

**THE REPRESENTATION OF EXPATRIATES IN THE
CORPORATE GOVERNANCE OF SUBSIDIARIES OF
MULTINATIONAL COMPANIES:
A STUDY FROM THE CZECH REPUBLIC***

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The issue of the representation of expatriates in the corporate governance of subsidiaries of multinational companies is currently a much debated and yet relatively under-researched topic within the academic community. In connection with the transformation of the economy which has taken place and the activity of multinational companies in CEE countries, there have been discussions about the effect of expatriates on the output and efficiency of the corporate governance of subsidiaries. The main aim of the research carried out was to describe and analyze the representation of expatriates in the exercise of corporate governance in subsidiaries of multinational companies operating in the Czech Republic (CR). The objective of the research was to survey the representation of expatriates in MNC subsidiaries with respect to various characteristics of the subsidiary such as the country where its head office is located (country of headquarters), the size of the subsidiary and the legal form. Using statistical analysis of dependencies, a different representation of expatriates in relation to the legal form of the MNC subsidiary was demonstrated. The size of the subsidiary, measured by the number of employees, also plays a role here. The presence of an expatriate was not demonstrated to have an effect on the financial performance of an MNC subsidiary.

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1. INTRODUCTION

The exercise of corporate governance in multinational companies in the post-transition period of many CEE countries has been the subject of discussions (Ovidiu-Nicuale and Pop, 2012; Roncevic et al., 2012) linked with the success of not only the subsidiary itself, but also the headquarters of the multinational company. The findings obtained to date from the transformation of the economy of the CEE countries (Filatotchev et al., 2001, 2003) points to the importance of corporate governance, both from the perspective of the transformation of centrally planned economies to market economies and the actual substance of the exercise of ownership and management rights (Hashi, 2003). In connection with the form of transformation carried out – privatization (sale to strategic foreign investors, buyouts by the local management, etc.) – it is apparent that the exercise of corporate governance can be linked with a different exercise of administration and management in organizations (Przybylowski et al., 2010), which may not correspond with the findings about corporate governance from the highly developed market environments (Wright et al., 2005).

Multinational companies (MNCs) have to deal with a whole range of problems, associated with the exercise of effective corporate governance at the level of the subsidiary of the multinational company (Král et al., 2012). Situations can very often be encountered in which the management also takes upon itself the function of monitoring (Boyd, 1994) linked with reporting to owners at MNC headquarters. This frequently results in the disruption of the control link between the owner and management (Monem, 2011). In a number of cases it also leads to a marked centralization, with the owner taking over all the activities associated with the administration and management of the company (Harris & Helfat, 1998), which has negative effects on the market potential in the host country. As some studies have indicated, in post-transition economies these phenomena can be influenced by the type of owner (Peng et al., 2010) or the composition of the administrative and executive bodies (Muller-Kahle & Lewellyn, 2011).

The current paper is based on the findings of an empirical survey carried out in the Czech Republic. Its preliminary results were made available to the international community in the conference proceedings (Pirožek, 2014). After a further and deeper analysis of the data from the empirical survey, this paper presents a much more thorough and complete view and results of the issue of expatriates in subsidiaries of multinational companies operating in the Czech

Republic. This should extend knowledge concerning the issue of international management in the context of CEE countries.

2. THEORETICAL BACKGROUND

The services of expatriates are used to ensure effective corporate governance at MNC subsidiaries. Expatriation is understood as sending employees from headquarters to an MNC subsidiary operating outside the country of headquarters (host country). The process of expatriation primarily relates to a worker being sent from headquarters into a managerial or administrative post with the aim of representing the head office at the MNC subsidiary (Collings et al., 2008). The expatriate is thus an employee performing work abroad, outside his own home country, in a daughter company which is a subsidiary of a multinational company (Štrach, 2009). MNC headquarters utilize the services of expatriates in the host country's subsidiary primarily in order to fulfill a supervisory and coordinating role including the transfer of knowledge across the whole MNC (Gooderham & Nordhaug, 2003). This is often associated with discussions about how the workers in the host country and the expatriates sent there will work together and what benefits can be expected (Bruning et al., 2012). The main functions of expatriates at the subsidiary include ensuring that posts are occupied at the subsidiary and the related managerial and general development of the organization (Edström & Galbraith, 1977). Among the most important of these functions is occupying posts in the initial phase of establishing the MNC subsidiary in the host country (Harzing, 2000), and in the course of time priority is given to managerial development (Adler & Bartholomew, 1992).

In order to ensure the expatriation of workers from headquarters to the MNC subsidiary, special programmes are created with respect to their adaptation which support the success of acceptance and work performance (Haslberger, 2005). This primarily derives from individual phases of the expatriation cycle, in which the most important can be identified as the phases of the selection of a worker, his training, departure, adaptation and performance of work, and return, linked with repatriation (Black and Mendenhall, 1991). In addition, the issue of expatriation is associated with an intercultural effect, which is a product of the difference between the country of headquarters and the host country of the MNC subsidiary (Black & Gregersen, 1991), which has an impact on the cross-cultural motivation of expatriates with a link to job performance (Chen et al., 2010). All of these findings are dealt with during the selection of suitable workers from headquarters who can be sent to the MNC subsidiary (Mendenhall & Oddou, 1985). In addition to the above, when

selecting a suitable expatriate it is also necessary to take into account a comprehensive view of the influences which affect international management of the MNC (Bonache et al., 2001) and the related role and performance of expatriates (Shay & Baack, 2004).

In view of the whole range of influences in operation, evaluating the success of expatriates (Benson and Pattie, 2009) and their work, not only for the subsidiary, but especially for MNC headquarters, is difficult and so far ambiguous (Hemmasi et al., 2010) without a specifically established universal procedure. From the perspective of the internationalization of the administrative and executive bodies, a number of studies have recently been conducted on this topical subject (Nielsen, 2010), the results of which have delivered ambiguous conclusions, both positive (Graffin et al., 2011) and negative (Mellahi & Collings, 2010). Within European countries a new research has been presented showing the effect of expatriates on the productivity of companies (Hamori & Koyuncu, 2011). With respect to these findings and the data received from an empirical investigation carried out on subsidiaries of multinational companies in the CR, we present the results obtained, which can deepen the knowledge of a hitherto under-researched area of the management of businesses which went through the transformation of the economy.

The aim of this article is to show the influence of expatriates on the corporate governance of MNC subsidiaries and determine the effects on financial performance linked with the representation of expatriates in MNC subsidiaries operating in the host country, based on the example of the CR. More specifically, in this article we will answer the following research questions.

RQ1: What is the representation of expatriates in MNC subsidiaries in relation to the country of headquarters?

RQ2: Does the representation of expatriates differ with regard to the size of the MNC subsidiary or its legal form?

RQ3: What posts do expatriates from headquarters occupy in the corporate governance of the MNC subsidiary?

RQ4: Does the presence of expatriates in the MNC subsidiary have an effect on its financial performance?

3. RESEARCH METHODOLOGY

The population comprised 2,509 subsidiaries of multinational companies which operate within the CR and fulfill the parameters of size (50 or more employees), legal form (joint-stock companies and limited companies) and origin of registered capital (registered capital is fully or partly composed of foreign capital). The subject of the research was a sample of 335 MNC subsidiaries drawn from the population by self-selection. In view of the primary function of the questionnaire survey, the research sample had the following parameters. The sample consisted of 335 MNC subsidiaries, which represents 13.35% of the initial population.

The size of subsidiaries according to the number of employees was as follows: from 50 to 99 employees 24.2%; from 100 to 249 employees 39.7% and more than 250 employees 36.1%. In terms of the legal form, the sample was made up of 20% joint-stock companies and 80% limited-liability companies. The representation of subsidiaries of multinational companies follows the structure of business sectors in the CR. The greatest representation was shown by manufacturing and companies representing wholesale and retail trade, with the proportion exceeding 10%. Both these two most prevalent sectors and the other sectors are represented in a proportion corresponding to the population and sample.

From the sectoral point of view, MNC subsidiaries were most prevalent in section C – manufacturing (59%), G – wholesale and retail trade, repair and maintenance of motor vehicles (13%), M – professional, scientific and technical activities (6%) and section J – information and communication activities (4%). A total of 82% of the observed MNC subsidiaries were included in these most significant sections of the sample. Within the set, subsidiaries with 100% foreign capital in the registered capital predominated (85.1% of MNC subsidiaries) over subsidiaries with a majority of foreign capital – more than 50% foreign capital in the registered capital (13.4% of MNC subsidiaries) and subsidiaries with a minority of foreign capital – less than 50% foreign capital in the registered capital (1.5% of MNC subsidiaries).

Financial performance was evaluated using the most frequently used indicators based on revenue and amount of assets (Šiška & Lízalová, 2011); specifically, return on assets (ROA) and growth of assets (GA) were used. In view of possible short-term influences on the indicators and due to the requirement for adequate explanatory power about the long-term situation of the company, a five-year arithmetical average of the chosen financial indicators was

used (Blažek et al., 2011). Since the aim was to determine the successfulness and related competitiveness of individual companies (Pokorná & Částek, 2013), they were divided into three groups. Group A represented companies with above-average financial performance, while groups B and C were represented by companies with below-average financial performance (Pokorná, 2012). The theoretical boundary between companies with above-average and below-average performance is formed by the product of the medians of the five-year averages of ROA and assets growth of all of the companies included in the sample (Blažek, 2011).

The information obtained was analyzed using statistical methods for categorical data. The results are presented in the form of contingency tables and an analysis of dependency was evaluated using Pearson's chi-squared test of independence. All of the analyses were performed in the statistical software R version 3.0.1 (R Core Team, 2014).

4. RESULTS

The results obtained point to some interesting facts regarding the utilization of workers from headquarters – expatriates – in subsidiaries of multinational companies. Empirical investigation demonstrated that a number of MNCs have a representative – expatriate – operating in their subsidiary in the Czech Republic. Specifically, this applied to 146 companies. In the remaining cases expatriates were not found in the subsidiary of the multinational company (186 companies) or there was no reply to the question about the existence of expatriates (3 companies). The number of subsidiaries with the active presence of expatriates which was established (44%) can be regarded as significant, and consequently the issue of expatriation plays a role in the management of MNC subsidiaries in the Czech Republic.

Table 1 summarizes the results of MNC subsidiaries where a country of headquarters occurred at least five times in the research sample. The breakdown of MNC headquarters presented here basically corresponds to the position of major investors in the Czech Republic's economy. Only Slovakia (6 subsidiaries) and Russia (1 subsidiary) do not have a representation which corresponds to their investment position. It is worth noting that all the MNC subsidiaries with headquarters in Japan confirmed the presence of an expatriate. An absolute majority was also given by subsidiaries of Italian (75.0%), Spanish (66.7%), French (60.0%) and American companies (55.6%). In contrast, the lowest representation was for Swedish (12.5%) and Belgian subsidiaries (25.0%).

Table 1. The number of expatriates in MNC subsidiary company according the country of origin (row percentages)

Country	Expat	No expat	Total
Germany	45 (40.9%)	65 (59.1%)	110
Netherlands	17 (38.6%)	27 (61.4%)	44
Austria	17 (44.7%)	21 (55.3%)	38
Great Britain	5 (35.7%)	9 (64.3%)	14
Luxembourg	5 (38.5%)	8 (61.5%)	13
Switzerland	4 (33.3%)	8 (66.7%)	12
Spain	8 (66.7%)	4 (33.3%)	12
Belgium	3 (25.0%)	9 (75.0%)	12
France	6 (60.0%)	4 (40.0%)	10
US	5 (55.6%)	4 (44.4%)	9
Japan	9 (100.0%)	0 (0.0%)	9
Sweden	1 (12.5%)	7 (87.5%)	8
Italy	6 (75.0%)	2 (25.0%)	8
Denmark	4 (50.0%)	4 (50.0%)	8
Slovakia	3 (50.0%)	3 (50.0%)	6
others	8 (42.1%)	11 (57.9%)	19
Total	146 (44.0%)	186 (56.0%)	332

Source: Research results.

In terms of the size of the multinational company's subsidiary, measured by the number of employees, the utilization of expatriates predominates in companies with more than 250 employees (52.5%). In companies with 50 to 99 and 100 to 249 employees, approximately 39% make use of expatriates.

The chi-squared test of independence narrowly failed to demonstrate dependence between the sending of expatriates to a subsidiary by headquarters and the size of that subsidiary ($p=0.063$).

Table 2. The number of expatriates in MNC subsidiary company according its size (column percentages)

Number of employees	50-99	100-249	250 and	Total
Expat	32 (39.0 %)	51 (39.2 %)	63 (52.5 %)	146 (44.0 %)
No expat	50 (61.0 %)	79 (60.8 %)	57 (47.5 %)	186 (56.0 %)
Total	82	130	120	332

Source: Research results.

The results of the empirical investigation also show that the most frequently utilized legal form of subsidiary of a multinational company is the limited-liability company, which is present in 80% of cases. From interviews with managers of subsidiaries of multinational companies it was determined that the legal form of a limited company was chosen because of the time flexibility in setting it up and due to lower costs. The staffing of statutory bodies does not represent a very significant issue in relation to the choice of legal form and the representation of expatriates in an MNC subsidiary. Nevertheless, in some cases, in view of the size and importance of the activities carried out, a standard form linked with more effective corporate governance was chosen in the form of a joint-stock company.

The presence of expatriates in subsidiaries differs in a statistically significant way with regard to their legal form ($p=0.038$). In joint-stock companies an expatriate is found in an absolute majority, while in limited-liability companies the reverse is true (Table 3).

Table 3. The number of expatriates in MNC subsidiary company according its legal form (row percentages)

Legal form	Expat	No expat	Total
Join stock company	37 (56.1%)	29 (43.9%)	66
Limited liability company	109 (41.0%)	157 (59.0%)	266
Total	146 (44.0%)	186 (56.0%)	332

Source: Research results.

Regarding the legal form of MNC subsidiaries, the representation of expatriates in various posts and bodies was investigated. Table 4 shows that the

office of an expatriate is linked with top management of the subsidiary and is utilized in the posts of members of supervisory boards, of the board of directors (over 70%) in a joint-stock company and an executive director (65.1%) in the case of limited-liability companies, or appointment as the director or manager of a business unit of the MNC subsidiary. In many cases expatriates were present in more than one post at the MNC subsidiary. A somewhat surprising finding is the significant representation in the posts of managers of business units (for both types of company 43.8%, for limited-liability companies as high as 48.6%). The explanation as to why even these posts outside the administrative and executive bodies are occupied may be connected to the transfer of knowledge in relation to the output achieved in the MNC subsidiary.

Table 4. Representation of expatriates in MNC subsidiaries according to the legal form

Legal form	Supervisory Board	Board of Directors	Managing Director	Company Director	Head of Units
Join stock (37)	29 (78.4%)	26 (70.3%)	4 (10.8%)	11 (29.7%)	11 (29.7%)
Limited liability (109)	9 (8.3%)	5 (4.6%)	71 (65.1%)	26 (23.9%)	53 (48.6%)
Total (146)	38 (26.0%)	31 (21.2%)	75 (51.4%)	37 (25.3%)	64 (43.8%)

Source: Research results.

The financial performance of MNC subsidiaries, examined in terms of the individual groups, was carried out on a set of companies which provided economic results (266 out of 332 studied). Of these, 117 subsidiaries (44%) reported the presence of expatriates and in the remaining 149 subsidiaries (56%) the position of expatriate was not present. A comparison of the level of financial performance (A, B, C) with regard to the existence or non-existence of expatriates in the subsidiary is given in Table 5.

Table 5. Financial performance versus expatriates (row percentages)

Cluster	A	B	C	Total
Expat	41 (35.0%)	31 (26.5%)	45 (38.5%)	117
No expat	62 (41.6%)	38 (25.5%)	49 (32.9%)	149
Total	103 (38.7%)	69 (25.9%)	94 (35.3%)	266

Source: Research results.

From the relative frequencies presented, it follows that in the case of MNC subsidiaries in which expatriates are present subsidiaries with below-average financial performance predominate (cluster C) compared to MNC subsidiaries without expatriates (a difference of 5.6%). In the case of subsidiaries where expatriates are not present, most frequent in relative terms are companies with above-average financial performance (cluster A). The representation of subsidiaries in cluster B is similar with both types. The result of the statistical test indicates ($p=0.514$) that there is no significant effect on economic results from the representation of expatriates in an MNC subsidiary. At this point it should be stated that this may also be due to the MNC headquarters' policy with regard to the creation and reporting of profit (Bistrova & Lace, 2012) or tax operations throughout the MNC.

5. CONCLUSIONS

From all the sub-sets of results it emerges that expatriation is significantly represented in MNC subsidiaries operating within the CR. In the majority of cases, expatriation is not connected with the specific country of headquarters: it occurs in all MNCs which contribute significantly to foreign investment in the CR. The only exception are MNC subsidiaries with headquarters in Japan, where the presence of an expatriate from the Japanese head office at the subsidiary in the host country, in this case the CR, is confirmed in all the subsidiaries included in the research. This fact can be explained by the attempt of Japanese MNCs to transfer sophisticated knowledge, which cannot be done without the active involvement of expatriates from headquarters at the subsidiary (Oki, 2013).

Similarly, it is also apparent that the utilization of expatriates is linked with the size of the MNC subsidiary, measured by the number of employees. It can be assumed that with growing size the utilization of expatriates in the MNC subsidiary increases. Empirical investigation demonstrated a different representation of expatriates in the MNC subsidiary in relation to its legal form. The work of expatriates is utilized more by the legal form of the joint-stock company. In the legal system of the CR (adopted from German business law) this legal form allows for flexible changes in the transfer or sale of MNC subsidiaries. However, a major drawback of this legal form, as opposed to the limited-liability company, are the greater administrative demands. The significant result obtained may also be related to the fact that joint-stock companies tend to be larger (measured by the number of employees) than limited-liability companies. A closer examination of the administrative and executive bodies reveals that in MNC subsidiaries in the host country, MNC

headquarters fill both the administrative (supervisory board) and at the same time executive (executive director or board of directors; director) bodies of the chosen legal form of the MNC subsidiary. Surprisingly, positions lower in the hierarchy, which are primarily related to specialist activities, are also occupied by expatriates. From the ownership structure, it emerges quite clearly that the MNC headquarters establish subsidiaries in a host country primarily with a 100% ownership stake. Lesser property interests are the exception.

The financial performance of subsidiaries is not directly affected by the expatriate's performance of work. The results obtained do not explicitly demonstrate this due to the complexity of this issue, which corresponds with the results attained using the example of German companies (Schmid & Dauth, 2014). When comparing subsidiaries in which expatriates are not present, better financial performance does not occur, even though in this case there are more financially high-performing MNC subsidiaries according to the frequency of occurrence. This is mainly due to the MNC head office's centralized policy of managing costs and tax operations, which applies to all subsidiaries. From direct interviews with managers of MNC subsidiaries it emerged that the economic results and tax operations are adapted to the requirements of headquarters and in this respect have limited explanatory power. Nevertheless, in the case of subsidiaries in which expatriates are not present and which are run only by managers from the host country, there is a greater tendency for the subsidiary in the host country to achieve better economic results and a corresponding tax liability. In contrast to MNC subsidiaries where expatriates are present, emphasis is placed on reporting far more accurate financial results (McNulty & De Cieri, 2013).

The results presented here yield some new and interesting findings from the area of expatriation in MNC subsidiaries. Despite the possible limitations of the research (the set of businesses investigated, the number of respondents, the method of managing costs and taxation in the host country, etc.) there are results here which deserve closer scrutiny. In further research it would be possible to focus closer attention on causality, yielding new knowledge in the area of expatriation (McEvoy & Buller, 2013; Lin et al., 2012) with countries in the post-transition phase of the market economy using the example of a specific country. This is also connected with a deeper understanding of the mutual link between the MNC headquarters and their branches in host countries which are in the post-transition phase of the market system.

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**SUDJELOVANJE DISLOCIRANIH DOMAĆIH MENADŽERA U
KORPORACIJSKOM UPRAVLJANJU PODRUŽNICA MEĐUNARODNIH
PODUZEĆA: ISTRAŽIVANJE U ČEŠKOJ REPUBLICI**

Sažetak

O pitanju sudjelovanja dislociranih domaćih menadžera u korporacijskom upravljanju podružnicama međunarodnih poduzeća se trenutno mnogo raspravlja, ali ono i dalje nije dovoljno istraženo. U svezi s transformacijom gospodarstva i aktivnosti multinacionalnih korporacija u zemljama centralne i istočne Europe, diskutira se o djelovanju ovih menadžera na učinak i efikasnost korporacijskog upravljanja podružnica. Glavni je cilj ovog rada opisati i analizirati sudjelovanje dislociranih domaćih menadžera u korporacijskom upravljanju podružnica međunarodnih poduzeća u Češkoj Republici. Pritom je provedena anketa predstavnika navedenih menadžera u podružnicama međunarodnih poduzeća, s obzirom na različite karakteristike podružnice, kao što su: zemlja u kojoj je locirana centrala poduzeća, veličina i pravni oblik podružnice. Koristeći statističku analizu ovisnosti, pokazano je da postoji povezanost sudjelovanja dislociranih domaćih menadžera, s obzirom na pravni oblik podružnice poduzeća, kao i njenu veličinu (mjerenu brojem zaposlenika). Prisutnost dislociranih menadžera, pak, nije povezana s financijskim performansama podružnice međunarodnog poduzeća.

