International assignments, human capital resources and MNC subsidiary performance in CEE countries

Received 31 August 2019
Revised 12 November 2019
Accepted 18 November 2019

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Abstract

Purpose – Multinational companies (MNCs) expect the highest return from their locally dispersed units, and thus the factors that impact the success of the subsidiaries have been of great interest to the literature. Building on the resource-based view, this paper aims to explore the effects of a set of contextual resources, in particular, the international staffing (expatriate and inpatriate assignments) and human capital resources on the performance of foreign-owned subsidiaries in Central and Eastern European (CEE) countries

Design/methodology/approach – By means of a survey applied on 295 MNC subsidiaries from five CEE countries (Hungary, Romania, Poland, Serbia and the Czech Republic), the paper reveals the main relationships between contextual subsidiary level resources (the in-coming and out-going international assignments, human capital resources at both employee and management level and the human resource knowledge transfer) and the subsidiary performance.

Findings – This paper brings empirical support for the positive relationship between the MNCs' contextual resources, in particular, the inpatriate assignments, the human capital resources and the performance of the locally dispersed subsidiaries. The findings show an interaction effect between the inpatriate and the expatriate assignments on the performance of the subsidiaries. The empirical results bring an insight into the understanding of the added value that the out-going inpatriate assignments and the human capital resources have for the global businesses.

Research limitations/implications – This paper is empirical in nature and calls for further exploration of the topic on larger random MNC samples. The findings of this paper have the potential to improve how the management of the global businesses leverages the inpatriate assignments and human capital resources, thus leading to more value-added to stakeholders.

Originality/value – The originality of the paper stems from the implementation of the empirical survey in the dynamic but under-researched context of the CEE region. Thus, the findings reveal valuable input about the contribution of the human capital resources at the subsidiary level for the performance of the locally dispersed MNC units in five European developing countries.

Keywords International assignments, MNCs' subsidiary performance, CEE countries

Paper type Research paper

Multinational Business Review
© Emerald Publishing Limited
1525-383X
DOI 10.1108/MBR-08-2019-0094

Introduction

The organizational performance, as a dependent variable, is of great interest for the international management research (Richard *et al.*, 2008), with a particular focus upon the effects of the expansion on the multinational companies (MNCs) success (Chang, 2007; Chang and Rhee, 2011; Yuan and Pangarkar, 2015). The organizational performance depends on a multitude of different factors. MNCs' capacity to successfully compete is firm-specific and the balancing process of institutional duality and integration-responsiveness varies among subsidiaries, as a function of the capacity to develop internal resources and strategies (Ahworegba, 2018). Focusing on the competitiveness factors, empirical evidence shows that the company's internal resources, especially organizational resources, contribute to the performance of the subsidiary (Hall, 1993; Pfeffer, 1994; Yang *et al.*, 2007). But which are the particular organizational factors that impact the outcomes of the locally dispersed MNC units and how they specifically contribute to the overall performance is still unclear and these research questions need to be further addressed. Building on the resource-based view (RBV) (Barney, 1991), this study explores the role that the organizational resources of the MNC subsidiaries play for the overall performance of the subsidiary units, with a focus on the human capital resources, at both employees and management level.

The RBV emphasizes the critical role of the resources that are valuable, rare, inimitable and non-replaceable (so-called VRIN attributes) for the competitive advantage and the return of investments (Barney, 1991). In this conceptual vein, the companies are approached as bundles of resources, which are heterogeneously dispersed among organizations, with differences that perpetuate in time. When companies own VRIN resources they can more easily gain competitive advantage by applying strategies and practices that are less facile to be imitated by the competing organizations. The economic literature emphasizes the increasingly strategic role played by subsidiaries and the possibility to develop dynamic capabilities at the subsidiary level (Tattara, 2018).

The research objective of this study is to identify which resources constitute the precondition for a competitive advantage in the transition context of the Central and Eastern European (CEE) countries. The specific context may have an impact on the way organizations manage their capabilities (Meyer and Peng, 2005). The *modus operandi* for processes such as acquiring, developing, transferring or valuing the resources may vary in a changing context, which generates the need to capture these dynamics. This paper explores a set of contextual organizational resources that multinational subsidiaries from CEE countries use to achieve competitive advantage, in particular, the in-coming and the out-going international assignments, the human capital organizational capabilities (such as attraction and retention of the human capital resources), the management skills and the human resource (HR) knowledge transfer in relation to the performance of the subsidiary. Framed on the resource-based perspective (Barney, 1991), this study shows that in the context of the developing markets, the organizational resources of the MNC subsidiaries, in particular the human capital resources, contribute to increased performance of the subsidiary units. The findings make three contributions to the literature. First, the study highlights the need for MNCs to be aware of the potential for resource development at the subsidiary level. Awareness on which of the resources have a stronger impact on the overall performance of the subsidiary can guide MNCs to leverage the high potential capabilities for better organizational outcomes. Second, building on the RBV, the findings emphasize possible interaction effects between different types of resources, such as expatriate and inpatriate international assignments, which might potentiate each other in their final impact on the performance of the subsidiary. Third, the study enriches our knowledge of the CEE under-researched markets, emphasizing the need for more attention to be dedicated to the developing countries.

The paper is organized as follows. Subsequent to the introduction, the second section reviews the literature and discusses the role that the organizational resources play for the outcomes of the MNC subsidiaries, with an emphasis on the context of the CEE countries. The third part presents the research hypotheses and the underlying arguments. The next sections describe the research methodological design, the sample and the research instrument, and discuss the main results of the analysis. Finally, the conclusions highlight the main findings and the implications for practice and future research.

Literature review

The international management literature generally acknowledges the fundamental role that the HRs capabilities play in achieving the organizational objectives (Mäkelä *et al.*, 2012). The organizational capabilities that reside in the ability of an organization to use and capitalize its resources for accomplishing a set of aimed outcomes (Collis, 1994) contribute to the competitive advantage of the business. The literature findings bring evidence that their role varies as a function of the dynamic of the market (Eisenhardt and Martin, 2000), thus calling for a further focus on the dynamic feature of the organizational capabilities and regional variations as a function of the characteristics of the host markets. Tattara (2018) also emphasizes the importance of the host market and shows that insufficient knowledge about the host country markets might lead to subsidiaries facing failures. On the other hand, Gu *et al.* (2018) highlight the importance that the location of the foreign direct investments (FDIs) have for the MNCs' performance. Thus, this paper focuses on the under-researched region of the CEE market(s), aiming to reveal the types of resources that could confer competitive advantage for the subsidiaries located in the CEE countries.

Another strain of research brings evidence that the implementation of the MNC global strategies faces the shortages of international management talent (Tarique and Schuler, 2018), which consequently constrain their capacity to expand (Morgan *et al.*, 2003). This challenge becomes even more critical for the international firms especially in the developing countries, where they face increased demand for managers with distinctive competencies required for the successful management of the subsidiaries from the culturally distant countries (Harvey *et al.*, 1999; Scullion and Collings, 2006; Hyun *et al.*, 2015).

The CEE countries provide a particular expanding area for multinationals and are characterized by a quick transition from centralized state control and national economic planning to free-market and globally competitive capitalism (Poór *et al.*, 2015). They are increasingly recognized as a strategic investment location for MNCs, in particular in sectors such as automotive, manufacturing, high-tech, business services, energy and environment. Both the political and administrative map of this region went through significant changes. Being part of a former communist bloc, behind the new borders, these countries currently offer a complex context, with increased regional diversity. Undergoing thorough extensive privatization, the private sector became dominant in terms of the GDP share. Despite the economic growth and the lowering of the inflation rates in many of the CEE countries, a wide range of differences in GDP still exist between the earlier European Union (EU) members and those countries that have more recently joined. The number of enterprises with foreign control varies across the CEE countries, as the average number of employees per company and inward FDI stocks (Table I).

According to the World Bank Group, the Czech Republic, Hungary, Poland, Romania and Slovakia are part of the group of the fastest-growing economies in the EU (World Bank Group, 2015). Despite differences, these countries also present similarities, some of which confer them competitive investment advantages, such as skilled talent pool, cost-effective human capital, near-shore proximity, innovation potential and cost-cutting.

International assignments and multinational companies performance

In the RBV paradigm, the international assignments constitute powerful resources for the MNCs' subsidiaries. The international assignments play a critical role in the competitiveness of the MNCs and received intense research attention along time (Morley *et al.*, 2006). Understanding the impact of the international assignments, both on the organization and the individual assignee, remains a critical academic and practical duty (Morley and Heraty, 2004). The international assignments represent an expensive resource for the staffing strategy of the MNCs (Liu and Lee, 2008), both in human and financial terms (Scullion, 2004), but they remain a viable method for increasing the corporation's understanding of international operations, accession to foreign markets and impact on the MNC performance. Edström and Galbraith (1977) provide three reasons that explain why MNCs send expatriates on international assignments:

(1) to fill positions when there is a skill gap in the subsidiary;

(2) for management development purposes; and

(3) for organizational development, with the aim to change organizational structure, to sustain decision-making processes and increase the knowledge transfer within the MNC.

However, there is no clear consensus in the research findings on the relationship between international assignments and the performance of the subsidiary (Gaur *et al.*, 2007; Konopaske *et al.*, 2002; Kaeppli, 2009; Colakoglu and Caligiuri, 2008).

The analysis of the human resource management (HRM) practices in the European subsidiaries of US MNCs shows a strong tendency toward formalization and standardization in practices (Almond *et al.*, 2005; Collings *et al.*, 2008; Edwards *et al.*, 2010; Chung and Furusawa, 2015). The high degree of formalization and codified nature of US management practices diminishes the necessity of direct and personal control mechanisms such as expatriation. So in terms of staffing, the US MNCs use local employees for subsidiary key positions to a higher degree than MNCs from other countries. For example, Harzing (2001a) found that 79.5 per cent of subsidiary managing directors of US MNCs were host country nationals whereas for German and Japanese MNCs, the percentages were 40.7 per cent and 37.5 per cent, respectively. Schuh (2013) expects that MNCs will be forced to postpone the introduction of standardized strategies and structures because of the differences in the market development between the countries from Central Europe and the

	Serbia	Czech Republic	Romania	Poland	Hungary
1. Number of enterprises with foreign control (2016)	–	12,260	27,662	7,338	16,217
2. Employment in foreign-controlled enterprises (%) (2015)	–	26.8	27.0	28.8	26.0
3. Labor productivity (gross value added per person employed)* (2016)	–	40.2	24.1	35.9	42.3
4. Inward FDI stocks in % of GDP (2017)	–	65.1	40.4	42.9	165.9
5. Value added in foreign-controlled enterprises (%) (2015)	–	41.7	43.8	35.4	52.4

Source: https://ec.europa.eu/eurostat/data/database (accessed August 30 2019), *thousand Euro

Table I.
Statistics at country level

countries from South-Eastern and Eastern Europe. Moreover, the contextual differences among the CEE countries themselves might trigger diverse management practices in the hosted subsidiaries. Thus, this study aims to shed light on whether common patterns are prevalent or rather there is a divergence in the management practices and resources valued by the subsidiaries from various CEE countries.

In contrast to the extensive volume of research focused on expatriation, a limited number of studies reveal the inpatriate staffing mechanisms (Reiche, 2006). The inpatriates, as outgoing employees sent by the subsidiaries to the headquarters (HQs), represent another type of assignment in MNCs, being acknowledged as a valuable source of international human capital in corporations (Farndale *et al.*, 2010). Their knowledge of the host market, experience with business practices and familiarity with the cultural values confer inpatriates a role as a relevant resource that contributes greatly to the companies' competitive advantage. Few studies explain how inpatriates impact the MNC expansion of their operations globally and the flow of the knowledge transfer between the parent and the host countries. Moreover, most of the previous studies focused on the value of the inpatriates assignments on knowledge transfer. In this vein, previous findings (Reiche, 2011; Harzing *et al.*, 2015) revealed a positive relationship between the use of inpatriates and knowledge transfer especially from subsidiaries to the HQ. There are two main arguments for which the use of inpatriate staffing may contribute to increased knowledge transfer from subsidiaries to HQ. First, inpatriates could contribute stronger to the transfer of context-specific knowledge of the local subsidiary to the distant parent HQ, specifically if the subsidiary is culturally and institutionally different from the HQ country and if the management in the origin country lacks experience with the foreign market (Harvey *et al.*, 1999). Second, when repatriating, inpatriates increase the chances to transfer valuable knowledge from the HQ to the subsidiaries (Reiche, 2012). Moreover, inpatriates could also value the experience and relationships developed at the HQ to transfer local knowledge to HQ. But this advantage is constrained by the existence of certain conditions at the organizational level that fosters the repatriate knowledge transfer (Burmeister and Deller, 2016).

Human capital as a contextual resource for multinational companies

The literature places a great deal of attention on the mechanisms that the MNCs use to adapt and successfully interact with the specificities of the host countries. A critical component of this interaction is being successful in the competition for attracting and retaining valuable human capital (de Backer and Sleuwaegen, 2003), in particular, given the differences in the host context. MNCs put effort to attract more resources, such as executive talent, to gain competitive advantage (Johnston and Menguc, 2007). Adner and Hefalt (2003) address the dynamic managerial capability as the capability to build and integrate organization resources. This includes attributes, such as managerial human capital, managerial social capital and managerial cognition, which allow managers to identify and valorize business opportunities. Studies bring evidence that the dynamic managerial capability directly and indirectly contributes to the financial and non-financial performance of the organization (Mostafiz *et al.*, 2019). The essence of staffing practices lies in managing knowledge, capabilities and skills to create value across MNCs. Empirical studies (Hall, 1993; Pfeffer, 1994; Yang *et al.*, 2007) explore whether the internal resources in MNCs (especially human and organizational resources) contribute significantly to the performance of the subsidiaries. Related to human capital at the management and employee level, Hyun *et al.* (2015) show that the nationality composition of both the management teams and employee groups influence the subsidiary performance.

The human capital represents one of the fundamental resources that organizations detain (Wright *et al.*, 2001), the HR capabilities of a company being a potential source for increased competitiveness on the global market. The literature identifies several types of HR capabilities. The firms can benefit from operational HR capabilities (functional or professional) that are related to the implementation of the classical HR practices or strategic HR capabilities.

The competitiveness of the MNCs and the successes or failures in the global market are strongly influenced by the quality of the HR (Schuler *et al.*, 2004). Fey and Bjorkman (2001) find a positive relationship between the alignment of HRM practices with the strategy of the company and the organizational outcomes. Dobrai *et al.* (2012) show that the most powerful methods for developing the HR skills are the training programs in the subsidiaries and the informal learning on the job. Moreover, the development of HRM practices in the subsidiaries of MNCs has a strong impact on the process of institutionalization of these practices in CEE countries.

Knowledge transfer in multinational companies

The economic, social and cultural context of the CEE countries led to a special model for the transfer of management concepts and HRM practices in foreign subsidiaries (Meardi *et al.*, 2009). Researchers (Dobrai *et al.*, 2012; Perez-Nordtvedt *et al.*, 2008; Tregaskis *et al.*, 2010) recognize that both MNCs and their subsidiaries can play a strategic role for learning and cross-border knowledge transfer. Dickmann (2003) shows that knowledge creation and dissemination through international communication is seen as a way to maintain the balance between global integration and local differentiation. Within the MNCs, the knowledge flows take place not only through vertical knowledge transfer from the HQs to the subsidiaries, but also through the reverse knowledge transfer, from subsidiary to HQ (Yang *et al.*, 2008). But, other results do not support this (Dobrai *et al.*, 2012) and show that knowledge flow from subsidiary to the parent company is less important in the knowledge transfer processes of MNCs.

Hypotheses development

The international HRM literature usually considers expatriate managers as key actors that transfer and establish HRM practices, norms and standards in foreign subsidiaries (Steger *et al.*, 2011). Acting as "cultural carriers," the expatriates enable the diffusion of standardized MNCs practices (Harzing, 2001a, 2001b). They also have a role in transferring managerial and technical expertise from the parent country nationals to host country nationals (Myloni *et al.*, 2006). Firms pursuing a global strategy are likely to have more experience transferring HRs from the parent company to the subsidiary and vice versa, and they may have more support structures and HRM practices in place (Takeuchi, 2010). Tungli and Peiperl (2009) show that if expatriates' knowledge and experience are further used for the company's development, the expatriate assignments can be considered successful. This may make it easier for expatriates to adjust to foreign environments. The results of the research carried out by Liu and Lee (2008) on Taiwanese financial institution expatriates in the USA found the job satisfaction and organization socialization in the host country as predictor outcomes of cross-cultural adjustment. Given the high costs of this type of human capital, research suggests that the expatriates are of higher value for green-field subsidiaries, especially in the early stages or in large MNCs that are focused on intensive research and development, and in specific contexts with a high political risk in the receiving country and low educational level (Harzing, 2001a, 2001b). Rodgers and Wong (1996) show that the use of expatriates might contribute to the subsidiary performance by enhancing the coordination, the knowledge transfer between the parent and the subsidiary units and also the control on the operations from the host country. Thus, we advance the hypothesis that:

H1a. The expatriate assignments are positively related to the performance of the subsidiary.

Inpatriates are sometimes considered to represent a more powerful resource compared to the expatriates for the role of managing operations in countries where the corporations face greater social, cultural and institutional gaps (Harzing, 2001a, 2001b; Reiche, 2006). The main rationale for the use of inpatriates resides not only in the accomplishment of a specific job but also in the knowledge transfer role they play during the assignment and following the repatriation (Reiche *et al.*, 2011). Klapalová *et al.* (2014) argue that the expatriates and inpatriates decrease the necessity for costly bureaucratic control and consequently improve the financial performance of the MNCs. The value that the inpatriates might bring upon repatriation through their enriched experience and the enlarged network could have, in the long term, a positive impact on the performance of the subsidiary. In this rationale, we propose the hypothesis that:

H1b. The inpatriate assignments are positively related to the performance of the subsidiary.

Both expatriate and inpatriate assignments are shown to be related to the MNCs' knowledge transfer, with the most substantial knowledge transfer from HQ to subsidiaries being revealed in local subsidiaries that used these two types of assignments at the same time (Harzing *et al.*, 2015). Taking these findings a step further, we expect an impact of the cumulated international assignments on the performance of the corporate businesses. We believe that multiple types of international assignments will potentiate each other in their final impact on the performance of the subsidiary. We test the hypothesis that in the locally dispersed MNC units that use more inpatriates, the added value of the expatriate assignments will have a stronger impact on the subsidiary performance:

H1c. There is an interaction effect between the expatriate and inpatriate assignments on the performance of the subsidiary.

For the global businesses, the relationship between the contextual HRs at the subsidiary level and the HQs becomes highly significant. Steger *et al.* (2011) show that in case of a crisis period at the subsidiary level, the transfer of HR practices from the parent company to the subsidiary is strong, diverse (e.g. the introduction of a German-styled wage system) and based on imposition. Sofka *et al.* (2014) show that MNCs are distinctive in the value of the human capital they provide as a function of their performance and on the specificity or transferability of their employees' human capital. We address the hypotheses that human capital resources contribute to the increased performance of the subsidiary:

H2. Human capital resources are positively related to the performance of the subsidiary.

Increasing competition in the global markets is pushing organizations to pay greater attention to the competencies at the management level. The quality of the management in the MNCs is growingly recognized as a fundamental factor for the success of the global businesses (Gooderham and Nordhaug, 2003) and the HRs effective management is increasingly being recognized as a determinant of the successes or failure in international business (Harris *et al.*, 2003). While the management skills are a firm-specific advantage that

MNC internalize through FDI, the MNC global extension faces the shortages of international management talent (Tarique and Schuler, 2018). In the global context, the required HR managers' competencies depend on the national and organizational context, as well as on the time frame within which they operate.

Because of the internationalization process, strategic thinking is seen to be a key skill for HR managers (Kohont and Brewster, 2014; Ulrich *et al.*, 2010). It allows a comprehensive understanding of the international environment and business processes. Furthermore, in the international context, the strategic role of the HR managers is considered to be critical (Brockbank *et al.*, 2012; Kohont and Brewster, 2014; Sparrow *et al.*, 2004), together with their role in implementation and control (Scullion and Starkey, 2000). According to Kohont and Brewster (2014), in the MNCs from transition states, the most relevant skills are foreign languages, coping with uncertainty and analytical skills. Also, the cultural and language skills are shown to be critical resources that positively influence the extent to which international corporate employees labeled as boundary spanners perform in exchanging, linking, facilitating and intervening functions (Barner-Rasmussen *et al.*, 2014). Analyzing the Slovenian MNCs operating in Serbia, Kohont and Brewster (2014) show that the extent and differentiation of the competencies of HR managers increase as the organization becomes more international. Orientation to people and conflict resolution are seen as elementary competencies needed for the successful operation of HR managers in all stages of internationalization.

Besides the professional knowledge (technical and strategic skills), to become competitive international players, the HR managers in CEE countries need international experiences. This enables them to develop a broad perspective on international areas and to improve their professional role and status in organizations. In this respect, Kohont and Brewster (2014) consider that there is a need to foster knowledge exchange between HR managers that already have international experiences and those that are novices. Analyzing the influence of managerial competencies on business success in Austrian firms, Šparl *et al.* (2013) found that, despite a crisis period, a motivating work environment and the strategic and leadership skills contribute to improving corporate performance.

Exploring the HR managers' skills in the MNCs' subsidiaries from Hungary, Poland, Romania, Serbia and Slovakia, Poór *et al.* (2015) show that the most important competencies are personal credibility (achieving results, effective relationships and communication skills) and the foreign languages skills. The results show that the impact of the personal credibility of HR managers is the most important factor in reaching service quality as a measure of organizational performance. Based on this, we advance the hypotheses:

H3. The human capital at the management level is positively related to the performance of the subsidiary.

The relationship between international assignments, knowledge transfer and performance is not always straight forward and might be affected by various factors. Some studies show that expatriates contribute to facilitating knowledge transfer (Tregaskis *et al.*, 2010) and to enhancing FDI performance (Wang *et al.*, 2009). Other studies find that the use of expatriate managers does not impact the knowledge transfer from subsidiaries (Björkman *et al.*, 2004). Dobrai *et al.* (2012) argue that the success of the knowledge transfer between parent and subsidiary is highly dependent on the expatriates' motivation to transfer knowledge and ability to share. Engagement of expats is expected to be related to the transfer of tacit knowledge transmitted through interpersonal direct communications, so that knowledge must be codified in the form of formal and standardized procedures or documents (Colakoglu and Caligiuri, 2008). For example, subsidiaries that use expatriate and inpatriates staffing use more formalized and systematic techniques for collecting information and share knowledge (72.1 per cent) compared to those that do not use international labor mobility (Klapalová *et al.*, 2014). Moreover, the type of knowledge that is subject to the transfer represents a critical component. Transferring resources such as technology or process innovation from parent company lead to a superior subsidiary performance in the local market (Chang, 1995; Mishra and Gobeli, 1998). Besides, the sometimes divergent findings on the relationship between knowledge transfer and performance, little is known in the literature about the transfer of the HR specific knowledge and the performance of the subsidiary. In this paper, we explore the relationship between the HR knowledge transfer and the organizational outcomes of the subsidiary:

H4. The HR knowledge transfer is positively related to the performance of the subsidiary.

Research methodology

Research sample and procedure

Based on the model developed by Poór *et al.* (2012), a structured questionnaire survey was developed. The questionnaire was translated into the languages of the countries included in the study and a native speaker from each country ensured the proof-read of the translated versions of the questionnaire. Then, to ensure the accuracy of the questionnaire, these versions were back-translated into English. No significant differences were identified.

This study uses the data collected from 295 multinational subsidiaries from five CEE countries: Hungary, Romania, Poland, Serbia and the Czech Republic. The research used the convenience sampling technique, based on the network of 12 researchers who are part of the CEE International Research Team. Subsidiaries in each country were contacted by the researchers and an online questionnaire was sent to a representative of the unit together with a cover letter. The cover letter described the scope of the survey, ensured the confidentiality of the responses and offered details about the authors' research background and contact address. The unit of analysis for this study was the subsidiary. From each subsidiary, the invitation to respond was addressed to the local management or a professional with HR responsibilities. The main criteria when choosing the respondents who filled in the questionnaires referred to their knowledge and experience with the HR processes.

To control the inherent limits of this non-probabilistic sampling technique, we used the split-half technique, computed separately for each country. There were no differences between the two samples concerning the form of establishment of the MNC subsidiaries (mergers and acquisitions or green-field) and the number of employees. We report the characteristics of the respondent subsidiaries from the sample in Table II.

The MNCs' subsidiaries in the sample have an average of 624 employees. Concerning the business sector, 60.8 per cent of the multinationals are in the service sector, 48 per cent were established before 2000. In the sample, 49 per cent of the units were originally developed as green-field sites and 51 per cent through mergers and acquisitions. The studies show (Chung and Beamish, 2005) that during a time of economic crisis a greater use of expatriates contributes more intensely to the survival of greenfield joint ventures and acquired wholly-owned subsidiaries than of the greenfield wholly-owned subsidiaries. Regarding the origin of the multinationals, Germany is the parent country for 29.7 per cent of the subsidiaries in the sample, USA for 15.7 per cent, France for 11.3 per cent followed by Austria for 7.3 per cent.

As all the measures were collected from the same source at only one point in time, to ensure the empirical validity of the research, we checked for a potential problem of common method variance. We used an *ex ante* procedure to prevent the common method weakness, by emphasizing in the cover letter the anonymity and the confidentiality of the responses (Chang *et al.*, 2010). Then, as a *post-hoc* methodological check, following Podsakoff and Organ's (1986) suggestion we computed Harman's (1967) single factor test. All the items of the independent and dependent variables were loaded on a one-factor model. The single factor Harman test extracted six factors with eigenvalues higher than one. Moreover, the percentage explained by the largest factor was lower than the total variance.

Measures

Based on the model developed by Poór *et al.* (2012), the research measured the following constructs: international assignments (expatriation and inpatriation), the human capital resources, management skills, the knowledge transfer and a set of descriptive characteristics of the subsidiary (field of activity, mode of entry, number of employees and year of establishment). For each scale, the internal consistency was checked, by computing the Cronbach's alpha coefficient. The values of Cronbach's alpha coefficients show acceptable reliability of the scales used.

International assignments

The expatriate and inpatriates assignments were measured as the number of expatriates received by the subsidiary and the number of inpatriates sent abroad by the subsidiary. These two variables were computed as the ratio between the number of expatriates and inpatriates to the total number of employees.

Human capital resources

A mean score index was developed based on five items measuring through a four-point Likert scale:

(1) the easiness to find employees for unqualified jobs;

(2) the easiness to find high-skilled technical employees;

(3) foreign languages skills;

(4) the achievements in talent retaining; and

(5) the rewards offered to the employees compared to other competitors (Cronbach's alpha $\alpha = 0.61$).

Table II. Sample MNCs responses by host country

Host country	No. of subsidiaries	No. of employees	Subsidiaries in service sector (%)	Subsidiaries established before 2000 (%)	Merger and acquisition (%)
Hungary	77	975	61.4	64.8	44.3
Poland	57	790	54.4	45.6	36.8
Romania	37	303	67.6	24.3	35.1
Serbia	31	475	51.6	35.4	45.2
Czech Republic	93	291	64.5	61.3	52.7
Total/Mean	295	624	60.8	48	44.4

Focus on executives' skills

This variable was computed based on the mean scores of a set of six items measuring on a five-point Likert scale the perceived importance of executives' skills: business knowledge, strategic skills, personal credibility, HR skills, HR management information systems and language skills (Cronbach's alpha $\alpha = 0.63$).

Human resource knowledge transfer

This variable was computed as a mean score of five items measured by five-point Likert scales:

(1) HR knowledge transfer from the parent company to the subsidiary.

(2) HR knowledge transfer from the subsidiary to the mother company.

(3) HR knowledge transfer between the subsidiaries.

(4) HR knowledge transfer within the HR department.

(5) HR knowledge transfer between the subsidiary and other organization units (Cronbach's alpha $\alpha = 0.74$).

Performance of the subsidiary

The survey used four items to measure the performance of the subsidiary on five-point Likert scales. Instead of using financial data, the survey included four questions through which the respondents rated the performance of the subsidiary on profitability, quality of the services/products, innovation rate and protection of the environment. Based on these four items, we computed the mean index for estimating the performance of the subsidiary (Cronbach's alpha $\alpha = 0.69$).

Previous findings reveal a set of variables that might influence subsidiary performance, such as age and size of subsidiary (Dörrenbächer *et al.*, 2013; Fey and Bjorkman, 2001; Yang *et al.*, 2007; Yuan and Pangarkar, 2015), origin country of MNC and industry (Fey and Bjorkman, 2001; Ngo *et al.*, 1998; Riaz *et al.*, 2014), industry, product diversification, number of patents, domestic investment and industry (Yuan and Pangarkar, 2015). In the case of the FDIs, the literature brings evidence for an interaction between the staffing approaches used by the MNCs and the entry mode on the organizational performance (Konopaske *et al.*, 2002). Thus, we controlled the mode of entry of the global business in the host country. The research design used the following controls: the size of the subsidiary, measured as the total number of employees; the business sector (transformed into binary variable services and others); the host country (introduced as binary variables); and the year of establishment (transformed into a binary variable, before 2000 and after). Except for the subsidiary size, all the other control variables were included as dummies in the regression model.

In addition to the organizational factors, the country of origin of the MNCs was found to be a potential differentiating factor in the firm performance (Harzing, 1999). Early findings showed that, in financial terms, the American firms outperformed the other continents (Krugman, 1983; Lee and Blevins, 1990; Blaine, 1994). In our case, the respondent companies might be naturally clustered within the parent country and exhibit a certain degree of similarity with each other. Thus, for the data analysis, we used hierarchical linear modeling (HLM), the responses being nested within the origin country of HQ.

Research findings

Slightly less than half of the MNC subsidiaries in the sample (43.2 per cent) have expatriates from the mother company or other subsidiaries on an assignment longer than six months. Referring to the multinationals with expatriates, 54.3 per cent of them have between 1 and 5 in-coming expatriates. On average, in a subsidiary, there are 8.4 expatriates and the majority of them are parent country nationals (on average 64 per cent). Compared to the expatriate staffing, less than a quarter of the subsidiaries send inpatriates abroad (12 per cent). Out of the subsidiaries that declare to use out-going inpatriates, 74 per cent send between 1 and 5 inpatriates, with an average of 2.91 inpatriates per subsidiary.

There is a significant association between the use of expatriates and inpatriates in the MNCs subsidiaries (the chi-square test $\chi^2 = 82.19$, $p < 0.001$), and a significant correlation between the number of expatriates and inpatriates (Pearson coefficient $r = 0.51$, $p < 0.001$). Also, the data show a significant correlation between the size of the subsidiary and the expatriate staffing. The numbers of both in-coming and out-going expatriates correlate with the number of the employees in the subsidiary (Pearson coefficient $r = 0.22$, $p < 0.001$, respectively, $r = 0.18$, $p < 0.001$).

The research aimed to see if there is a relation between a set of contextual characteristics of the subsidiary, including in-coming and out-going expatriates, and the organizational performance of the subsidiary. For this, the responses were nested within the parent country of the MNC HQ. Therefore, HLM with STATA was used to test the research hypotheses. HLM splits the variable variances into within and between group components and, in this way, it offers unbiased standard error and regression parameter estimates (Raudenbush and Bryk, 2002). For Level 2, there were 31 parent country groups, with a minimum of 2 and a maximum of 72 cases. With over 30 clusters at Level 2, the parameter estimates for the regression slopes and the variance components at both levels exhibit small biases in the sample (Maas and Hox, 2005). As in our study, Level 1 variables are of primary research interest, we used group mean centering for centering the variables (McCoach, 2010). The proportion of the variance explained by the clustering structure is small, the intraclass correlation showing a reduced homogeneity between the groups. Several regression models were tested. In the first model, the control variables were entered. Then, in the subsequent model, the independent variables were added, followed by the interaction between the ratio of expatriates and inpatriates (Table III). The analysis was conducted using the maximum likelihood estimation method with robust standard errors (McCoach, 2010). We used bootstrapping as an internal replication method to assess the stability of the sample results (Roberts and Fan, 2004). The re-sampling based on 1,000 samples of 180 cases confirmed the main regression results.

The performance of the subsidiary (dependent variable) was measured as a computed numeric mean index based on four items. The independent variables included in the model were: the international staffing (ratio of expatriates and inpatriates), the human capital resources, the importance of the management skills and the knowledge transfer. A set of descriptive variables transformed in dummy variables were used: the business sector, the host country, the entry mode and the year of establishment. We report the results for all the descriptive variables (Table II). The variables that were found to be statistically significant in the model and that contribute to the performance of the subsidiary are the human capital resources (*H2* is supported) and the importance of the executives' skills (*H3* is supported). Only the ratio of inpatriates significantly contributes to the subsidiary performance model (*H1b* is supported), but not the ratio of expatriates. A significant positive interaction between the ratio of expatriates and the ratio of inpatriates was found (*H1c* is supported). The positive interaction suggests that for the subsidiaries with more expatriates, the

	1	2	3	4	5	6	7	8	9	10
1. Ratio expatriates		0.029	0.098	−0.075	−0.032	−0.092	−0.175**	0.016	−0.072	−0.095
2. Ratio inpatriates			0.006	0.122*	0.116	0.158**	−0.071	−0.018	−0.021	−0.024
3. Human capital resources				0.232**	0.185**	0.213**	0.047	−0.036	−0.046	−0.057
4. Executives' skills					0.327**	0.250**	0.193**	−0.066	0.028	−0.011
5. HR knowledge transfer						0.157**	0.195**	−0.002	−0.077	−0.011
6. Performance							0.130*	−0.078	0.153**	−0.013
7. Size (no. of employees)								−0.274**	0.103	0.102
8. Business sector (services – dummy)									−0.077	0.064
9. Year of establishment (before 2000 – dummy)										0.110
10. Entry mode (merger and acquisition – dummy)										
Mean	0.014	0.005	2.347	3.058	3.162	3.761	624.2	0.698	0.487	0.473
SD	0.073	0.018	0.527	0.473	0.808	0.607	935.1	0.459	0.500	0.500
Cronbach's alpha			0.61	0.63	0.74	0.69				

Notes: **Correlation is significant at the 0.01 level (2-tailed); and *correlation is significant at the 0.05 level (2-tailed)

Table III. Descriptive statistics: means, standard deviations and Pearson correlations

association between the inpatriates assignments and the subsidiary performance increases. This shows that using both inpatriates and expatriates brings more value to the subsidiary and represents a strategic mechanism to enhance the performance of the subsidiaries. A strategic mechanism to enhance the performance of the subsidiaries (Table IV).

In the regression model, we tested the role of the international assignments as related to their relative volume. But the importance of the assignments might go beyond the number of inpatriates and expatriates, and the mere presence of expatriates could contribute to the outcomes of the subsidiary. The mere use of expatriate and inpatriate assignments as a staffing practice might trigger benefits for the subsidiary, disregard of the actual number of assignees used. To test this, we tested for differences between subsidiaries that use international labor assignments and the ones that do not use expatriates and inpatriates. After the check of the normality of the distributions by using the Kolmogorov–Smirnov and Shapiro–Wilk tests, we applied the independent sample t test (Table V).

Differences were identified between the subsidiaries having expatriates and the ones without expatriates. Harzing *et al.* (2015) show that using expatriate and inpatriates managers has a positive influence on the knowledge transfer, irrespective of the type of knowledge in host locations from Western and Nordic European countries and Asian countries. In line with these findings, for the subsidiaries in the CEE countries, we also find a stronger HR knowledge transfer for the subsidiaries that use expatriate and inpatriates assignments ($t = 3.53$, $p < 0.001$, respectively, $t = 3.50$, $p < 0.001$).

The subsidiaries that use in-coming expatriates also show higher scores for the human capital resources at the employee level ($t = 2.70$, $p < 0.05$) and for the human capital at the management level ($t = 2.89$, $p < 0.05$). The data revealed that the subsidiaries which send inpatriates to other foreign units (employees on out-going expatriate assignment for more than six months) are generally better performing ($t = 2.60$, $p < 0.05$), and show higher scores on HR knowledge transfer ($t = 3.33$, $p < 0.05$) and management skills ($t = 2.60$, $p < 0.05$).

Discussion and implications

In line with the RBV, this study shows that in the case of the subsidiaries in the five CEE countries, the human capital resources and the focus on executives' skills contribute to a

Independent variables	Model 1 (base) (β) Est	SE	t	Model 2 (β) Est	SE	t	Model 3 (β) Est	SE	t
Ratio expatriates				−0.369	0.469	−0.79	0.325	0.600	0.54
Ratio inpatriates				4.64	1.921	2.42**	6.52	2.165	3.01**
Human capital resources				0.197	0.071	2.75**	0.195	0.071	2.75**
Management skills				0.207	0.083	2.48**	0.205	0.093	2.47**
Knowledge transfer				0.022	0.048	0.47	0.016	0.048	0.35
Ratio expatriates*Ratio inpatriates							131.5	71.4	1.84*
Controls									
Business sector (service: dummy)	−0.086	0.077	−1.11	−0.061	0.078	−0.79	−0.052	0.077	−1.67
Host country (dummies)									
Hungary	0.095	0.091	1.04	0.054	0.913	0.59	0.069	0.091	0.76
Poland	0.131	0.100	1.31	0.126	0.099	1.27	0.141	0.099	1.42
Romania	0.192	0.129	1.48	0.018	0.162	0.11	0.082	0.164	0.50
Serbia	0.315	0.120	2.61*	0.178	0.120	1.48	0.195	0.120	1.63
Entry mode (merger and acquisition: dummy)	−0.040	0.069	−0.59	−0.012	0.069	−0.18	−0.011	0.068	−0.17
Year establishment (before 2000: dummy)	0.220	0.074	2.95	0.180	0.074	2.44**	0.171	0.073	2.32**
Size (log. number employees)	−0.125	0.102	−1.22	0.045	0.057	0.70	0.032	0.057	0.57
Random									
Origin country (residual)	0.296	0.025		0.271	0.024		0.275	0.029	
Log likelihood	−213.46			−183.13			−181.45		

Notes: N = 239; **correlation is significant at the 0.01 level (2-tailed); and *correlation is significant at the 0.05 level (2-tailed)

Table IV.
HLM model on the performance of the subsidiaries

Variables	t	Yes	Use expatriates use inpatriates No	t	Yes	No
Human capital resources	2.70**	2.45	2.26	0.95	2.38	2.32
Skills at the management level	2.89**	3.15	2.99	2.62**	3.15	3.00
HR knowledge transfer	3.53**	3.34	3.02	3.50**	3.39	3.05
Subsidiary performance	1.54	3.82	3.71	2.79**	3.90	3.69

Notes: *Significance at 0.05 level; **significance at 0.01 level; and ***significance at 0.001 level

Table V.
Differences between subsidiaries with and without expatriates and inpatriates (independent sample *t* test)

higher performance of the subsidiaries. While the international assignments play a resource role for MNCs, this study shows that while the ratio of inpatriates significantly contributes to the subsidiary performance model, the ratio of expatriates is not significantly related to performance. A potential explanation for the lack of influence of the expatriate assignments on the performance of the subsidiary lies in the potential interaction between the international staffing practices and other organizational characteristics. While the present study controlled for a potential influence of the subsidiary age and business sector, it did not control for other variables such as the organizational support. For example, van der Laken *et al.* (2016) advances the hypothesis that social support plays a critical role in the expatriates' success. In the particular case of the CEE countries, organizational level characteristics, such as subsidiary cultural values or organizational support, might negatively impact the expatriate assignments.

The findings show a significant interaction between the ratio of expatriates and the ratio of inpatriates, which suggests that using both, inpatriates and expatriates, might bring more value to the subsidiary. This could be a strategic mechanism for MNCs to increase the performance of the subsidiaries. Moreover, the findings draw attention to the fact that the importance of the assignments might go beyond the number of inpatriates and expatriates. The mere use of expatriate and inpatriate assignments, as an international staffing practice, might trigger benefits for the subsidiary, disregard of the actual number of assignments used.

Traditionally, MNCs use expatriate assignments to ensure knowledge transfer and to maintain control over the subsidiary (Edström and Galbraith, 1977). This survey shows that less than half of the subsidiaries in the surveyed CEE countries receive expatriates and less than a quarter send expatriates abroad. These rather low values could be associated with the growth of alternative international assignments (Collings *et al.*, 2007) that could be more efficient for MNCs. Moreover, the number of subsidiaries that receive expatriates largely surpasses the number of subsidiaries that send inpatriates abroad. On the other hand, the findings also show that both subsidiaries that use expatriates and the ones that use inpatriates benefit from more consistent knowledge transfer. This might reveal a stronger emphasis on the controlling purpose of using expatriate assignments. In the same line of argumentation, the fact that most of the expatriates are parent country nationals (64 per cent), which is similar to previous findings in the literature (Pirožek and Komárková, 2015; Tungli and Peiperl, 2009) could also be explained by the aim to ensure global control of subsidiaries.

In the multinational business literature, this study makes contributions on the theoretical, empirical and MNCs management practice levels. Building on the RBV, the research has theoretical implications by revealing potential interaction effect between various types of resources. While previous literature acknowledged the value of various capabilities as distinct resources, some resources could be interdependent. The theory should strengthen the focus on the possible effects of aggregating certain resources at the subsidiary level, through which MNCs could obtain augmented effects on the overall performance of the subsidiary.

The implications for practice reside in highlighting the need for the MNCs' management to be aware of the subsidiary potential for resource development. Understanding which of the resources have a greater performance impact could guide MNCs to leverage those resources which convey the highest potential for organizational outcomes. At an empirical level, by focusing on subsidiaries located in CEE countries, the study is valuable regarding strategy implications to cushion the substantial wedge between developed and developing countries.

Conclusions

The scholarly literature focused on international assignments and organizational performance reveals contradictory results. Our findings bring empirical evidence for a positive impact of the use of inpatriates assignments on the performance of the MNC subsidiaries. In the frame of the RBV, contextual resources such as the human capital at the subsidiary level and the human capital at the management level were found to contribute to the performance of the subsidiary. We find a positive relationship between the focus on the skills of the executives and the performance of the subsidiary. For a synthetic view on the research findings, Table V reports a summary of the research hypothesis tested in this study (Table VI).

Table VI.
Hypotheses summary

	Hypotheses	Supported/rejected
H1a	The expatriate assignments are positively related to the performance of the subsidiary	Not supported (fail to reject the null hypothesis)
H1b	The inpatriate assignments are positively related to the performance of the subsidiary	Supported (reject the null hypothesis)
H1c	There is an interaction effect between the expatriate and inpatriate assignments on the performance of the subsidiary	Supported (reject the null hypothesis)
H2	The human capital resources are positively related to the performance of the subsidiary	Supported (reject the null hypothesis)
H3	The human capital at the management level is positively related to the performance of the subsidiary	Supported (reject the null hypothesis)
H4	The knowledge transfer is positively related to the performance of the subsidiary	Not supported (fail to reject the null hypothesis)

This study sheds some light on the subsidiaries from the CEE region, an area that is less intensely researched compared to the well-developed countries on the one hand and the emerging economies on the other hand. Moreover, while there are numerous studies on the factors that impact the performance of the MNC subsidiaries, our analysis bears added value by providing evidence on what type of resources that significantly contribute to the overall unit performance. The managerial implications of these findings are reflected in evidencing the added value for the subsidiary performance of the focus on executives' skills and access to human capital resources.

As any research, this work bears limitations also. The main constraints of the findings are related to the use of a cross-sectional sample and the convenience sampling technique. Thus, the generalizability of the findings outside of the sample is limited. Despite the inherent limits, this paper has implications for future research, by highlighting the need to understand the value of various resources for the subsidiaries hosted in CEE countries. The paper has implications for future research by posing a number of research questions waiting to be addressed. First, in respect of international staffing, the findings open up space for the hypothesis that the mere use or presence of expatriate/inpatriate assignments could have an impact on the subsidiary performance, irrespective of the volume of international assignments. Second, by identifying an interaction effect between expatriate and inpatriate assignments as resources at the subsidiary level, the findings underline the need to further explore the possible interdependent and inter-potentiating relationships between various types of resources. Thus, further research could focus on exploring the mediating and moderating variables that might impact the relationship between the international assignments, the subsidiary internal and external resources and the subsidiary performance.

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