Subsidiary Control in Japanese, German and US Multinational Corporations: Direct Control from Headquarters versus Indirect Control through Expatriation

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Version April 2013

Accepted for Asian Business and Management

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Abstract

This study examines to which degree Japanese, German and US multinational corporations (MNCs) use two different subsidiary control mechanisms: direct control through headquarters and indirect control through staffing key positions in subsidiary management with expatriates. Based on data from 617 subsidiaries, we found that US MNCs focus more on the former, whereas Japanese MNCs rely primarily on the latter. German MNCs take a middle position. Furthermore, we found across all three countries more technical management functions to be tighter controlled than more culturally sensitive areas. The reliance of Japanese MNCs on subsidiary control through expatriates suggests that these corporations have a particularly acute need to invest in global talent management systems.

Keywords: global staffing, subsidiary, control, multinational corporations, Japan, Germany, USA

Introduction

To succeed in today's increasingly competitive environment, multinational corporations (MNCs) need to be sensitive to local circumstances, while at the same time aligning their subsidiaries' activities with their strategic goals. Given that control is of paramount importance for the implementation of an MNC's global strategy (Mukherji *et al*, 2008), it represents "the central issue" of headquarters-subsidiary relationships (Birkinshaw and Morrison, 1995:736). Two main kinds of subsidiary control can be distinguished: headquarters (HQ) may either directly influence their foreign operations by centrally controlling subsidiary activities or exert more indirect control through staffing key subsidiary positions with expatriates. Whereas the former option should guarantee the subsidiary's compliance with corporate strategy, it is not always possible to implement it in full. If this is the case, an MNC uses global staffing, particularly in the form of expatriation, as the primary means to coordinate and control its spatially dispersed operations (Collings and Scullion, 2012). Decisions about the staffing mix of local employees, parent-country and third-country nationals in senior subsidiary management influence an MNC's control of subsidiary operations and hence represent an important element of an MNC's strategic choices (Bruning *et al*, 2011).

To ensure that key subsidiary positions can be filled with suitable foreign assignees, MNCs need to implement a global talent management system in line with their strategic goals. Defined as a multinational's "approaches to recruit, retain, develop and motivate a competent cohort of managerial talent with appropriate international experience in the global business environment" (Collings and Scullion, 2007:222), global talent management has "emerged as one of the key strategic issues facing managers in the twenty-first century" (Mellahi and Collings, 2010:143). Consequently, effective global talent management constitutes a key prerequisite for the successful implementation of an MNC's global strategy (Collings and Scullion, 2007).

Given the importance of subsidiary control, global staffing and talent management for the implementation of MNC strategies, it is important to gain an encompassing understanding of these closely related issues and to explore how companies from different national backgrounds deal with this complex bundle of challenges. Comparative studies have suggested that there are major differences between Asian, European and North American firms with regard to subsidiary control (Almond and Ferner, 2006) and global staffing practices (Peterson *et al*, 2000; Tungli and Peiperl, 2009). To gain a deeper understanding of the preferred kinds of subsidiary control and the related staffing needs of MNCs from these three regions, this study examines which subsidiary control practices are implemented across MNCs from Japan, Germany and the USA. We selected these three countries, as they constitute the three largest developed economies in the world as well as of Asia, Europe and North America, respectively. Choosing only developed economies with a large number of mature and well-established MNCs provided for similar challenges in terms of subsidiary control. In addition, limiting the analysis to large developed economies as MNC home and host bases allowed for similar cost structures in expatriation and thereby ensured comparability across countries. Furthermore, Japan, Germany and the USA are generally associated with distinctly different management systems (Pudelko, 2006; Pudelko and Mendenhall, 2009) and have already been subject to empirical analysis, providing reference points for this study. However, results have so far been mixed and partly contradictory, suggesting the need for a comprehensive comparative survey. To the extent that our study reveals distinctly different (similar) subsidiary control regimes, the need for context-specific approaches (the possibility to define global 'best practices') regarding global staffing and talent management becomes evident.

Furthermore, we believe that to obtain a more complete and nuanced picture of subsidiary control, we need to go beyond the 'overall' subsidiary level and break subsidiary control down to the level of individual management functions. Consequently, our investigation will distinguish the degree to which different management functions are subject to either direct HQ control or indirect expatriate control. We believe that such a differentiation provides a finer-grained picture of subsidiary control than has been previously established.

This study employs a very carefully matched design in which subsidiaries of MNCs from Japan, Germany and the USA are investigated in each of the other two respective countries. This balanced and controlled sample, that covers all six home-host combinations, allows us to examine the extent to which Japanese, German and US MNCs employ different combinations of direct and indirect subsidiary control in much more detail than in previous studies.

Theoretical context

Different kinds of subsidiary control in Japanese, German and US MNCs

Different scholars have described subsidiary control in many different ways. Child (1973:117), for example, defined it as "regulating the activities within an organization so that they are in accord with the expectations established in policies, plans and targets", whereas Wilkinson *et al* (2008:93) conceptualized it as "the process through which a parent company's interests are protected" (for an overview see Martinez and Jarillo, 1991). Gupta and Govindarajan (1991) assessed that virtually all research on strategic control within MNCs focused on macro differences in control systems across entire MNCs. In particular, many comparative studies have focused on the question of *where* decisions are taken (at HQ or subsidiary level), largely ignoring the more specific but equally relevant question of *who* makes decisions at the subsidiary level (expatriate or local managers). As a consequence, previous studies have largely neglected the important link between MNCs' subsidiary control regimes and their related global staffing needs. To find out *where* decisions are taken, this study investigates direct (or hierarchical) control; in addition, we investigate *who* takes decisions by studying indirect (or cultural) control across Japanese, German and US MNCs.

Direct control should, in principle, guarantee that foreign subsidiaries follow in their activities the objectives set by HQ. However, in the international context it is often difficult to exert direct control because of cultural and institutional differences between home and host country (Ghoshal and Bartlett, 1990). In addition, foreign subsidiaries might possess specific knowledge advantages of the local context which would make an overly direct influence by HQ unwarranted (Doz and Prahalad, 1981).

In contrast, indirect control, which is less about affecting specific managerial decisions at subsidiary level and more about influencing the organizational culture of the subsidiary, functions more unobtrusively (Hedlund, 1986). To the extent that employees are socialized with a similar perspective, one can expect them to make similar decisions in similar circumstances (Boyacigiller, 1990). MNCs often implement this type of control by means of global staffing, using a cadre of expatriates loyal to HQ, who can help introduce HQ culture to the subsidiary, socialize local employees into the corporate culture and thereby control the subsidiary's operations (Colakoglu, 2012). This form of control, which aligns the subsidiary with corporate culture, can in principle be exerted by expatriates at all hierarchical levels. Expatriates in high subsidiary positions, however, can align the subsidiary with the parent’s goals and strategies in the most straightforward way, due to their hierarchical standing. Through cultural control, expatriates from the parent country can assist in resolving the principal-agent problem by aligning the subsidiary (agent) with the goals and objectives of HQ (the principal) (O’Donnell, 2000). Edström and Galbraith (1977) therefore identified coordination and control of foreign subsidiaries as one of the key reasons for international assignments.

Direct and indirect subsidiary control mechanisms are not mutually exclusive, but usually co-exist in MNCs, though to varying degrees (Colakoglu, 2012). The dichotomy between these two kinds of control is further confounded by Barlett and Ghoshal’s (1989) observation that the HQ's country of origin is of significant relevance in determining subsidiary control. Based on these considerations, the first research question is as follows:

RQ1: To what extent do Japanese, US and German MNCs employ different combinations of direct (hierarchical) and indirect (cultural) control mechanisms in order to control their subsidiaries?

According to Harzing (2001:143), subsidiary control is particularly important for companies based in a national culture that scores high on uncertainty avoidance, since these cultures exhibit “a strong preference for being ‘in control’”. In Hofstede’s (2001) ranking of 53 countries and regions, Japan scored 7th-highest on uncertainty avoidance (92 points out of 100). Moreover, the literature generally characterizes Japanese MNCs as placing more emphasis on global integration around home-country practices than local responsiveness (Bartlett and Ghoshal, 1989). This suggests that Japanese MNCs should rank highly for both direct and indirect control. The fact that Germany and the USA score much lower on uncertainty avoidance (65 and 46 points, respectively) (Hofstede, 2001) indicates that MNCs from both countries should employ these control mechanisms to a lower extent.

Other sources, however, depict a more differentiated picture. Already in the 1980s, Baliga and Jaeger (1984) argued that Japanese firms use more cultural control mechanisms, whereas US companies employ more hierarchical control. In line with this, Japanese organizations have consistently been identified as the most likely to staff key positions in subsidiaries with parent-country nationals (Tung, 1982; Peterson *et al*, 2000). Kopp (1994) and Harzing (2001) found that subsidiaries of Japanese MNCs are significantly more under expatriate control than, for example, those of German and US multinationals. A study by Bruning *et al* (2011) revealed that Japanese managers see higher value in the expatriate function of aligning subsidiaries with HQ goals than German managers. Similarly, Tungli and Peiperl (2009) found that Japanese MNCs rated coordination with HQ and control of subsidiary operations among the most important functions of expatriates. Previous studies (Belderbos and Heijltjes, 2005; Gaur *et al*, 2007) have also shown that Japanese MNCs have a much higher tendency to employ parent-country nationals as managing directors than multinationals from Europe or the USA.

Although the literature largely agrees that the Japanese approach to subsidiary control and staffing is quite specific, the differences in the use of expatriates between Western countries must not be neglected. In this context, US MNCs can be perceived to be positioned at one end of a continuum, employing lower percentages of expatriates in subsidiaries than European MNCs. With their strong reliance on expatriate staffing, Japanese multinationals represent the other end of the continuum (Tung, 1982; Collings and Scullion, 2012).

To provide a differentiated picture of national differences in subsidiary control, we compare the use of direct and indirect control mechanisms in Japanese, German and US MNCs. Based on the above studies, we formulated the following hypotheses:

H1: *Direct* control exerted by headquarters on subsidiaries will be lowest in Japanese MNCs, higher in German MNCs, and highest in US MNCs.

H2: *Indirect* control exerted by headquarters on subsidiaries will be highest in Japanese MNCs, lower in German MNCs, and lowest in US MNCs.

Different degrees of control for different management functions

This study agrees with Gupta and Govindarajan's (1991) critical observation that virtually all research on strategic control within MNCs focuses on macro differences in control systems across entire MNCs. This is surprising, given that Harzing (2001) observed that expatriate presence differs between subsidiary management functions, suggesting functional differences in indirect control. Accordingly, our study intends to provide a more detailed analysis of subsidiary control by separately investigating the control mechanisms of major management functions within the overall subsidiary management. This allows us to obtain a much more detailed picture of subsidiary control and ensuing global staffing needs than previous studies have been able to provide. Consequently, the following research question is asked:

> RQ2: Do the HQs of Japanese, US and German MNCs exert different degrees of control for different management functions?

Broadly speaking, it is supposed that more technical management functions will be under both – more direct control exerted by HQ and indirect control exerted by expatriates – whereas more human-centred management areas will be under less direct and indirect control. We base these suggestions on the assumption that the former (latter) management areas are less (more) subject to cultural influences and consequently easier (more difficult) to standardize across national boundaries (Doz and Prahalad, 1981; Harzing, 2001; Carr and Pudelko, 2006).

We assume that HQ will exert particularly strong financial control over its subsidiaries due to the increasing globalization of the finance function and codification of global financial practices (Desai, 2008). This can either be achieved through direct (hierarchical) control of financial decisions by HQ or indirectly by staffing the financial management function with expatriates. Regarding the latter approach, Harzing (2001) found that the control aspect led MNCs to employ a large percentage of expatriates as finance directors. The auditing and controlling function is also very technically oriented, so similar tendencies are assumed to govern this function. However, control is likely to be lower compared to financing, given that pressures for global codification may affect auditing and controlling to a somewhat lesser degree, while at the same time national particularities such as regulations might need to be taken more into consideration. The production function at the subsidiary level equally has a strong technical element. However, this function is likely to experience relatively lower degrees of HQ control compared to finance and auditing/controlling, given that market-specific characteristics such as the size and volume of products or their perishability can make it difficult to centralize this function (Quintens *et al*, 2006). Furthermore, research suggests that the marketing function is characterized by an even higher degree of location specificity. There is evidence that the transfer of parent brands and marketing knowledge may have limited value in the host-country context, given different consumer preferences and market conditions (Katsikeas *et al*, 2006), which makes this function less accessible to direct or indirect control. Finally, given that HR practices are the most human-centred and therefore culturally dependent, we expect both direct and indirect HQ control to be lowest in this function. This expectation is in line with scholars' findings that have pointed to a series of cultural and institutional factors limiting the transferability of HR practices across MNC contexts (see e.g. Brewster and Mayrhofer, 2012). In addition, Harzing (2001) found that MNCs assign comparatively few expatriates to their subsidiaries' HR departments, suggesting a low degree of indirect control in the field of HRM.

As HRM is the management function most directly related to the question of how employees are controlled, it is of most interest for our study. To obtain more nuanced information for this function and to derive more targeted implications for subsidiary control and global staffing, HRM has been broken down in this study for the various groups of subsidiary employees: higher, middle and lower management, as well as the labour force. We assume that the higher the hierarchical position of a particular group, the more HQ is interested in controlling it. We suggest the following hypotheses regarding direct subsidiary control:

H3a: HQs of MNCs from Japan, Germany and the USA exert varying degrees of direct subsidiary control, depending on management functions, with the following (declining) order: finance, auditing/controlling, production, sales/marketing and HRM.

H3b: Within the management function of HRM, HQs exert varying degrees of direct subsidiary control, with the following (declining) order: HRM of higher management, HRM of middle management, HRM of lower management and HRM of the labour force.

Of particular interest for global staffing strategies and, ultimately, for global talent management, are the following hypotheses regarding indirect control through expatriates:

H4a: MNCs from Japan, Germany and the USA employ expatriates as heads of management functions to different degrees, with the following (declining) order: finance, auditing/controlling, production, sales/marketing and HRM.

H4b: MNCs from Japan, Germany and the USA employ more expatriates as heads of subsidiaries compared to heads of any specific management function.

Data collection and sample

Data were collected through an extensive mail survey in six groups of subsidiaries: Japanese and US subsidiaries in Germany, German and US subsidiaries in Japan, and Japanese and German subsidiaries in the USA. This data collection took place in the context of a larger study between

2002 and 2004. These data are, to the best of our knowledge, still the most recent available on this topic and the first ever to contain information on expatriation ratios differentiated by managerial function. The survey was executed by the first author from within Japan, Germany and the USA on the basis of company directories containing detailed information on subsidiaries from the other two countries. In most cases, the support of leading local business schools and local chambers of commerce could be assured, which assisted in the dissemination of the questionnaire and/or through supporting letters attached to the survey instrument. Main criteria for including subsidiaries in the various surveys were indications of sufficient size (excluding mere representative offices), as a full range of different managerial functions was of interest for this study, and representation of a large variety of industries.

More specifically, questionnaires were mailed to the heads of the HR departments of the subsidiaries. It was assumed that they had the best expertise and knowledge to provide the information required, given their senior position within the corporate hierarchy. The questionnaire was developed after an extensive review of the relevant literature. For each of the six groups of subsidiaries, two questionnaires were provided, one in the home-country language and one in the host-country language. Consequently, a total of twelve questionnaire versions, in Japanese, English and German, were used. In order to secure equivalence of meaning between all questionnaire versions, the method of back-translation as recommended by Brislin (1970) was employed. From a total of 1924 questionnaires sent out, 617 usable responses were returned, an overall response rate of 36 per cent (taking into consideration 188 questionnaires returned as undeliverable). More detailed information on response rates is provided in Table 1. It should be noted that the response rate for Japan is above similar earlier surveys there, as reported by Kato and Morishima (2003). The response rate for Germany is also higher than comparable postal questionnaire research (Schmitt and Sadowski, 2003).

Due to the comparatively low response rates associated with mailed surveys, there is always the possibility of non-response bias. In order to test for this, responding and non-responding firms were compared on size and industry, with no indication of response bias being found. Given that we avoided sensitive questions, which are considered a main source of response bias (Schmitt and Sadowski, 2003), and focused instead on factual information, we are reasonably confident that non-response bias does not constitute a major problem in this study.

The sample of this study encompassed a large variety of industries, in both manufacturing and services. The median size across all six subsidiary groups was 86 employees. While five of the six samples had a median size around this average, US subsidiaries in Germany were considerably larger, with a median size of 250 employees. The majority of subsidiaries were greenfields.

Insert Table 1 about here

Different kinds of subsidiary control in Japanese, German and US MNCs

Measures and analyses

With regard to the first research question, to what extent Japanese, German and US MNCs employ different mechanisms of foreign-subsidiary control, the distinction between direct (hierarchical) and indirect (cultural) control was established. In order to operationalize *direct control*, subsidiary managers were asked how much influence, in their opinion, the parent company exercised on their subsidiary with regard to the following management functions (if relevant):

a) finance;

b) auditing/controlling;

c) production;

d) sales/marketing;

e) HRM of upper management;

f) HRM of middle management;

g) HRM of lower management;

h) HRM of the labour force.

It was seen to be important to differentiate the HRM function into four different target groups, as HRM is generally considered to be a crucial function in managing integration between HQs and foreign subsidiaries (Bartlett and Ghoshal, 1989).

Respondents were presented with a 5-point Likert-scale from 'very low influence' to 'very high influence'. These scale anchors are not subject to the acquiescence effect, as respondents were not required to state agreement or disagreement. Avoidance of acquiescence effects is crucial for the validity of our study, since this response effect is known to distort comparisons between Japanese and Western subjects (Harzing, 2006). To aggregate the findings across countries and reveal statistical significance between the various means, an ANCOVA analysis was performed. Four control variables were included and found to have no major effects: industry (manufacturing or services); size (number of employees); percentage of greenfields (in contrast to acquired firms); and nationality of respondents (locals *vs.* expatriates).

Indirect control was defined as the importance expatriates have in the management of foreign subsidiaries. In order to test indirect control mechanisms, the subsidiary managers were asked:

a) how many people the subsidiary employed and how many of those were expatriates;
b) if the head of the entire subsidiary was local or expatriate;
c) if the head of finance was local or expatriate;
d) if the head of auditing/controlling was local or expatriate;

e) if the head of production was local or expatriate;
f) if the head of sales/marketing was local or expatriate;
g) if the head of HR was local or expatriate.

Considering that indirect (cultural) control can be most effectively performed by expatriates from the MNC's home country, we asked respondents to distinguish between home-country and third-country expatriates as heads of subsidiaries or different functional areas. In all instances we found percentages of third-country nationals to be negligible (subsidiary heads: 3.4 per cent; heads of finance: 4.7 per cent; heads of auditing/controlling: 4.4 per cent; heads of production: 2.8 per cent; heads of sales/marketing: 2.3 per cent; and heads of HRM: 2.1 per cent).

For all seven questions, the percentages of expatriates were calculated, with low (high) percentages indicating low (high) indirect expatriate control of foreign subsidiaries. To determine statistical significance of differences, an ANCOVA analysis was again performed, employing the following control variables: industry (manufacturing or services); size (number of employees); and percentage of greenfields (in contrast to acquired firms). No relevant effects were found for these variables. Nationality of respondents (locals *vs.* expatriates) was in this case not considered, as all seven questions were purely factual and not an issue of subjective evaluation.

Findings

Table 2 presents the findings for *direct control*. In addition to analyzing the responses to the eight questions about the various management functions individually, aggregate figures were also provided: one for the four HRM subgroups, as well as one for all five main management functions taken together.

Insert Table 2 about here

The results indicate that Japanese MNCs exert, as expected, a significantly lower degree of direct HQ control compared to US MNCs. In six out of eight tested items and both aggregates, the mean for Japanese MNCs is lower than for US MNCs. Regarding the two remaining cases, where Japanese MNCs have a higher mean than US MNCs (sales/marketing and HRM of the upper management), neither is statistically significant. Regarding the overall aggregate, i.e. direct HQ control across all management functions, the mean difference between the Japanese and US MNCs is significant at the .05 level.

Compared to German MNCs, Japanese MNCs show a higher mean in six of the eight tested items (five differences being significant) and both aggregates. For the overall aggregate, the difference is significant at the .01 level. This finding goes against this study's assumptions.

Nevertheless, for finance and auditing/controlling, the mean for German HQ influence is still slightly higher than the mean for their Japanese counterparts.

Interestingly, we find the strongest differences in direct control between German and US MNCs. For all eight tested items and the two aggregates, the mean for the German MNCs is lower than for the US MNCs. The difference between German and US MNCs' overall aggregates is significant at the .001 level.

Consequently, H1 is confirmed for the comparison between Japanese and US as well as between German and US MNCs, but only to a very limited degree for the comparison between Japanese and German MNCs.

Table 3 depicts the results for *indirect control*. Again, in addition to the seven individual items, two aggregates were provided: the first summarizes the five items about expatriates as function heads, and the second depicts the total for expatriate influence, combining the overall expatriate ratio, expatriates as heads of subsidiaries, and the aggregate for expatriates as function heads.

Insert Table 3 about here

In the Japanese subsidiaries 17 per cent of employees, 78 per cent of subsidiary heads and 37 per cent of heads of management functions are Japanese expatriates (resulting in an aggregate index for expatriate control of .441). The contrast with US subsidiaries is startling: Here, only about 4 per cent of employees, 19 per cent of subsidiary heads and 7 per cent of heads of management functions are American expatriates (resulting in an aggregate index for expatriate control of .100). The percentages for the German subsidiaries are almost halfway between those of the Japanese and US subsidiaries: 7 per cent for the overall number of expatriates, 46 per cent for expatriate heads of subsidiaries, and 19 per cent for expatriate heads of management functions (resulting in an aggregate index for expatriate control of .242). The data, therefore, strongly support this study's assumptions.

Overall, in seven of the eight tested items (including the two aggregates) the predicted pattern appears: Japanese MNCs have the highest expatriate influence, followed by German MNCs and finally by US MNCs. Only for the production function is the mean for German MNCs (statistically insignificantly) higher than for Japanese MNCs, suggesting that German companies in particular wish to ensure that the production process follows the home standards exactly. This result underlines the well-reported importance of production for German corporations (Randlesome, 1993). Overall, for 23 of the 27 tested country comparisons, the differences are statistically significant; for seventeen comparisons (including the overall total for expatriate influence) at a level of .001.

We found the discrepancy between high expatriate percentages in Japanese MNCs, lower percentages in German MNCs and even lower percentages in US MNCs to be widest for the managing director position, smaller for the total of expatriates as heads of functional areas and smallest for overall expatriate percentages. The fact that in particular Japanese MNCs assign the largest proportion of expatriates to high subsidiary positions suggests that they are aiming at a particularly straightforward way to exert cultural control through expatriates, namely by referring to expatriates who have the highest degree of power to align the subsidiaries with the parent's goals and strategies. Overall, H2 is strongly confirmed.

Different degrees of control for different management functions

Measures and analyses

Concerning the second research question, to what extent Japanese, German and US MNCs exert varying relative degrees of control with regard to the different management functions, we refer again to direct and indirect control. Regarding direct control (indirect control), we go back to the various means from Table 2 (Table 3), but this time the means are compared across the various explanatory variables instead of home countries.

Findings

Regarding *direct control,* the means indicate that for German MNCs the sequence of influence exerted by HQ on subsidiaries for the different management functions is exactly as predicted: it is highest for finance, followed by auditing/controlling, production, sales/marketing and finally HRM. The sequence for both Japanese and US MNCs varies slightly in that HQ influence is higher in sales/marketing than in production. Eleven of the twelve differences are statistically significant, which for the most part confirms H3a.

Within HRM, the pattern for direct subsidiary control of Japanese, German and US MNCs is absolutely identical: strongest is HQ influence on the HRM of upper management, followed by that of middle management, labour force and finally lower management. Except for the difference between HQ influence regarding HRM of the labour force and HRM of lower management (statistically not significant for the MNCs of all three countries), the sequence is exactly as predicted. All other (predicted) differences are statistically significant. This largely confirms H3b.

On a more aggregate level, direct control appears comprehensive across all three countries: managers from Japanese, German and US MNCs perceived direct subsidiary control (on a scale ranging from very low to very high) above average not only for finance, but also for auditing/controlling, and HRM of higher management and sales/marketing (not for Germany) with production very close to the average. Only with regard to HRM (with the exception of HRM of the upper management) was direct subsidiary control clearly below average for all three countries.

With regard to *indirect control*, we hypothesized that MNCs employ expatriates as heads of management functions to different degrees, in the following declining order: finance, auditing/controlling, production, sales/marketing, and HRM. We found that Japanese MNCs differ from this picture only in sales/marketing being ahead of auditing/controlling and production. US MNCs diverge from our predicted sequence only in HRM being ahead of sales/marketing. For German MNCs we found the highest ratio of expatriates compared to host-country nationals among heads of production, followed by heads of finance, heads of sales/marketing, heads of auditing/controlling, and finally heads of HRM. Eight of the twelve differences are in the hypothesized direction, five of them significant. The remaining four differences go against our hypothesis, but only one of these is significant. Despite these exceptions, we clearly found higher expatriate ratios for the more technical compared to the more human-centred management functions. Our data therefore yield conditional support for H4a.

Furthermore, our findings indicate that MNCs of all three countries employ more expatriates as heads of subsidiaries compared to heads of any specific management function. All fifteen tested differences are statistically significant. This confirms H4b.

Discussion

The results relating to this study's main research question, the different kinds of mechanisms that MNCs utilize in order to control the activities of their foreign subsidiaries, provided a clear picture: MNCs from Japan, the USA and Germany have rather distinct ways of controlling their foreign subsidiaries. The key difference between the control mechanisms of MNCs of these three countries lies in indirect control, exercised by expatriates sent by HQs to subsidiaries. We found that Japanese subsidiaries have in comparison to German subsidiaries about twice as many expatriates as a proportion of the overall number of employees, as heads of subsidiaries and as heads of management functions. In comparison to US subsidiaries, Japanese subsidiaries across all three categories have about four to five times as many expatriates. Consequently, indirect (or cultural) control through expatriation appears to be very important to Japanese MNCs, significantly less important to German MNCs and still significantly less important to US MNCs. Overall, the sequence in the use of indirect control between Japanese, German and US subsidiaries is as expected, but the extent of the differences might nevertheless be seen as surprising.

Given the substantial national differences for indirect subsidiary control, one might argue that (national) culture matters in determining (organizational) cultural control through expatriation and that therefore no cross-national consensus on 'best practices' exists. The indirect way of communicating in Japan (Adair *et al*, 2001), the comparatively lower importance of quantitative 'hard facts' compared to 'soft information' and the little-established role of the auditing function in Japanese companies (Pudelko, 2005) seem to be reflected in a preference for indirect subsidiary control of Japanese MNCs. Conversely, the direct way of communicating in the USA (Adair *et al*, 2001) and the important role that the quantification of information and the auditing function play in US companies (Pudelko, 2005) appear to translate into a preference for direct subsidiary control of US MNCs. Finally, the German way of communicating and processing information can be understood as being 'in between' the opposites described by the US and Japanese practices (Pudelko, 2005), a pattern that is mirrored by the subsidiary control practices of German MNCs.

Our finding concerning the crucial role of indirect subsidiary control through expatriates in Japanese MNCs has important implications for the staffing strategies and talent management requirements of Japanese multinationals. While internationally competent managers represent "a key component of global business success" (McDonnell *et al*, 2010:150) for MNCs across the world, expatriates have a particular relevance for Japanese companies, given their strategic focus on subsidiary control through parent-country nationals. From this follows that global staffing becomes of specific importance for Japanese MNCs, as they need to assure the recruitment and development of large numbers of managers with distinctive competencies and a desire to manage in culturally and geographically distant countries. Yet the continuing domestic focus of the traditional Japanese management system is likely to render particularly challenging the development of a large enough talent pool of Japanese employees with a distinct international profile. For instance, Harzing and Pudelko (2013) found that levels of English proficiency among Japanese managers tend to be low compared to those of managers of other nationalities. This suggests that language barriers may constrain the selection of potential expatriates. The shortage of suitable candidates for international assignments may even be aggravated over coming years, as researchers predict a general labour shortage in Japan due to the drastic decline of the Japanese population and the recent mass retirement of baby-boomers (Yuasa, 2008). Considering these challenges, Collings and Scullion's (2007:222) perception that "shortages in international management talent emerge as a critical strategic issue for many international firms" appears particularly relevant for Japanese MNCs.

Japanese corporations might encounter an additional challenge in finding enough local talent for their foreign subsidiaries, which renders the task of implementing a powerful global talent management system even more intricate. Due to Japanese MNCs' strategic focus on management through expatriates, local talent will encounter major difficulties in promotion to the upper echelons of Japanese subsidiaries, which are often reserved for Japanese expatriates (Colakoglu and Caligiuri, 2008). According to Banai (1992:455), local employees tend to feel "frustrated", "discriminated against", and experience "feelings of injustice and relative deprivation" in the face of these ethnocentric staffing policies. Given that Japanese MNCs are competing with indigenous firms for local talent (McDonnell *et al*, 2010), their ethnocentric staffing policy is bound to trigger a large turnover of local employees (Banai, 1992). Considering the increasing 'war for talent' (Collings and Scullion, 2007), Japanese MNCs need to recognize that subsidiaries are one of their key repositories of talent (Mellahi and Collings, 2010). By replacing their ethnocentric staffing policy with a policy of mixing managers from the parent country, host country and third countries according to their individual strengths, Japanese MNCs may substantially increase their ability to achieve learning, innovation and corporate integration (Collings and Scullion, 2012).

In comparison to the ethnocentric staffing policies frequently used by Japanese MNCs, we found that MNCs from Germany and the USA employ a significantly lower proportion of expatriates from the parent country in key positions of the subsidiary, consequently offering better development opportunities to host-country managers.

Whereas the substantial differences in indirect control clearly suggest context dependency, differences in direct control were of a less fundamental nature. In accordance with propositions by Almond and Ferner (2006) as well as Collings and Scullion (2012), we found that HQs of US MNCs exert a strong direct influence on their subsidiaries, whereas HQs of Japanese MNCs exercise somewhat less direct control. Contrary to expectations, Japanese MNCs exercise still more direct control on their foreign subsidiaries than their German counterparts. However, the higher means for German compared to Japanese companies regarding finance and auditing/controlling indicate that HQs of German MNCs are also not prepared to give their subsidiaries considerably more leeway. Although some of the country differences regarding the levels of direct control are statistically significant, it should be highlighted that they are not fundamental in nature. From this we can conclude that there appears to be some degree of cross-national consensus of managers from all three countries on ‘best practices’ with regard to the extent of direct control. This is an interesting finding, considering the substantial differences in national culture, overall management systems or, even more specifically, indirect subsidiary control.

In terms of the *overall* degree of control exerted by MNCs from Japan, Germany and the USA, we might come to the following conclusions: given that Japanese MNCs do not differ fundamentally from their US counterparts in their degree of *direct* subsidiary control, but exert much stronger *indirect* control, it follows that they will also have the highest *overall* degree of subsidiary control. It is difficult to come to a conclusive evaluation of the overall degree of subsidiary control of US compared to German MNCs, as US companies clearly take the lead in direct control and German companies in indirect control.

These findings highlight the heterogeneity between Western countries’ approaches to subsidiary control and global staffing and provide a cautionary note against simple juxtapositions of

'Asian' and 'Western' management practices. On the whole, our observations highlight that it does not suffice to compare the *overall* degree of subsidiary control of MNCs from different countries. At least as important is the differentiation between the degrees of direct and indirect control. This realization has previously not been sufficiently considered in the literature.

Concerning our second research question, to what extent Japanese, German and US MNCs exert varying degrees of control with regard to the various *management functions*, it is interesting to note how little Japanese MNCs differ from their counterparts in Germany and the USA. Supporting previous results by Harzing (2001), we found that HQs across all three countries exert particularly strong control on the ‘bottom-line’ management functions of finance and auditing/controlling. In contrast, subsidiaries are given more autonomy regarding HRM and sales/marketing, as they have more local expertise in these culturally sensitive areas. Only production was – at least in Japan and the USA – less closely controlled than expected. The similarities of our findings across all three countries suggest that ‘best practices’, which are independent of the cultural or managerial context, can be defined in terms of the degrees of control with regard to the various management functions. This implies relatively clear lessons when defining global talent management strategies in terms of expatriation versus host-country national staffing decisions.

Regarding the different target groups for the management function HRM, there were no surprises: across all three countries, HRM for upper management was more controlled than HRM for middle management, which was again more controlled than HRM for lower management; HRM for the labour force was less controlled than HRM for upper management, but more controlled than HRM for lower management. These findings appear to have a lot of face value. Nevertheless, it is interesting to see how small the differences are, given the fact that the three countries have distinct configurations regarding their overall use of direct and, in particular, indirect control mechanisms.

Beyond our core topics of subsidiary control and global staffing, our findings also have important implications for the convergence-divergence debate in international HRM research (see e.g. Pudelko and Harzing, 2007; Tungli and Peiperl, 2009). In this respect, the almost identical control patterns regarding the various management functions as well as the not-substantially different control patterns with regards to direct control suggest that MNCs from all three countries follow, at least to some degree, (perceived) global ‘best practices’. However, given the fundamental differences between Japanese, German and US MNCs regarding indirect control through expatriates, there are also strong indications for continuing divergence. Furthermore, when considering both direct and indirect control practices together, it became evident that MNCs from all three countries use distinctly different overall strategies. These differences in subsidiary control strategies highlight the importance of country-specific approaches. To implement these approaches successfully, MNCs must ensure that their global staffing and talent management strategies are well aligned with their subsidiary control strategies.

Limitations, conclusions and future research

Inevitably, this study is not without limitations. Although our dataset was unique in that it provided a perfect match of subsidiary control practices in Japanese, German and US MNCs for subsidiaries in the other two respective countries, the samples were not always of similar size.

Additionally, the information obtained from each of the 617 subsidiaries always came from a single informant. This is a problem confronted by virtually all large-scale surveys such as this. However, most questions of this study asked for purely factual information and therefore did not require multiple respondents. Only a few questionnaire items involved a subjective evaluation of the degree of HQ influence. Moreover, while this study was able to compare Japanese, German and US MNCs for direct and indirect subsidiary control separately, direct information on the aggregate or overall degree of subsidiary control was not obtained. However, given the relatively small differences in direct control, but major differences in indirect control, one can reasonably assume that the overall degree of subsidiary control is highest in Japanese MNCs.

Furthermore, when measuring indirect control, we considered the number of expatriates, but not, however, the length of their assignments. Particularly short assignments might not be very effective in affecting subsidiaries' culture, while particularly long assignments can result in expatriates 'going native', thereby equally preventing HQ culture from pervading the subsidiaries.

Also, this study's research design did not investigate whether the need for subsidiary control varies between industries, the competitive position of an MNC in its industry, its corporate strategy, the role that specific subsidiaries are assigned within the MNC, or the organizational configuration (see, e.g., Doz and Prahalad, 1981; Martinez and Jarillo, 1991). Although these factors certainly matter, they were clearly beyond the scope of this contribution.

One may also argue that the varying cost of compensation packages for expatriates in different countries may influence an MNC's reliance on the use of expatriates, a motivation that would not have anything to do with indirect subsidiary control. However, by having sampled Japan, Germany and the USA, three developed countries of similar cost structures, as MNC home and host countries, we believe we have minimized this potential bias. Finally, our research did not consider any connection between subsidiary control and subsidiary performance. Although this context is certainly an interesting one, it was again beyond the scope of this paper.

Notwithstanding these limitations, our research fulfilled its primary objective of bringing to light significant differences between the subsidiary control practices prevailing in Japanese compared to German and US MNCs. The extensive use of expatriates by Japanese MNCs as a means of exerting indirect control on their foreign subsidiaries highlights the particular importance and specific challenges of global staffing and talent management in Japanese multinationals. In addition, by providing information about the different degrees of control for different management functions, the current study has presented a highly differentiated picture of subsidiary control for different functional areas.

As far as the authors are aware, this has been the first comparative study on different forms of subsidiary control and the related role of global staffing, employing a very carefully matched design in which the same countries were studied as home and host locations. With regard to potential future research, more studies should employ matched home-host country combinations, as this type of investigation allows for a particularly well-founded and differentiated view on the phenomena under study. To determine if findings apply beyond Japan, Germany and the USA and are transferable to the Asian respectively Western management context in general, the database of this contribution could be expanded by additional data from further countries. An urgent need for further research on global talent management has been identified for emerging markets, in which rapid growth is accompanied by acute talent management challenges (Farndale *et al*, 2010). Finally, studies that include both the subsidiary's and HQ's perspectives would provide a more differentiated picture on subsidiary control strategies and their implications for global staffing and talent management.

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Table 1: Responses and response rates

Companies	**Home Country**	**Questionnaires sent out**	**Returned undeliverable**	**Returned Responses**	**Response rate**
Subsidiaries in the USA	Japan	600	57	209	38%
	Germany	500	62	151	34%
	Subtotal	*1100*	119	*360*	*37%*
Subsidiaries in Germany	Japan	250	19	82	35%
	USA	250	27	54	24%
	Subtotal	*500*	46	*136*	*30%*
Subsidiaries in Japan	USA	74*	0	36	49%
	Germany	250	23	85	37%
	Subtotal	*324*	23	*121*	*40%*
Total		*1924*	188	*617*	*36%*

* For American subsidiaries in Japan, only those companies that agreed to be approached by the researchers were contacted. This explains both the small number of questionnaires sent out and the relatively high response rate.

Table 2: Direct subsidiary control through HQ

Explanatory Variable: HQ influence on	Home country	Mean	Std. error	F	Comparison between home countries (agg.)	Mean difference
Finance	Japan	3.866	.072		JPN-USA	-.318*
	Germany	3.939	.078	5.238	JPN-GER	-.073
	USA	4.185	.127		GER-USA	-.245
Auditing/ Controlling	Japan	3.345	.076		JPN-USA	-.536**
	Germany	3.472	.084	8.803	JPN-GER	-.127
Production	Japan	2.824	.101		JPN-USA	-.170
	Germany	2.743	.103	1.088	JPN-GER	.081
	USA	2.994	.177		GER-USA	-.251
Sales/ Marketing	Japan	3.038	.078		JPN-USA	.023
	Germany	2.421	.083	18.112	JPN-GER	.617***
	USA	3.015	.135		GER-USA	-.594***
HRM of the upper management	Japan	3.867	.076		JPN-USA	.083
	Germany	3.565	.085	4.790	JPN-GER	.301**
	USA	3.783	.137		GER-USA	-.218
HRM of the middle management	Japan	2.142	.064		JPN-USA	-.369**
	Germany	1.841	.071	17.421	JPN-GER	.302**
	USA	2.511	.114		GER-USA	-.670***
HRM of the lower management	Japan	1.611	.050		JPN-USA	-.136
	Germany	1.322	.055	14.859	JPN-GER	.289***
	USA	1.747	.092		GER-USA	-.425***
HRM of the labour force	Japan	1.774	.056		JPN-USA	-.058
	Germany	1.423	.063	14.577	JPN-GER	.351***
	USA	1.832	.102		GER-USA	-.409**
HRM total	Japan	2.348	.045		JPN-USA	-.163
	Germany	2.040	.050	21.612	JPN-GER	.308***
	USA	2.511	.082		GER-USA	-.471***
Total	Japan	2.812	.044		JPN-USA	-.205*
	Germany	2.595	.049	15.624	JPN-GER	.217**
	USA	3.017	.079		GER-USA	-.422***

*, ** and *** indicates the mean difference is significant at the .05, .01 and .001 level.

Table 3: Indirect subsidiary control through expatriates

Explanatory Variable: Percentage of	Home country	Mean	Std. error	F	Comparison between home countries (agg.)	Mean difference
Expatriates overall	Japan	.173	.011		JPN-USA	.135***
	Germany	.065	.013	32.576	JPN-GER	.108***
	USA	.038	.023		GER-USA	.027
Expatriates as heads of subsidiary	Japan	.781	.027		JPN-USA	.589***
	Germany	.464	.030	79.501	JPN-GER	.317***
	USA	.191	.048		GER-USA	.272***
Expatriates as heads of finance	Japan	.485	.029		JPN-USA	.355***
	Germany	.242	.031	30.973	JPN-GER	.243***
	USA	.130	.050		GER-USA	.112
Expatriates as heads of audit./control.	Japan	.385	.026		JPN-USA	.257***
	Germany	.155	.029	24.231	JPN-GER	.230***
	USA	.128	.047		GER-USA	.027
Expatriates as heads of production	Japan	.218	.033		JPN-USA	.149*
	Germany	.260	.033	3.929	JPN-GER	-.042
	USA	.070	.056		GER-USA	.190**
Expatriates as heads of sales/ marketing	Japan	.450	.027		JPN-USA	.433***
	Germany	.169	.028	49.871	JPN-GER	.281***
	USA	.017	.045		GER-USA	.152**
Expatriates as heads of HR	Japan	.185	.021		JPN-USA	.163***
	Germany	.113	.024	10.938	JPN-GER	.072*
	USA	.022	.037		GER-USA	.091*
Total of expats as heads of funct. areas	Japan	.366	.017		JPN-USA	.294***
	Germany	.190	.019	54.706	JPN-GER	.176***
	USA	.071	.030		GER-USA	.119**
Index for expatriate control	Japan	.441	.013		JPN-USA	.342***
	Germany	.242	.015	81.294	JPN-GER	.199***
	USA	.100	.024		GER-USA	.142***

*, **, *** indicates the mean difference is significant at the .05, .01, .001 level.