

# The Role of the Manager in the Middle East: An Empirical Study of Multinational Companies

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## Abstract

This article is an empirical investigation into the role of the CEO manager in the affiliates of multinational corporations operating in the Middle East. Grounded in a literature review of the reasons for employing either parent country nationals (PCNs) or host country nationals (HCNs) in top management position in foreign subsidiaries, a number of factors influencing the choice between these alternatives are identified. Using a data collected from 147 multinational companies (MNCs) operating in the Kingdom of Saudi Arabia (KSA), the influence of each of these factors on this selection is empirically tested with the help of primary data. The study proposed that the relationship between the home and host country managers could be linked to agency theory (with the ‘classical’ principal–agent relationship) and to resource dependency theory (implying relations between the branch and other partners based on interdependence). Our results show that the agency and resource dependency mechanisms are indeed used side by side and complementary to each other to exercise control. Home country managers can strategize to implement control by the informal and social means by positioning a sizeable number of managers from the home country within the subsidiary. Indeed, our results revealed this as true.

## Keywords

Multinational companies, international human resource management, expatriates, international transfer, headquarter–subsidiary relationship

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## Introduction

In the international human resource management literature, the discussion of staffing policies takes a prominent place. The most important element in an international context is usually the executive nationality policy in foreign subsidiaries. Do companies have a policy to employ mainly parent country nationals (PCNs) or host country nationals (HCNs) as top managers in their subsidiaries and which circumstances would invoke a preference for one policy over another?

Although many studies have discussed the advantages and disadvantages of employing PCNs over HCNs, not many studies have focused on the factors which really influence the choice of deciding the subsidiary manager.

By studying the previous research related to control mechanisms in MNCs, the study wondered whether the informal and subtle type of control that are discussed indeed the 'control mechanism of the future', since it might be thought of as a rather expensive and indirect way to coordinate a company. Would not there be companies or parts of companies (subsidiaries) that would be better managed with more direct and possibly less expensive control mechanisms? More specifically, could we distinguish characteristics of both home and host countries of MNCs that might explain differences in the application of control mechanisms between and within MNCs' management?

This article discusses relevant issues relating to international staffing policy and the manager role in a host country. Various staffing policies identified by Perlmutter (1969) are discussed in his seminal article 'The tortuous evolution of the multinational'. These staffing policies imply a preference for PCNs, HCNs or third country nationals (TCNs). The next section explains about different strategies for international human resource staffing in detail. First, the reasons why multinationals have to prefer one of these groups will be discussed. Subsequently, the organizational functions of expatriation will be discussed. Some propositions on the importance of these functions in different circumstances will be understood. Finally, the research issues in the international human resource management (IHRM) and its aim to the sustainability in the field that this study hopes to cover are summarized.

## Review of Literature

Several authors suggest that sending expatriates (PCNs) to subsidiaries can have the same result as centralizing decisions at headquarters. Hennart (2011), for instance, criticizes the way autonomy is usually measured in multinational companies (MNCs), namely as the locus of decision-making. If decisions are made at headquarters, subsidiaries are said to have little autonomy. However, is this autonomy of decision-making necessarily larger if decisions are made at subsidiaries? Decisions made by a perfectly socialized parent country manager may be indistinguishable from those made at headquarters. No real autonomy exists for the subsidiary if expatriate managers make the decisions because they are likely to act and make decisions in accordance with the parent company, being influenced as they are by many years of socialization and acculturation in the parent organization. The result is, as Hogenbirk and Vankranenburg (2006) points out that to some extent, staffing with PCNs leads to the same result as centralizing more decision-making at the parent level. Of course, there are some differences. Although decisions made by parent country expatriates are more likely to be in favour of headquarters in cases of conflicting goals than is the case when decisions are made by HCNs, however, this is not necessarily true for each and every expatriate (Kaufmann & Roessing, 2005). Borg (1988), in an early study, found that naturalized expatriates would rather choose for the local interests, and cosmopolitans should value both perspectives equally. Furthermore, parent country expatriate managers

are more likely than headquarters executives to pay at least some attention to local conditions and demands, because they are confronted with them daily.

International transfers can be another way to achieve control and eventually influence on the performance because parent country expatriates are socialized into the company's ways of doing things. In the next section, more details about different strategies for international human resource staffing will be explained.

### *International Staffing Policy*

As mentioned earlier, in the previous section, Perlmutter (1969) distinguishes three states of mind or attitudes of international executives: *ethnocentric* (or home country oriented), *polycentric* (or host country oriented) and *geocentric* (or world-oriented). These attitudes should be regarded as ideal types. Every firm will probably have some degree of ethnocentrism, polycentrism and geo-centrism, but usually we can distinguish a dominant state of mind. The *ethnocentric* attitude implies that management style, knowledge, evaluation criteria and managers from the home country are thought to be superior to those of the host country (Myloni, Harzing, & Mirza, 2004). A logical consequence is that only PCNs are considered suitable for top management positions, both at headquarters and at subsidiaries. The communication and information flow consists of orders and commands from headquarters to subsidiaries, authority and decision-making is high in headquarters; and the organization is complex at headquarters but simple in subsidiaries (see e.g., Asmussen, Pedersen, & Dhanaraj, 2008). The *polycentric* attitude takes a completely different point of view. It explicitly recognizes differences between countries, believing that local nationals are in the best position to understand and deal with these country-specific factors (Dhanaraj, Lyles, Steensma, & Tihanyi, 2004; Reiche, 2008). A local manager, however, will never be offered a position at headquarters because PCNs are considered more suitable for these positions. In a firm characterized by a polycentric attitude, there is little communication to and from headquarters and between subsidiaries, because subsidiaries are rather independent. Consequently, authority and decision at headquarters are relatively low. The *geocentric* attitude, finally, is world-oriented. A company characterized by a geocentric attitude draws from a worldwide range of managers, who can be appointed at headquarters or subsidiaries regardless of their nationality. Transfers take place in all directions, from headquarters to subsidiaries, from subsidiaries to headquarters and between subsidiaries. The communication and information flow goes both ways; there is a collaborative approach to decision-making and the organization as a whole becomes increasingly complex and interdependent. In an early study, Heenan (1979) distinguishes a fourth attitude: *regiocentric*. This attitude resembles the geocentric attitude, but is regio-oriented (e.g., the European Union) instead of world-oriented.

In subsequent literature in the field of international management, Perlmutter's headquarters orientations became equated with strategies of IHRM in general, and with different types of staffing strategies in particular (see e.g., Katou & Budhwar, 2006; Schuler, Jackson, & Tarique, 2011).

Richards (2000) describe four different staffing policies, three of which are broadly comparable to the ethnocentric, polycentric and geocentric strategies discussed above. They do distinguish a fourth strategy, an ad hoc strategy. Companies following an ad hoc 'strategy' do not really have a set strategy and make decisions on an ad hoc basis. This usually results in the placement of PCNs in important positions. Furthermore, it must be realized that, in general, staffing issues in an international setting involve filling critical higher management positions. Usually, most employees at the middle management and operative levels are recruited locally. Therefore, a polycentric staffing strategy will usually be followed for the majority of subsidiary personnel (see e.g., Forstenlechner & Mellahi, 2011).

### *Choosing Between PCNs, HCNs and TCNs*

The policies which have been discussed previously imply a preference for PCN, HCN, TCN or a combination of these different groups. These different groups can be defined as follows: A PCN is a national of the country of the Multinational enterprise (MNE's) headquarters (and usually worked at headquarters before being expatriated). An HCN is a national of the country of the subsidiary (and usually worked in the subsidiary before being appointed to the position of managing director). A TCN is a national of a country other than the MNE's home country and the country of the subsidiary (and usually worked at headquarters before being expatriated).

A discussion of the advantages and disadvantages of employing these different groups of employees will clarify the applicability of the different staffing policies discussed earlier. The advantages and disadvantages that are mentioned most in the literature shows that most of the advantages of using PCNs can be cited as disadvantages of using HCNs and vice versa. Some of the advantages ascribed to PCNs have a rather arrogant flavour. HCNs are assumed to have less technical and managerial skills. This could be accurate to some extent in the developing countries.

In the next section, a number of factors will be discussed that might influence the choice for HCNs, PCNs or TCNs. As the number of TCNs is still very small in most companies (e.g., Kopp, 1994; Richards, 2003), the focus will be on the choice between HCNs and PCNs. Furthermore, as lower level positions are usually filled by HCNs, the concentration will be on the percentage of PCNs in top management positions.

### *Home Country Factors*

Although many studies focus on the advantages and disadvantages of using expatriates as opposed to local managers, few empirical studies examine MNE staffing policies. Although Tung's (1987) study was a primer in the field, it is now more than two decades old. Later studies (e.g., Zhang, 2006) compared international human resource policies in Japanese, European and US multinationals. One of the issues considered was the nationality of top managers in overseas operations. Kopp's study (1994) confirmed Tung's finding that Japanese companies employ the largest number of PCNs in their subsidiaries; US companies the smallest number; while the number of PCNs in subsidiaries in European companies lies between these two extremes.

### *Country of Origin*

In addition to these two studies, a number of other authors have investigated the use of expatriates by MNCs from different countries. Hulbert (2003) found that European and Japanese MNCs were more likely to use expatriates in the CEO position of Brazilian subsidiaries than American MNCs. In a study of American and German MNCs, the German MNCs were more likely to employ PCNs in their American subsidiaries than American MNCs in their German subsidiaries. Knoerich (2010) found that both Japanese and German MNCs had only 2 per cent HCNs in top positions in their foreign subsidiaries, while American firms had 28 per cent HCNs. Egelhoff (1988) indicates that, in general, European MNCs make heavier use of expatriates than both American and British MNCs. In Harzing and Noorderhaven's study (2006), German MNCs had the largest number of PCNs in the managing director position, while there was no major difference between American and the remaining European MNCs in this respect (see also, Fenton-O'Creevy, Gooderham, & Nordhaug, 2007). In Taiwan, Tzeng (1995) finds American and

European MNCs to localize more than Japanese MNCs. Oddou et al. (1995) report that Japanese MNCs have a stronger tendency than US and European MNCs to expatriate their personnel. No differences were found between European and American firms.

In the research carried out by Vora, Kostova, and Roth (2007), the various roles adopted by a subsidiary manager, as well as the degree to which obligations were fulfilled, were examined with the aim of investigating the impacts associated with the dual organizational identified of the subsidiary managers of MNCs in direct relation to their overall performance within their job role. Importantly, subsidiary managers were found to tackle a number of challenges spanning across two difficult managerial roles, that is, those in consideration of their subsidiary and those in mind of the headquarters and organization as a whole. Accordingly, it is emphasized by this research that complicated, diverse or difficult roles are better satisfied, with goals realized, in instances where managers are able to acquire. Of course, the percentage of PCNs employed in a certain country might also be dependent on the availability of qualified local personnel, especially in the developing countries, and in Kingdom of Saudi Arabia (KSA) in our case. This aspect will be discussed in the next section, the subsidiary factors will be discussed.

### *Informal Control: Subsidiary Factors*

Informal control (INFO) or control by socialization combines a lot of relatively diverse mechanisms. It is mainly defined by what it is not: it is not hierarchical, it is not bureaucratic, there are no fixed targets, it is usually not very formal, etc. (Alharbi & Singh, 2013). Compared to the other categories this control mechanism is rather informal, subtle and sophisticated (Martinez & Jarillo, 2005) In spite of this diversity, three main sub-categories in this broad category can distinguished: Socialization—which can be defined as ensuring that employees share organizational values and goals; that is, they are socialized into a common organization culture. It is identified by ten authors, several of whom point to the importance of selection in this respect. Informal, lateral or horizontal exchange of information—some authors point to the importance of non-hierarchical communication as a control mechanism, using terms such as mutual adjustment, direct (managerial) contract, informal communication and coordination by feedback. Formalized lateral or cross-departmental relation—this category has the same objectives as the second one, increasing the amount of (non-hierarchical) information processing, with the difference being that in this case the relationships are (temporarily) formalized within the organizational structure, for example, task forces, cross-functional teams and integrative departments (Lee & Macmillan, 2008; Martinez & Jarillo, 2005). As a common denominator for this category, the term can be used is control by socialization and networks. Networks comprise both the second and third sub-category, as the aim of both mechanisms is to create a network of communication channels that supplements the formal hierarchy. The term network is chosen because in organization theory it is frequently used to denote non-hierarchical relations

### *MNE Staffing Policies*

The importance of international transfers to achieve control by socialization and informal networks is emphasized by various authors. Most of them, however, tend to concentrate on one of the two elements: socialization or creation of informal information networks. Therefore, these two elements will be discussed separately in the next sections.

Numerous authors (see Birkinshaw & Hood, 1998) point to the fact that international transfers can foster socialization in the company culture, either for the internationally transferred manager or for the company as a whole. Below, some of the seminal quotation is included. Another reason—other than management development—why sufficient scope for international job rotation should be maintained is the need for what I would call ‘corporate acculturation’.

Philips found that the most effective way to manage complex flows of information and knowledge was through various socialization processes: ‘the transfer of people, the encouragement of informal communication channels that fostered information exchange, or the creation of forums that facilitated inter-unit learning’. ‘Such integration was typically the result of a high degree of organizational socialization and was achieved through extensive travel and transfer of managers between headquarters and the subsidiary, and through joint-work in teams, taskforces and committees’. Another option is to transmit culture through a policy of intra-organizational transfers. These transfers tend to improve the socialization of the individuals in an organization and thereby inhibit the formation of incompatible goals and perspectives.

### *Expatriate Role: International Transfer*

In previous sections, alternatives for international transfers in achieving control by socialization and informal networks are discussed. Several authors (e.g., Bartlett & Ghoshal, 2002; Vachani, 1999) suggest that international transfers would probably be the strongest alternative in providing socialization and network building for expatriates themselves. Sturges, Conway and Liefoghe (2010), for instance, sees ‘career and mobility management’ as a stronger ‘glue mechanism’ providing more ‘inter-unit cohesion’ than project groups and training. When transferred internationally, the employee is immersed into the local culture and situation completely, has no way to escape and is dependent on his collaboration with people with different cultural backgrounds and perspectives to achieve results. This gives the best opportunity to provide long-lasting multiple dimensional attitudes. The contacts last longer and will be more intensive, which will give a better opportunity for long-lasting informal networks. For subsidiary managers themselves, however, the direct influence of the participation in management training programs or international task forces on informal networking would probably be stronger than the indirect effect of expatriate presence in subsidiaries. Therefore, a high level of shared values between a given subsidiary and headquarters and an intensive informal information network can probably be achieved in a more direct and less expensive way than by international transfers (e.g., Alharbi & Singh, 2013). This does not mean, however, that international transfers have become useless. First, they can provide an important support function for achieving control by socialization and informal networks and second, they can fulfil a number of other functions. In an effective MNC, we would, therefore, expect the use of both management training & task forces and international transfers to achieve control by socialization and informal networks.

### **Objective of the Study and Rationale**

A full review of the literature, as well as analyses of similar conceptual set-ups in different empirical contexts, this study will help in developing an adequate framework to see how the subsidiary control by socialization and networks would be affected by the proportion of expatriate managers existence in the subsidiaries of oil and petrochemicals. Moreover, it should also help to reveal, through empirical testing,

whether and to what extent certain structural and environmental properties moderate the types and degrees of control that are exercised by important organizations to coordinate their actions, interests and goals with their affiliated entities abroad. Therefore, another objective is to apply a theoretical set of propositional arguments to a new empirical context in order to examine and contrast these arguments' predictive ability and limitations. The study aims to contribute not only to the process of theory development through theory testing but also to our understanding of the control that MNCs use to monitor their affiliated entities. The policies that are discussed above imply a preference for PCN, HCN, TCNs or a combination of these groups. The present study explicitly addresses this limitation by including MNE Headquarters (HQs) in a range of different countries.

## Methodology and Data Source

A survey research design involving the use of a questionnaire as the primary data source was adopted. The questionnaire was distributed in major cities of KSA—Riyadh, Jeddah, and Jubail. Subsidiaries were selected from the Directory of Foreign Companies in KSA, available by the KSA Investment Authority (SAGIA). A total of 350 subsidiaries were initially contacted by person, phone or email, with 147 agreeing to reply to the survey (42% response rate).

The questionnaire contained variables measuring, size of subsidiary, proportion of expatriate employees to subsidiary employees, nationality of subsidiary manager, its age and control mechanisms. The informal control mechanisms were measured through the implementation of four Likert-scale questions (five being the highest):

1. Degree of participation by the subsidiary's executives in committees/taskforces/project group
2. To which extent do the executives in the subsidiary share the company's values (sn2)?
3. The degree of participation of subsidiary's executives in training programs.
4. The level of informal communication between the subsidiary and headquarters and other subsidiaries.

The statistical methodology used to analyse data comprises descriptive statistics. Dichotomous variables for the nationality of the manager were also compared and PCN versus non-PCN proportions via custom cross-tabulation table and linear regressions.

## Analysis

The linear regression was used to evaluate one-way analysis of variance. To what extent does the number of expatriate managers in an MNE subsidiary impact on the level of subsidiary control by socialization and networks. A linear regression revealed a significant model as  $y = 3.58 + 2.19x$ , where  $y$  represents control.INFO and  $x$  represents the log of proportion of expatriate managers, supporting H4a. The assumptions of linearity and homoscedasticity were met after visually inspecting the residual diagnostics and scatterplots. The results in Table 1 show the log of proportion of expatriate managers explained 4.8 per cent of the variation in control.INFO ( $R^2 = 0.048$ ,  $F[1,145] = 7.27$ ,  $p < 0.01$ ) and had a significantly positive effect on increasing control.INFO ( $\beta = 0.219$ ,  $t = 2.70$ ,  $p < 0.01$ ). For every one-unit increase in the log of expatriate managers, control.INFO increases by 0.266 points (based on the unstandardized regression coefficient).

**Table 1.** Linear Regression of the Log of the Proportion of Expatriate Managers on the Level of Subsidiary Control by Socialization and Networks

Model	Unstandardized Coefficients		Standardized Coefficients		Sig.
	$\beta$	Std Error	$\beta$	T	
(Constant)	3.584	0.194		18.495	0.000
Log of the proportion of expatriate managers	0.266*	0.099	0.219	2.697	0.008

**Source:** The authors.

**Notes:** Dependent variable: Control.INFO.  $R = 0.219$ ,  $R^2 = 0.048$ , adjusted  $R^2 = 0.041$ , model fit:  $F(1,145) = 7.27$ ,  $p < 0.01$ . Regression equation:  $y = 3.58 + 0.219x$ ; \*  $p < 0.01$ .

One-way between groups analysis of variance (ANOVA) was performed to compare the impact of the expatriate manager's role on the level of control.INFO. Respondents were divided into five groups according to their management role. There was a statistically significant difference in level of control.INFO for the five expatriate manager roles, ( $F[4, 412] = 3.20$ ,  $p < 0.01$ ) (see Table 2). Despite being statistically significant, the actual difference in mean scores between the groups was small. The effect size calculated using eta-squared was small ( $\eta^2 = 0.03$ ). Post-hoc comparisons using the Tukey's HSD (Honestly Significant Difference) test indicated that the mean score for expatriate managers' involved in 'training the expatriate for future positions at headquarters or other subsidiaries' ( $M = 4.50$ ,  $SD = 0.172$ ), was significantly higher ( $p < 0.05$ ), than for expatriate managers who 'transfer specific technical or management knowledge from headquarters or other subsidiaries to this subsidiary' ( $M = 3.81$ ,  $SD = 0.681$ ); but did not differ significantly from other groups. These results suggest that the expatriate manager's role moderates the level of control.INFO. Levene's test indicated equal variances.

**Table 2.** One-way ANOVA of Role of Expatriate Manager on Level of Control by Socialization

Role of Expatriate Manager in the Subsidiary	N	Mean INFO	SD	95% CI-	95% CI+
Improvising information and communication channels with headquarters or other subsidiaries of the group	18	3.87	0.678	3.53	4.21
Transferring specific technical or management knowledge from headquarters or other subsidiaries to this subsidiary	28	3.81	0.681	3.55	4.07
Ensuring a homogeneous corporate culture throughout the company as a whole	35	4.14	0.720	3.90	4.39
Filling positions for which no local personnel is available in this country	50	4.14	0.753	3.93	4.35
Training the expatriate for future positions at headquarters or other subsidiaries	16	4.50	0.172	4.41	4.59
Total	147	4.08	0.703	3.97	4.20

**Source:** The authors.

**Notes:** SD = standard deviation, 95% CI = 95% upper and lower confidence interval of the mean.  $F(4,412) = 3.20$ ,  $p < 0.01$ .



**Table 3.** Nationality of Manager by World Region

	North America		Europe		Middle East		Asia/Pacific	
	N	%	N	%	N	%	N	%
KSA	18	64.3	21	39.6	11	47.8	0	0.0
Headquarters country	5	17.9	15	28.3	4	17.4	34	79.1
Third country national	5	17.9	17	32.1	8	34.8	9	20.9
Total	28	100.0	53	100.0	23	100.0	43	100.0

**Source:** The authors.

Respondents were asked to indicate the nationality of the manager of the subsidiary. This was done to identify where the managers were from. Fifty managers were from KSA (34.0%) and 58 were from the headquarters country (39.5%). There were also 39 managers (26.5%) from another third country. Asian/Pacific had the highest number of managers from the headquarters country (79.1%) and no KSA nationals with only 9 from a third country (20.9%). North Americans firms employed KSA nationals ( $n = 18$ , 64.3%), Middle Eastern firms employed 11 KSA nationals (47.89%) and Europeans employed 21 KSA nationals (39.6%). Table 3 illustrates the nationality of managers by world region.

Expatriates play a variety of roles when working for subsidiary firms in KSA. The majority of expatriates fill positions for which there are no local personnel available ( $n = 50$ , 34.0%), indicating that trained and educated staff are not available in KSA. Expatriates also serve to ensure a homogeneous corporate culture throughout the company and subsidiary ( $n = 35$ , 23.8%), and work to transfer specific technical or managerial knowledge from the headquarters office. Fewer expatriates work to improve information and communication channels with headquarters ( $n = 18$ , 12.2%). It was interesting to note that only 16 of the respondents indicated expatriates were being trained for future positions at headquarters (10.9%). None of the Asian/Pacific firms were using expatriates in the subsidiary to train for future headquarters positions; however, eight of the Middle Eastern firms were using the subsidiary as training for future positions at headquarters (34.8%). Nineteen of the North American headquartered firms were using expatriates to fill positions where there were no local personnel ( $n = 19$ , 67.9%). Table 4 present the roles expatriates play in the subsidiary by world region.

**Table 4.** Comparison of Proportions of Expatriate Roles in KSA Subsidiaries

	Rest of World, $n$ (%)	Japan/Germany, $n$ (%)
Improving information and communication channels	18 (14.2)	0 (0.0)
Transferring technical or management knowledge	23 (18.1)	5 (25.0)
Ensuring a homogeneous corporate culture	25 (19.7)	10 (50.0)
Position filling	45 (35.4)	5 (25.0)
Training expatriate for future positions elsewhere	16 (12.6)	0 (0.0)

**Source:** The authors.

**Table 5.** Linear Regression of the Log of Size of Subsidiary on Control by Socialization

Model	Unstandardized Coefficients		Standardized Coefficients		
	$\beta$	Std Error	$\beta$	T	Sig.
(Constant)	2.756	0.394		6.995	0.001
Log of size of subsidiary	0.424*	0.125	0.272	3.404	0.001

Source: The authors.

Notes: Dependent variable: Control.INFO.  $R = 0.272$ ,  $R^2 = 0.074$ , adjusted  $R^2 = 0.068$ , model fit:  $F(1,145) = 11.59$ ,  $p < 0.001$ . Regression equation:  $y = 2.76 + 0.272x$ ; \*  $p < 0.001$ .

**Table 6.** Multivariate Results of Different Measures of Control on Size, Age, Parent and Manager Nationality

Independent Variables	Control Variables					
	Personal Centralized Controls	Bureaucratic Formalized Controls	Control by Socialization & Networks (OUT)			
Age	-0.98***	-0.98	2.07***			
<b>Parent nationality</b>						
Europe	7.96***	0.56	-2.90***	1.01	-2.65*	2.32***
Oriental	-1.61*	-4.00***	-5.48***	-8.47***	-9.94***	-1.48
Middle East	13.16***	5.60***	-1.49	31.15	4.61**	4.28
Australia	5.80***	1.53*	-0.12	-20.82	-3.89**	-1.82
<b>Manager nationality</b>						
Saudi nationals	9.30***	3.80***	4.74***	32.98	6.43***	8.64***
HQ country	7.16***	4.36***	3.64***	31.20	8.94***	3.59***
<b>Model fitting statistics</b>						
-2 log likelihood	235.81	338.17	291.60	146.85	160.72	190.20
$\chi^2$ (21 dof)	195.13 (0.00)	103.63 (0.00)	162.11 (0.00)	179.74 (0.00)	156.50 (0.00)	165.47 (0.00)
$R^2$ Cox and Snell	0.74	0.51	0.67	0.71	0.66	0.68

Source: The authors.

Notes: Details on variables.

1. The degree of personal surveillance that headquarters' managers execute towards this subsidiary.

2. The degree to which HQ uses expatriates to directly control subsidiary's operations.

3. The degree of standardization that headquarters requires from the subsidiary

4-7 are parent dummies: Europe, Oriental, Middle East and Australia.

8-11 are controls: employees in this subsidiary and parent as a group, number of expatriates, and the age of the subsidiary.

dof: degree of freedom.

\*\*\*indicates  $p < 0.01$ ; \*\* indicates  $p < 0.05$  and \* indicates  $p < 0.10$ .

As shown in the model in Table 5 and Table 6, the results of the regression indicated the predictor explained 7.4 per cent of the variance in subsidiary control by socialization and networks ( $R^2 = 0.074$ ,  $F[1, 145] = 11.59$ ,  $p < 0.001$ ). This result indicates that the level of subsidiary control by socialization and networks is only partly explained by the log of the proportion of expatriate managers. This means that other factors, not entered in this regression model, also play a role. It was found that the log of size of subsidiary had a significantly positive effect on increasing subsidiary control by socialization and networks ( $\beta = 0.272$ ,  $t = 3.40$ ,  $p < 0.001$ ). For everyone additional employee in a subsidiary, the level of control by socialization and networks increased by 0.424 points (based on the unstandardized regression coefficient). Inspection of the scatterplots indicated acceptable linearity and homoscedasticity.

## Conclusion

A subsidiary manager has a key role to play with regard to knowledge flows, and the subsequent communication of such information to relevant organizations and its implementation within the relevant subsidiary. Various actions can be adopted by managers so as to facilitate the achievement of organization-related aims and objectives, as well as the fulfilment of their job-related obligations. Therefore, companies tend to be cautious, especially when it comes to the recruitment of an international manager. The cost of recruiting a manager among other employees is another significant factor that MNCs take into consideration. The study found that the majority of managers were recruited from the country in which the headquarters was based, followed by managers being recruited from KSA, and least MNCs recruited from countries different from the home countries or KSA. Regionally, most North American MNCs hired the majority of KSA nationals as managers within their corporation, which therefore suggests the American strategy in choosing HCNs for their companies. They were followed by Middle East corporations (who might also follow American strategy), and finally Europe with least. In contrast, MNCs from Asia Pacific did not recruit managers from KSA. It was found that the nationality of managers that MNCs from Asia Pacific had the highest number of managers from headquarter countries, with approximately high percentage, followed by Europe. This result is understandable in the light of the culture of trust and bonding, which is much stronger within Oriental societies than among US or Anglo-Saxon societies, thus leading to greater autonomy, particularly in regard to short- and medium-term decision-making. The results, however, are not aligned with the findings of Jain and Tucker (1995), who report that power is more centralized in Japanese companies, with this same finding seen when considering the work of Zaheer (1995).

Perhaps one of the reasons that many multinationals prefer managers from headquarter countries is the fact that such managers understand the operations of the business best and would employ the same principles and strategies the mother company uses in order to gain competitive advantage in the foreign country. Managers from the countries in which subsidiaries are based may not be as effective as those from headquarter countries, thereby informing the decision of obtaining managers from the countries or regions in which the MNCs are based. On the other hand, it is important to ensure the confidence of customers or buyers from countries where the subsidiaries of the MNCs are based. This is another key in gaining a competitive advantage. One of the strategies centred on achieving such an objective is having a citizen of the country where the subsidiary is based since this will inspire buyer power in the region as most buyers or customers will have a sense of belonging—especially in countries like KSA. This result is understandable in the light of the culture of trust and bonding, which is much more apparent within Middle East culture. Therefore, it takes a lot of consideration to come up with a loyal manager that will lead the subsidiary of MNE located in a different country.

The role of expatriates has taken some important consideration in our study. It was found that expatriates have the responsibility of improving information and communication channels with headquarters, transferring specific technical or management knowledge from headquarters, ensuring a homogeneous corporate culture throughout the company, filling positions for which no local personnel is available and training the expatriate for future positions at headquarters. The study indicates that most MNCs from the four regions use expatriates for ensuring a homogeneous corporate culture throughout the company, and filling positions for which no local personnel is available. These are very significant to the success of MNCs, particularly with respect to gaining competitive advantage and maintaining global image and sustainability.

It has also been reported in the literature that often firms can also exercise controls by means of non-measurable cultural bindings, commonly referred to as control by informal and social means. In this regard, HQ can strategize to do so, such as by positioning a sizeable number of managers from home within the subsidiary. Our results show this to be true. It seems that their presence has positive and significant effects on most levels of INFO. Contrary to this, however, that the presence of a sizeable number of expatriates (as opposed to HQ managers) was found leads to greater autonomy in subsidiaries. These results provide us with insights into the fact that two opposing forces may be at play in subsidiaries: one exerted by managers from home country loyal in implementing the ways of the HQ, and the other exerted by the expatriates who, possibly as a result of being on fixed-term assignments, speak their minds and bond better with local employees, providing them with either an actual or perhaps imaginary sense of well-being and freedom.

HQ–subsidiary relationship is a fascinating area of research, and this is one of few studies of this nature conducted for the region of Middle East—and the only one for the country of Saudi Arabia. Whichever form of organizational structure an MNE parent chooses to adopt, it ultimately boils down to a command structure in which power is exercised in order to achieve an end goal of reduced agency costs and maintained competitive position vis-à-vis rivals, which is sine qua non for its long-term survival in the market. Our empirical work has proven some of the prepositions found in the literature and has also put to test various additional ones.

## Limitation and Further Research

Since we used a key-informant approach, our results are based on the opinions of a single respondent in each organization: a limitation this study shares with virtually all large-scale international studies. A solution to this problem might be to try and cooperate with key people within various organizations, asking them to distribute questionnaires and convince their colleagues to co-operate. This approach, however, is very time intensive and does not remove the risk of low response rates.

This study, as with most of the other studies in this field, only included the application of control mechanisms by headquarters towards their subsidiaries. As Forsgren and Holm (2010, p. 421) rightly indicate: ‘if we adopt the view of the international firm as a multi-centre structure, it is relevant to broaden the question of control beyond the issue of conflict between the subsidiary’s local adaptation and the top management’s overall integration’. The behaviour of a subsidiary can have an effect not only at the local level but also for the whole or part of the MNE to which it belongs. Therefore, control issues within an MNE should not only consider the design of various control systems by headquarters but should also pay attention to the control exercised by powerful subsidiaries. This question also relates to the importance of distinguishing various subsidiary roles and the effect these roles may have on the level and type of control exercised towards and by these subsidiaries. The fact that the multi-centre or

transnational firm is a rather new concept has led most researchers to focus on 'top-down' control. Future research could try to remedy this limitation and include 'bottom-up' or 'lateral' types of control. This is particularly important in further investigating the role of expatriates, since transfers from subsidiaries to headquarters, and from subsidiaries to other subsidiaries, are becoming more important.

Moreover, in spite of the fact that our study has a much larger geographical spread than previous studies, some areas have been neglected. Although MNEs from Japan, China and South Korea were included in the survey, our study did not include any other Asian MNEs (e.g., from Hong Kong, Singapore, Taiwan, Thailand and Malaysia). Malhotra et al. (2005) report that MNEs from developing countries in Asia show patterns that resemble Japanese firms concerning expatriation, control and structure. Since developments in this region have become increasingly important, including for the Western world, it would be worthwhile to include MNEs from other countries in this region in future studies.

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