty in foreign countries, they may cope differently based on their organizational characteristics. A subsidiary can be interdependent with other subsidiaries within the MNC’s portfolio, can obtain resources from other units, and can be affected by the legitimacy of other subsidiaries in the same country (Taylor et al., 1996). Variations in organizational characteristics may influence the level of association between the subsidiary’s resource dependence in the local social system and the indigenization of its management (Ferner & Quintanilla, 1998; Hannon et al., 1995). One of the most important variations is the place of the MNC organization on the continuum between global integration and local responsiveness. Subsidiaries of MNCs emphasizing global strategies tend to exhibit higher interdependence with other subsidiaries (Devinney, Midgley, & Venaik, 2000; Kobrin, 1991; Roth, 1995). MNCs following multidomestic strategies seek to respond to local customer needs. The subsidiaries of these MNCs need to obtain legitimacy locally and rely more on local resources (Rosenzweig & Singh, 1991). The mix of firms using global and multidomestic strategies likely varies across industries. For instance, whereas the strategies followed by MNCs in the electronics and automobile industries tend to be more
global, the strategies of MNCs in the consumer products and food industries tend to be more multidomestic.

Subsidiaries of MNCs that follow global strategies, on the one hand, will be less dependent on external resources and thus be able to rely more on expatriate managers. Because of their extensive relationships with the headquarters and other subsidiaries within the MNC, these managers can facilitate access to intra-organizational resources (Boyacigiller, 1990; Devinney et al., 2000). Subsidiaries of multidomestic MNCs, on the other hand, will be more dependent on local resources. Their increased reliance on local organizations and pressures for local legitimacy provide an enhanced role for indigenous managers. In summary, subsidiaries of MNCs following a more global strategy may exhibit a weaker relationship between resource dependence and indigenization but a stronger relationship is expected for subsidiaries of MNCs following a more multidomestic strategy.

**Proposition 4.** Higher levels of global strategy will moderate the relationship between resource dependence and subsidiary management indigenization in such a way that the resource dependence effects will be weaker on indigenization.

**Proposition 5.** Higher levels of multidomestic strategy will moderate the relationship in such a way that the resource dependence effects will be stronger on indigenization.

The link between resource dependence in the local environment and the level of the indigenization of subsidiary management may be influenced by another important organizational context, the international experience of the MNC. Specifically, the lack of international experience in different country environments increases the resource dependence of a new subsidiary (Fang, Wade, Delios, & Beamish, 2007). For example, prior operations in developed country environments provide little guidance for MNCs to set up subsidiaries in emerging economies. Coping with a higher level of uncertainty owing to the lack of prior experience in similar environments may lead to a higher demand for indigenous management.

For MNCs with extensive international experience, the need for indigenous managers to respond to higher levels of local resource dependence may be lower. The international experience of MNCs can be transmitted to new subsidiaries by expatriate managers with longer tenure (Björkman & Lu, 2000; Milliman, Von Glinow, & Nathan, 1991). Despite their deep knowledge of the local environment, indigenous managers will be less informed about the prior experience of the MNC in other countries.
Thus, by operating in a diverse set of countries, MNCs can learn how to cope effectively with local environmental uncertainty and reduce the risk of international operations (Hitt, Tihanyi, Miller, & Connelly, 2006). Furthermore, a broad scope of international operations can help establish legitimacy in the international environment, leading to positive spillovers for the local subsidiary (Kostova & Zaheer, 1999).

**Proposition 6.** Greater MNC international experience will moderate the relationship between resource dependence and subsidiary management indigenization in such a way that the resource dependence effects will be weaker on indigenization.

The Effects of Social Movement Organizations

Although MNCs’ organizational interests may dictate the use of expatriates in local subsidiaries in some countries, local governments, interest groups, and public opinion will likely prefer the transfer of subsidiary management from expatriate to indigenous managers. Indigenization in a broader context means the transfer of interests from foreign to indigenous parties because of local pressures (Beveridge, 1991; Kobrin, 1980; Luckham, 1971; Minor, 1994; Wilson, 1990). Indigenization, however, does not limit the interest of the MNC in the local subsidiary. Through the employment of indigenous management the MNC’s commitment to long-term local operations and its participation in the development of the local business environment may increase.

Local institutional constituents based on their shared worldview may participate in social movements to influence MNC staffing policies (Simons & Ingram, 1997). Social movements are collective enterprises by mutually acquainted organizations and individuals who share their ideologies about social arrangements and accomplish collective action to change those arrangements (Davis & Thompson, 1994). Such movements may originate in governmental agencies or in different interest groups. The interests of governments are illustrated by the following quotation. Regarding Japanese investments into its country, the prime minister of Thailand noted that, ‘Thailand has no intention of asking foreign investors with large investments to turn over their management, or the majority of their equity structure, to Thai nationals. What we ask is that foreign companies should work here as partners, so that your investments here can be meaningful in terms of financial gains and at the same time should
benefit my country’ (Taira, 1980, p. 389). Nevertheless, to pressure MNCs local governments can change tax policies, modify the terms of foreign direct investments or set up quotas for the number of expatriates MNCs can employ in the country (Biersteker, 1980). Whereas governments have the power to directly influence MNC behaviour, interest groups can pressure MNCs to change their staffing directly (Manheim, 2001; Spar & La Mure, 2003) or by coercing governments into policy changes (Soule & Olzak, 2004).

Our approach views social movements as outsiders to the MNCs that they target, which adopt ‘oppositional identities’ (Taylor & Whittier, 1992) that pit their interests against power-holders in corporations. Throughout this process of challenging corporations, movements adopt ‘outsider’ tactics (Soule, McAdam, McCarthy, & Su, 1999; Walker, 1991) to complement their status of outsiders to the corporations. As such, we take a decentralized view of power and politics in this paper – one in which movements present themselves as alternative democratic voices outside of the corporations that they challenge.

In thinking about how movements can affect MNCs’ staffing policies, it is useful to consider the variety and magnitude of effects that movements have on other organizational outcomes. Social movements have been shown to affect the financial health of corporations via boycotts and threatened boycotts (Pruitt & Friedman, 1986; Pruitt, Wei, & White, 1988) and through protest demonstrations. For example Epstein and Schnietz (2002) found that Fortune 500 firms suffered declines in equity following the 1999 Seattle WTO protests and that the losses were greatest among those firms suspected of mistreating labour and damaging the environment. Social movement organizations have been shown to affect corporate policies regarding emissions controls (Maxwell, Lyon, & Hackett, 2000) and other issues (see review in Manheim, 2001). Social movements have also been found to affect stock price returns in the United States (King & Soule, 2006) and to improve working conditions at factories in Mexico (Kay, 2005). These studies provide a backdrop to our arguments about how movements can affect the management practices of different MNC subsidiaries.

Based on their shared interests about the MNC’s business practices, local and external organizations and interest groups may engage in social movements to change the practices of the MNC. Specifically, we offer three related propositions. First, we expect that social movement activity occurring in the country in which the MNC subsidiary is located will have a direct effect on the management practices of the subsidiary. Social
movements about MNC local business activities tend to be based on national interests with respect to the MNCs’ contributions to the local society and infrastructure. MNCs usually help the economies of foreign countries by creating new jobs, increasing demand and by being a factor of a country's balance of payments (Dunning, 1993). Regardless of the positive macroeconomic influence of MNCs, their entry is often viewed by distrust locally, especially, if their subsidiaries are controlled by expatriates from other countries. The entry of MNCs into a foreign market often increases competition and, if local firms fail, reduces tax revenue. MNCs may lay off a high number of local employees because of the closure of inefficient plants. Further, they may choose to repatriate their profits to their home country. Local governments, customers, firms, as well as labour unions in general, prefer MNCs to increase their commitments to the local economy. MNCs can co-opt local interest groups (Selznick, 1949) and demonstrate their long-term local commitment to a country by the indigenization of their subsidiary operations. Increasing the share of indigenous managers can help MNCs to respond to the concerns of native social movement organizations and better understand the demands of the local social system.

Similarly, we expect that movement activity in other countries (to which the subsidiary may or may not be connected) will increase the level of indigenization of subsidiary management in a country. That is, as the overall level of movement activity directed at encouraging MNCs to hire indigenous managers increases, we expect to see more and more subsidiaries adopting this management practice. At times, this can be a preemptive measure on the part of an MNC; that is, they can hire indigenous managers to prevent social movement activity in other countries of their operation.

Institutional constituents in the home country may also engage in collective action regarding the management practices of MNCs but for different reasons. They exert pressure on MNCs to hire indigenous managers by targeting the MNC’s home business activities. By employing expatriate managers in foreign countries, MNCs show their commitment to worldwide organizational integration (Boyacigiller, 1990). A higher level of integration may indicate that MNCs seek to exploit opportunities for cost reductions and are willing to relocate their production to low-cost countries. Reduced interest in their home markets coupled with increased focus on foreign operations may prompt an increase in social movement activity by a broad range of institutional constituents at home. Labour movements for instance may exert pressure because of their concern about plant closures and resulting loss of employment. Social movement organizations will likely pressure MNCs to hire indigenous managers to international subsidiary
positions to reduce the dependence of foreign subsidiaries on the headquarters and thus facilitate the integration of foreign operations into the local markets.

**Proposition 7.** The greater the local social movement activity regarding MNC behaviour, the higher the need for subsidiary management indigenization.

**Proposition 8.** The greater the extra-local social movement activity regarding MNC behaviour, the higher the need for subsidiary management indigenization.

**Proposition 9.** The greater the social movement activity in the MNC’s home country, the higher the need for subsidiary management indigenization.

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*The Mediating Role of the Political Opportunity Structure*

The concept of the political opportunity structure (hereafter, POS) is one element of the broader political process model (McAdam, 1982) and may be defined as the ‘consistent ... dimensions of the political environment that provide incentives for people to undertake collective action by affecting their expectations for success or failure’ (Tarrow, 1994, p. 85). Over the past decade or so, researchers have identified a fairly consensual list of the dimensions of the POS in an attempt to clarify this basic definition. The key dimensions identified by this tradition include (1) the presence of divided elites; (2) the presence of elite allies; (3) a general receptivity to challengers’ claims on the part of the political elite; and (4) lower levels of state repression against dissenters (McAdam, 1996). The key argument is that when the POS is more favourable to dissenters, we ought to see either the emergence of or increases in social movement activity.

Although the concept has been used to explain protest mobilization in a number of contexts, researchers also argue that the concept should also be used to understand policy outcomes of social movements (Andrews, 2001; Jenkins & Perrow, 1977; Kitschelt, 1986; Kriesi, Koopmans, Duyvendak, & Giugni, 1995; McCammon, Campbell, Granberg, & Mowery, 2001; Soule, 2004; Soule et al., 1999; Tarrow, 1994). Essentially, the same set of factors that stimulate protest should, in turn, affect the outcomes sought by the movement.

Early statements about the effects of the POS on policy outcomes (e.g. Kitschelt, 1986) suggest that the political climate, quite independent
of movement mobilization, affects policy outcomes (see also Amenta, Dunleavy, & Bernstein, 1994). However, the political mediation model suggests that social movement mobilization will only have positive effects on policy change when mediated by an advantageous POS (Amenta, Carruthers, & Zylan, 1992; Amenta et al., 1994; Amenta & Young, 1999; Cress & Snow, 2000; Schneiberg, 2002).

Stability in POS is expected to strengthen the effect of social movements on indigenization. A political climate with shifting political power raises the bargaining power of MNCs with governments and provides an opportunity to follow their shorter term organizational considerations. A political climate characterized by disagreements about national interests will also reduce the power of social movement organizations on MNC policies. Although concentration in political power may allow the emergence of different views by various institutional constituents, it provides a ground for a consensus on national interests and thus strengthens the effect of social movements on subsidiary management indigenization.

**Proposition 10.** The political opportunity structure of a country will mediate the relationship between social movement and subsidiary management indigenization such that the effect of local social movements will be stronger in states with higher concentrations in political power.

**DISCUSSION**

In this paper we develop a framework of MNC subsidiary management from an indigenization perspective. Although previous international management research has focused on organizational efficiency considerations, our conceptualization outlines the social context of subsidiary management. We propose that local country environmental factors influence subsidiary indigenization. Specifically, we suggest that the level of indigenization in a country is influenced by the level of interdependence, the need for critical resources and the requirements of legitimacy in the local environment. Consistent with prior research (e.g. Devinney et al., 2000; Hannon et al., 1995; Roth, 1995) we discuss the roles of two moderators: international strategy and prior international experience. We argue that resource dependence effects on indigenization are weaker on MNCs that follow global strategies. MNCs with multidomestic strategies are faced with stronger resource dependence pressures on their use of indigenous managers. We also propose a weaker relationship between resource
dependence and indigenization in MNCs with higher prior international experience.

In a broader social context, the actions of institutional constituents are expected to have important impact on the subsidiary management of MNCs. We propose that increased local and extra-local social movement activity is associated with higher levels of indigenization. Further, we suggest that the POS of a country acts as a mediator in the relationship; stronger movement effects with respect to indigenization should be observed in countries with higher concentration in political power.

Theoretical Implications

The indigenization perspective provides a different explanation for subsidiary management than previous theoretical arguments. Although the trade-offs inherent in employing expatriate and indigenous managers have been discussed previously, organizational efficiency considerations have led researchers to conclude that the transfer of expatriate managers to foreign subsidiaries is a superior solution for MNCs in most cases. We present an alternative view of subsidiary management by looking at indigenization as a social process. Although we examine important organizational characteristics, our approach shifts the focus from the MNC’s internal mechanisms to environmental and institutional pressures. We believe that this alternative theorization may contribute to a closer study of the social environment in international management research, and in a broader context, advance interdisciplinary research between management and economic sociology (Baum & Dobbin, 2000; McAdam & Scott, 2005).

The indigenization perspective places the MNC’s decision making in the context of the society with an array of complex political and economic interests. In addition to focusing on the quest for the MNC’s organizational efficiency, previous international research viewed subsidiary management staffing as mostly a practical issue for the headquarters of the MNC. The results of recent studies, however, helped establish the importance of subsidiary staffing for successful international expansion (e.g. Gong, 2003; Zhang et al., 2006). Viewing subsidiary staffing from an indigenization perspective takes this recent research further; it adds the influence of different constituents outside the MNC and its headquarters. According to a social movement perspective, institutional constituents may engage in collective action over MNC staffing policies based on their political views.
Despite ideological differences among local social movement organizations, their political views have some common characteristics. For example they tend to focus on perceived national interests and they are often based on non-economic preferences (Simons & Ingram, 1997).

Another potential contribution of the present framework is the consideration of variations in country institutional environments. Although we examine environmental, organizational and institutional factors associated with the level of indigenization, our framework does not assume the same level of indigenization in every host country associated with the MNC’s portfolio of subsidiaries. Variations across country environments, including institutional structures, are underrepresented in the literature on international subsidiaries (Ferner & Quintanilla, 1998; Gooderham et al., 1999). Although the study of variations in the MNC’s national markets has been an increasingly popular area of research, a large number of prior studies on subsidiary staffing appeared to overlook these variations. Instead, most prior studies emphasized the benefits of global integration and control. Variation in the home environments of MNCs is another, related limitation in prior research. Along this line, we argue that social movement organizations in the MNC’s home country influence subsidiary-level decisions. Furthermore, the potential variation in the portfolio of MNCs (e.g. the extra-local social movements in this paper) could be an important explanatory factor in international management research.

Resource dependence theory has been used to address organizational problems related to international human resources (e.g. Schuler et al., 1993; Taylor et al., 1996). Resource dependence, however, tends to affect subsidiaries within and outside the MNC’s portfolio of businesses. Whereas prior research focused on internal resource flows, our framework considers the subsidiary’s resource dependence on its external environment. In contrast to subsidiaries in the domestic environment, subsidiaries of MNCs are surrounded by greater environmental complexity. Understanding the behaviour of international subsidiaries should broaden international management research as well as contribute to the generalizability of the resource dependence perspective.

Incorporating the effects of social movements is important for theory development on MNC subsidiary management. Understanding the role of social movements in relationship to subsidiary indigenization, in turn, can contribute to recent social movement research. For example, to advance research on social movements, it is critical to examine movements in connection with organizational actions. Our framework has been developed...
along this line of inquiry. Because MNC subsidiaries deal with institutional constituents at multiple levels, the framework included social movements in the host and the home countries of MNCs. Further, we argue that the POS of a country should matter when the role of social movements on organizational actions is examined.

Managerial Implications

This paper is in line with a growing body of research that recommends MNC top managers to rethink the role of their foreign subsidiaries. In contrast to other studies that view subsidiaries as sources of new knowledge, we argue that subsidiaries are important in terms of MNC survival in an uncertain international environment. Specifically, we suggest that subsidiary management goes beyond organizational efficiency concerns. Subsidiaries in foreign environments deal with increased resource dependence and interact with multiple institutional constituents. One of the outcomes of increased resource dependence, liability of foreignness, has been known to MNC management as a source of the increased costs of international operations. When doing business internationally, managers should also consider the environmental factors that impinge upon MNCs confronted with increased interdependence with local organizations, limited access to critical resources, and higher requirements for legitimacy. Although hiring expatriates to manage subsidiary operations solves the initial problems of coordination and control, such managers are less capable of managing resource dependence in the local environment.

As MNCs enter international markets, they interact with multiple institutional constituents. Subsidiaries of MNCs have high failure rates owing to the frequently hostile international environment. Local governments, organizations and interest groups tend to welcome the initial foreign direct investment, but long-term MNC operations are often viewed with scepticism by these local constituents. Their shared view may be explained by the traditional foci of MNC activity: governments and local customers. The collective actions of interest groups should be better understood and addressed by MNC managers. For instance, the growing concern about MNC behaviour in recent years is abetted by the lack of attention MNCs pay to social movement activity through various interest groups. Once again, we argue that indigenous managers can facilitate communication with local interest groups as well as governmental agencies.
When MNC headquarters decide about the management of their foreign subsidiaries, they tend to underestimate the value of indigenous managers. Expatriate managers can effectively transmit tacit knowledge to subsidiaries and thus can increase MNC performance during international expansion. Expatriate managers, however, may have limited knowledge about the interests of diverse groups of local constituents. Transferring expatriates to manage subsidiary operations, nevertheless, is normally a temporary solution owing to the high costs and family complications. Despite their extensive understanding of the local environment, indigenous managers may have poor business knowledge and a lack of understanding of the MNC’s business. Hiring local managers to learn about the organizational culture from expatriates can help MNCs to find out more about the local environment while maintaining organizational control. When a mix of expatriate and indigenous managers is employed, MNCs should provide extensive training to indigenous managers about the aspects of their business. Furthermore, indigenous managers should be valued for their environmental knowledge as well as business skills. Accordingly, incentive systems should be designed to reduce turnover among indigenous managers who may later develop into boundary spanners in the local environment.

Future Research Directions

Most importantly, future studies in international management should conduct empirical investigations of the relationships we proposed in this paper. Such empirical research should be based on interdisciplinary grounds using theories from management, sociology, political science and other fields. Although our framework focused on MNC actions in relationship to general environmental conditions, further research could do well by studying subsidiary management practices in different industries and countries. We sketch several possibilities below.

First, a particularly promising context for such research exists in countries that are undergoing a transition to market economies. In general, these economies can benefit more from foreign direct investment than developed economies. However, parallel with their economic development, these countries may develop a strong sense of national identity and thus represent a fertile ground for the growth of social movement activity with respect to foreign direct investments.

Second, pressures for indigenization may also depend on the differences between the home and host environments of the MNC. On one hand,
similar institutional conditions may allow MNCs to gain legitimacy with relatively minor changes in their subsidiary management. On the other hand, hiring indigenous managers in a country with similar cultural traditions to the MNC’s home country does not present a trade-off for organizational efficiency. Regional integration may also present an interesting issue regarding the institutional differences between countries. For instance, indigenous managers are expected to provide value in the member countries of the European Union but employing them may provide additional benefits owing to their country’s membership in the Union.

Third, future research should consider, in addition to the factors that we describe here, the diffusion of the indigenization of subsidiary management. During times of uncertainty, MNCs may monitor what other MNCs are doing with respect to indigenization of the management of their subsidiaries. In an attempt to attain or maintain legitimacy, MNCs may imitate the practices of other MNCs. This kind of mimetic process may legitimize the indigenization of management as an acceptable (or even desirable) organizational strategy. In other words, further research could examine multiple levels of effects, organizational, state-level (as we describe here) and inter-state effects (Schneiberg & Soule, 2005), on management decisions.

Finally, prior studies have shown that social movements take place in complex institutional environments with actions and reactions from different constituents (Meyer & Staggenborg, 1996). Since local social movements may focus on nationalist sentiments, collective action among MNCs can discredit the indigenization efforts by local governments and interest groups. If MNCs in a particular host country coordinate their actions, they may influence legislation regarding foreign direct investments. In this case, government policies influencing MNC behaviour may be based on the outcome of movements and counter-movements. Thus, another potentially interesting area for future research is the study of counter-movements by MNCs opposed to the pressures of indigenization.

NOTE

1. “A social movement is a set of opinions and beliefs in a population which represents preferences for changing some elements of the social structure and/or reward distribution of a society” (McCarthy & Zald, 1977, pp. 1217–1218).
REFERENCES


