

Critical Assess the Use of an Ethnocentric Approach to Appointment of Leadership Roles in Multinational Foreign Subsidiary

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Abstract: This study critically examines the ethnocentric approach to appointing leadership roles in multinational corporations' (MNCs) foreign subsidiaries. Rooted in international human resource management (IHRM), the ethnocentric approach emphasizes appointing parent country nationals (PCNs) to ensure alignment with corporate culture, strategy, and objectives. While this method facilitates knowledge transfer, global efficiency, and cultural coherence, it poses significant challenges, including cultural conflicts, high costs, and local employee dissatisfaction. Using theoretical analysis and a case study of Japanese MNCs operating in China, the paper highlights the implications of over-reliance on ethnocentrism, including resistance to dynamic market environments and turnover of host country nationals (HCNs). The study suggests a mixed staffing approach, combining ethnocentric, polycentric, and geocentric strategies to balance control, local adaptation, and innovation. The findings provide creative insights for maximizing leadership to enhance both subsidiary performance and global integration.

Keywords: International Staffing Policy, Ethnocentric Approach, MNC, International Human Resource Management

1. Introduction

In the context of globalization, an increasing number of organizations are exploring their multinational business. The expansion presents significant challenges for entering foreign markets. Therefore, international human resource management becomes more important in nowadays. It is likely to be critical to corporations' success, and effective IHRM can decide the survive of international firms [1]. As organizations become globalized, the use of expatriates is an emerged topic, which is closely related to international staffing. International staffing includes selection and recruitment for qualified employees, and expatriate them to foreign subsidiaries. In general, international staffing is characterized by three approaches: ethnocentric, polycentric, geocentric.

This paper mainly focuses on ethnocentric approach, which related to appoint different leadership roles in organizations to parent country nations [2]. Previous researches argue that PCNs play a crucial role in controlling and knowledge transferring. For example, senior manager from parent country could ensure that foreign subsidiaries align with same strategies and objectives of parent company, as local employees can better understand vision statement, values, and strategic orientation of the parent firms [3].

Therefore, it will also critically evaluate the ethnocentric approach, analyzing both its advantages and challenges in appointing PCNs to leadership roles within multinational corporations. Although ethnocentric approach provides many superiority during developing foreign subsidiaries, it presents some challenges. It will also demonstrate recommendations for optimizing international staffing policies based on the analysis.

2. Critical analytics of ethnocentric approach to appoint leadership

Throughout the research of international staffing policy, ethnocentric approach is always a controversial aspect. In this part, this paper will analyze its advantage and disadvantage base on theory and existing research.

2.1. Culture and value control from parent headquarters, to unify global objective

From the perspective of traditional headquarters, expatriate managers of parent country always can provide more culture control [4]. Compare with HCN or TCN, they can create an information network which embedded with corporate culture. PCN leaders could establish an information network embedded with corporate culture, because they could learn the functional behaviour with corporate goals easier than others [5].

For PCN managers, they aim to to represent the interest of parent headquarters, augment the communication channel, and act as interpreters between parent company and foreign subsidiaries. [6]. Within this control, parent country managers could reinforce the corporate culture or value, and also practice in subsidiaries' operation. This emphasis on PCN managers is originate from "administrative heritage" and "ethnocentrism in headquarters" organizational culture [4]. Within this framework, corporate expects and requires employees to internalize organizational value, and adopt or cherish in their own way. For PCN leadership, they are trustworthy for parent company, also they fully understand the corporate culture and value, and it is easier to keep the alignment of value and culture across parent organizations and foreign subsidiaries. Therefore, it has been assumed that parent country mangers were the most appropriate to implement value and culture control for traditional MNCs, because they could disseminate company's culture and value system through embedded personal behaviour [4]. Although the PCN leaders do not control directly, but the shared value from parent organizations act as a control approach that make foreign subsidiaries to fit with local marketing environment, and also ensure the alignment about global objectives and operations [6].

2.2. Knowledge Transfer, to improve the competitive advantage for MNCs

Knowledge exists in all aspects and functions of organizations, it is the basis for creating competitive advantage that enable corporates to against with other firms [7]. Also, knowledge is the foundation of the corporates be international, to compensate unfamiliar with local culture and environment of local industry for foreign subsidiaries. PCN managers are the mechanism to conduct knowledge between parent corporates and foreign subsidiaries, which is helpful for both sides. PCN managers can implement direct knowledge transfer by sharing parent corporates knowledge, and also can transfer the knowledge they learned in the host country [8]. PCN managers always act as a role of transferring implicit knowledge. Compare with the explicit knowledge like standardized operation process and technical knowledge, implicit knowledge is more abstract, and can not be contained in information technology, such as email, organizational report and telephone [6]. Therefore, the tacit knowledge only can be observed through the application, like the ability to launch the new products. To transfer implicit knowledge between parent corporates and foreign subsidiaries, they always will expatriate PCNs to foreign operation. In other words, PCN managers

are the foundation of knowledge transferring [6]. Through knowledge transferring, global corporates have opportunity to learn new culture, ideas and experience, which is significant to create new knowledge and develop new competitive advantages [9].

2.3. Better integration coordination and monitoring, to pursue global efficiency

To integrate and coordinate business of foreign subsidiaries effectively, MNCs always need to keep higher level of control from headquarters. In this environment, MNCs always have to implement a competitive strategy called “global chess”, it is for corporates that manage their global subsidiaries and operations as interdependent components [10]. For this situation, MCNs hope all foreign subsidiaries can operate just like agents of headquarters and extensions of parent corporates.

Therefore, PCN managers will be a mechanism to enhance parent corporates coordination. It seems like PCN managers have a better comprehension of corporate goals, accept instruction from parent corporates, and endeavor to achieve them [10]. Furthermore, when PCN align the subsidiaries with parent goals and actions, they not only provide efficient coordination, but also monitoring of the operation of subsidiaries. When subsidiaries act as an agent of parent corporates, agency theory suggests that monitoring from headquarters may lead to the increase of agent behaviour, then cause the better efficiency of the global objectives. The supervision can reduce the risk of foreign subsidiaries’ behaviour that is not align with principle of parent corporates [11]. The validity supervision can avoid the deviation of subsidiaries’ behaviour, and achieve the global objectives efficiently.

2.4. Diversity and complexity of choosing PCN leadership with different level

The complexity of selecting PCNs for these different leadership roles is attributed to different skills of requirement. As mentioned above, coordination and knowledge transferring are both advantages of ethnocentric approach, to align the corporate value, operation and global strategy. However, these strategic aspect of leadership are always implemented by senior managers, the function requirement for other levels of leadership roles is different.

Compare to senior manager, line managers need more profound understanding of local culture, as they need communicate with local consumers or host country employees directly, the lack of host country experience may impede their efficiency. To explain it in detail, host country experience provide PCN line managers more local insights, they have to learn these experience through managing foreign subsidiaries’ team, or they will face serious obstacle on building relations with local employees or consumers, as well as recruiting of local staff [11]. This gap can referred to culture distance, which may impede and complicate not only personal relationship, but also cause negative impact on strategy decision-making [11]. The deficiency may affect operation efficiency and performance of teams negatively. Without the insights of host countries, PCN line managers may struggle to manage local employees in the team or understand consumers’ preference. Therefore, ethnocentric approach is lack of flexibility of selecting different level of leadership roles with various skills or experience requirement.

2.5. An increase of turnover intention

According to the research, job satisfaction and treatment of leaders are two important factors influencing the turnover intention, particular in the context of ethnocentric approach [12]. In common, ethnocentric approach reflects a sense of superiority: attitudes and management of parent corporates are superior than host countries. This sense of superiority cause the unfair treatment to HCN, especially in terms of deficiency of vertical mobility in the aspect of host country employees’ career promotion, their job development is always restricted to lower management positions, but not

the senior position like strategic role. The inequity of ethnocentric approach reflects that a lot of PCN managers impede the promotion of local employees, and create obvious disparity in income and status, may lead to dissatisfaction of their job cause and lack of focus on promoting the best employees to the best positions.

These unfair treatment reveals that headquarters or PCN senior managers do not value the host country employees, and not care about their well-being, as well as lower their expectation about they will not be treat fairly during their tenure [13]. Ultimately, this approach leads to the high turnover rate which not only disrupt the operation of foreign subsidiaries, but also lose host country's expertise for subsidiaries' success.

3. Analytics between two countries

This part will focus on Japanese MNCs operating in China. According to the research, Japanese MNCs are well-known for its expatriate management in foreign subsidiaries. While these corporates already get success in internalization of production and operation, they face challenge in internalization of management. Expatriates may involve both PCN managers and TCN managers, but most of the Japanese corporates continue to use ethnocentric approach that PCN managers always occupy senior positions in the company [14]. Despite the evolving of international staffing, the ethnocentric approach still remains ineradicable in Japanese corporate practices, posing challenges in markets like China.

Japanese MNCs have high reliance on expatriate control, they usually takes PCN managers as substitutions of personal supervision from headquarters, rather than corporate culture or value through personal behaviour, and socialization or networking. According to the Hofstede's culture dimension, Japan ranks high score of uncertainty avoidance, which prompt Japan MNCs to use PCN, who understand companies' objectives and culture, to manage the foreign subsidiaries to elude any unpredictable issues. This high centralized approach is successful to transfer the mature and complex organizational system and working method from headquarters to subsidiaries.

For positive effect, this approach is consistent with the global efficiency, to integrate and facilitate higher effectiveness of production system, which cause the better performance. According to the research, most of the Japanese companies which focus on manufacturing, production and exporting get profit, and 30 percent of them get at least 9 percent of operation profit. With the mature production technology and financing system, ethnocentric approach is effective to control and coordinate their Chinese subsidiaries, as these kinds of corporates usually operate repetitive and task-oriented business, and does not require flexible strategy and marketing environment aspect, and has less exposure to the dynamic Chinese market. Therefore, to integrate and transfer the management system by ethnocentric approach is profitable and suitable for these kinds of corporates in Japan.

However, these strong dependency of ethnocentric approach causes serious problem. Reflecting by previous literature, Chinese employees always have to follow the instruction from headquarters or PCN managers from Japan, and they would not seek opinions from Chinese employees. The tendency of Japanese MNC is dichotomous, and less motivation to make collaborative decision-making between Chinese and Japanese. The strict top-down structure of Japanese MNCs provide an efficient command chain, and it is task-oriented to achieve the objectives [15]. However, in the Chinese market environment, Japanese MNCs could not predict the shifting market demand without suggestion from local employees who is familiar with situation, the unilateral of information transferring will cause negative effect of their performance. Compare with the higher uncertainty avoidance of Japanese, China has a low uncertainty avoidance that better-adapted in the dynamic and unpredictable marketing environment. Even so, Japanese corporate still do not provide the autonomy of Chinese employees to provide information to their superior managers.

4. Recommendation

For ethnocentric approach, it faces many challenges in multinational business. Therefore, taking polycentric and geocentric approach should be considered. In terms of polycentric approach, HCN employees are familiar with the culture, working style and local market environment in the host country, and they have ability to achieve the localization of the foreign subsidiaries [16]. Their better understanding of host-country environment could help PCN managers to learn local culture, marketing environment, and local consumers' preference.

If the HCN employees were accepted by PCN managers and headquarters, the organizational identification of local employees will tend to strengthen, and reinforce the relationship between PCN and HCN [17]. Furthermore, HCN employees always provide cross-culture knowledge and diverse perspective to formulate the strategy decision-making for PCN managers. In exchange, they could get clear mentoring and career development support from PCN and headquarter [18].

Moreover, as personal career development is often viewed as a significant reward, it could lead to better corporate performance and commitment from HCN. This approach help to reduce the turnover rate to secure the loyalty of qualified HCN employees. The identification for the headquarters also promote HCN to internalize value and culture of headquarters, and endeavor to achieve the shared objectives of organization [19].

In the aspect of geocentric approach, many researchers consider that geocentric approach is the most appropriate way for MNC to manage the foreign subsidiaries due to the growing internationalization. Typically, the MNCs always use ethnocentric approach in the star-up process, and shift to the polycentric approach, and finally evolve to the geocentric approach [20]. During the process of internationalization, MNCs need to foster the managers with international experience, because they always can aware of the deficiency of ethnocentric approach, such as high failure rate, high cost of expatriation, and increase the turnover rate [20]. To avoid these issues, experienced managers always adopt the qualification-oriented method, focus on the ability and skills rather than their national origin.

Although ethnocentric approach has a lot of deficiencies, it is not sensible to cancel this approach entirely. To better develop the international business, it is important to balance these three international staffing policies. In the start-up stage of the foreign subsidiaries, PCN managers can provide control and coordination from the headquarters. Especially for technology or production corporates, they need to transfer and protect their mature technological knowledge, so the PCN will be a good choice, this staffing policy can be proved in previous case studies about Japan [20]. Therefore, ethnocentric approach ensures that corporate values, strategies and objectives were established accurately in foreign subsidiaries.

As a whole, balancing the different approach is important for implementing international staffing policy. In international human resource, headquarters should focus on the advantages and challenges for each policies, and mix them to contribute to better performance of foreign subsidiaries.

5. Conclusion

In conclusion, this essay critical evaluate both advantages and disadvantages of ethnocentric approach in the MNCs. During the process of developing foreign subsidiaries, it always can help HCN employees to internalize corporate value and cultures, to unify the purpose. Additionally, PCN leaders can promote competitive advantages by knowledge transferring, and also integrate and monitor the operation of subsidiaries, to keep the efficiency.

However, limitations of ethnocentric approach are obvious as the developing of the internationalization, such as the consideration of different level leadership roles as expatriation,

financial cost and resource for PCN expatriation, and high turnover rate caused by Japanese MNCs' unfair treatment in China. Also, ethnocentric approach reveal its inflexibility and unsustainable, especially in the dynamic and shifting environment like China.

To solve these issues, this research provide a recommendation for MNCs that adopt a mixed international staffing policy that integrate ethnocentric, polycentric and geocentric approach together.

Ultimately, this essay response to the using of ethnocentric approach to appoint leadership roles in foreign subsidiaries, and apply these analysis to the case studies about Japan MCNs entering China. With the combination of different international staffing policy, MNCs could improve their performance and efficiency in both host countries and global aspect.

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