Managing institutional distance: Examining how firm-specific advantages impact foreign subsidiary CEO staffing

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Abstract:

Based on the insight that superior access to knowledge can help foreign firms overcome liabilities of foreignness, we examine whether possession of firm-specific advantages shifts foreign firms' CEO staffing strategies from local managers, who provide host-market insight, toward expatriates, who possess knowledge transfer and coordination capabilities. We find that, as institutional distance increases, firm-specific advantages from multinationality, regional agglomeration, and host-country experience substitute for the host-market insight of local CEOs. Foreign firms with such advantages instead staff the CEO role with expatriates. Our results are practically relevant to MNCs seeking to allocate a limited talent pool across different institutional contexts.

Keywords: CEO selection | multinational companies (MNCs) | institutional distance | liabilities of foreignness | executive staffing

Article:

1. Introduction

Subsidiary executives may help forestall liabilities of foreignness (Zaheer, 1995) experienced by multinational companies (MNCs) in institutionally distant host markets (Ghemawat and Vantrappen, 2015, Matsuo, 2000, Mezias, 2002). However, previous studies present inconsistent and often contradictory evidence regarding the relationship between institutional distance and subsidiary staffing choices. Empirical research on subsidiary Chief Executive Officers (CEOs) shows positive (Gaur, Delios, & Singh, 2007), negative (Baik & Park, 2015), as well as curvilinear relationships (Muellner, Klopf, & Nell, 2017) between institutional distance and the presence of expatriates in the subsidiary CEO role.

To help reconcile these contradictory findings, we set out to answer the following research question: how do firm-specific advantages moderate the relationship between institutional distance and staffing strategies for the subsidiary CEO role? In more institutionally distant

foreign subsidiary environments, management is complicated by the need for both *insight* into the local environment as well as *oversight* over subsidiary operations (Gaur et al., 2007; Gong, 2003; O'Donnell, 2000). While host-country nationals are looked upon for local knowledge (Gupta and Govindarajan, 1991, Luo and Shenkar, 2011), expatriates are seen as resources for coordination and control (Edstrom and Galbraith, 1977, Egelhoff, 1984, Martinez and Jarillo, 1989). However, firm-specific advantages may offset the liabilities of foreignness experienced by MNCs in institutionally distant host markets, and influence subsidiary CEO staffing strategies.

Liabilities of foreignness represent the idea that foreign firms doing business in host markets incur additional costs relative to local firms (Caves, 1972; Hymer, 1960/1976; Vernon, 1977; Vernon, 1977; Zaheer, 1995). These costs arise not only from the challenge of coordinating operations across disparate subsidiary locations, but also because foreign subsidiaries may lack legitimacy or be unfamiliar with the regulations and norms of the host country (Zaheer, 1995). Regulations and norms comprise the formal and informal characteristics of a country's institutional environment (Scott, 1995). Liabilities of foreignness are theorized to rise with differences between institutional environments of the MNC parent country and the subsidiary host country – i.e., with greater institutional distance (Eden and Miller, 2004, Kostova and Zaheer, 1999).

We build on prior research which suggests that MNCs possess firm-specific advantages, which enable their foreign subsidiaries to mitigate the detrimental effects of liabilities of foreignness arising from home country – host country institutional differences (Denk, Kaufmann, & Roesch, 2012; Nachum, 2003; Zaheer & Mosakowski, 1997; Zhou & Guillen, 2015). We present a contingency model which explores the direct influences of institutional distance on subsidiary CEO staffing strategy and the moderating influences of firm-specific advantages, including: (i) advantages due to multinationality, (ii) advantages due to regional agglomeration, and (iii) advantages due to host-country experience. We hypothesize that firm-specific advantages may counteract the influence of foreignness arising from institutional distance and result in a shift of subsidiary CEO staffing strategy from host-country nationals to expatriates. More specifically, we expect that in institutionally distant environments, foreign subsidiaries endowed with firm-specific advantages will be more likely to use a knowledge-transfer strategy based on utilizing the capabilities and headquarters network ties of expatriates.

1.1. Research context

We test our model within the global banking industry. Liabilities of foreignness influence foreign-owned banks' performance (i.e., foreign subsidiary performance) (Miller & Parkhe, 2002). Yet research also suggests that firm-specific advantages may alleviate the negative impacts of liabilities of foreignness in this context, and allow foreign-owned banks to outperform their domestic rivals (Nachum, 2003). On average, the banking industry relies on communication and networking with host-country public officials and regulators to a greater extent than is the norm in other industries. This is reflected globally in a higher industry-level proportion of host-country nationals in the CEO role and throughout the top management team (TMT) in the banking industry, relative to other industries (Ghemawat & Vantrappen, 2015). However, the

results of our contingency model illustrate that MNC strategies with respect to subsidiary CEO staffing are nuanced and influenced by both organizational resources and institutional quality.

Our sample covers the period 2005–2010. It consists of CEOs from 75 subsidiaries belonging to 33 U.S. and European banks from 15 different home countries. The subsidiaries are located in 12 Central and Eastern European (CEE) host countries. The data gathering process yielded a sample of 277 unique observations of CEOs and their TMTs (i.e., CEO–TMT configurations).

The rationale behind choosing this research context is both theoretical and empirical. For Western European and U.S. investors, the banking industries in CEE held great strategic importance, but were not without risk. Consumer lending in CEE countries was expanding at double-digit pace. However, to participate in these quickly growing markets, western MNCs needed to navigate stark institutional differences as these countries transitioned from centrally-planned to market-based economies (Puffer & McCarthy, 2011). Beginning in the early 1990s and throughout the 2000s, these formerly communist countries with comparatively weak institutions were preparing for accession the European Union, and were making improvements to the quality of their institutions. The time period of our study was indeed one of institutional convergence between West and East, making this context theoretically relevant to our inquiry.

The CEE context has additional empirical advantages. In contrast to countries like China, India, or Brazil, CEE subsidiaries frequently report management data on the entire TMT (Muellner et al., 2017) and also publish subsidiary-level financial data. As a consequence, we are able to isolate the influence of firm-related factors on CEO staffing patterns while controlling for the proportion of local executives in the remainder of the subsidiary TMT (ex-CEO). This provides additional validity and yields results which have rarely been reported in the literature on subsidiary executive staffing.

1.2. Contributions

Our study offers a multi-country sample of subsidiary staffing decisions with respect to the MNC home country. With notable exceptions (e.g., Brock, Shenkar, Shoham, & Siscovick, 2008; Harzing, 2001; Peterson, 2003), previous research has often examined samples of subsidiaries with parent firms domiciled in a single home country.[1] A multi-country sample provides further insight into the phenomenon.

We contribute to the literatures on subsidiary management and subsidiary executive staffing in two ways. First, we extend subsidiary executive staffing research by addressing several calls by scholars for examining the role of context (Caligiuri and Bonache, 2016, Tung, 2016). By analyzing how firm-specific advantages interact with institutional differences to influence subsidiary CEO staffing decisions, our study focuses on the interaction between institutional and

1 For example, Boyacigiller (1990) and Collings, Morley, and Gunnigle (2008) sample U.S. MNCs, which are known to use relatively fewer expatriates than European and Japanese MNCs (Harzing, 1999; Tung, 1982). Gaur et al. (2007) and Gong (2003) analyze Japanese MNCs and Chung, Park, Lee, and Kim (2015) analyze Korean MNCs, which are known for using expatriates to control subsidiaries to a greater extent than MNCs from other home countries (Kopp, 1994; Peterson, Napier, & Shim, 1996).

organizational context. Second, our study provides new insights into MNCs' strategic behaviors in host markets as they seek to manage liabilities of foreignness.

In the rest of this paper, we first provide a theoretical overview and an integration of the literatures on liabilities of foreignness, firm-specific advantages in the MNC context, and subsidiary staffing. Next, we turn to the development of detailed hypotheses on the contingency relationships between institutional distance, firm-specific advantages, and subsidiary CEO staffing. We then describe the geographical and industry context and its usefulness in testing our hypotheses. After describing the methodology, we present the results and conclude with implications for theory and practice.

2. Conceptual background

2.1. Liabilities of foreignness and institutional distance

The competitive disadvantage of foreign firms compared to local firms when operating in a host country (Hymer, 1960/1976; Kindleberger, 1969) is a key premise in international business research. Numerous studies have found empirical evidence of competitive disadvantage, (DeYoung and Nolle, 1996, Miller and Parkhe, 2002, Miller and Richards, 2002, Zaheer, 1995, Zaheer and Mosakowski, 1997), and it has been shown to persist despite MNCs often commanding higher levels of tangible assets relative to local firms (Hymer, 1960/1976).

Scholars first noted foreign firms' information disadvantages (Caves, 1972; Hymer, 1960) and stigmas of foreignness (Vernon, 1977). However, it wasn't until the work of Zaheer (1995) that 'liabilities of foreignness' gained definitional structure. Since then, scholars use the term to represent the bundle of disadvantages that organizations face in host-country environments due to a lack of familiarity and/or legitimacy in the host environment, lack of relational embeddedness in host-country knowledge networks and structures, costs of coordinating across spatial distances, or a combination thereof (Eden and Miller, 2001, Zaheer, 1995).

Liabilities of foreignness are typically conceptualized and measured by differences in country-specific attributes along formal and informal institutional dimensions (North, 1991, Scott, 1995). Cross-national differences in regulations and norms represent salient attributes, and together, these are referred to as 'institutional distance' (North, 1991). At higher levels of institutional distance, the liabilities of foreignness experienced by subsidiaries relative to their domestic rivals increase (Eden and Miller, 2004, Kostova and Zaheer, 1999).

Two theoretical perspectives exist in the literature regarding what MNCs and foreign subsidiaries can do to mitigate liabilities of foreignness in order to compete effectively against local rivals in their host environment: the institutional perspective and the competitive advantage perspective. While the institutional perspective suggests that subsidiaries adopt a local isomorphism strategy and imitate the business practices of local rivals (Miller and Eden, 2006, Rosenzweig and Singh, 1991, Zaheer, 1995), the competitive advantage perspective argues that subsidiaries can overcome liabilities of foreignness by leveraging firm-specific advantages of the MNC (Dunning, 1993, Kogut and Zander, 1993, Rugman, 1982). In what follows, we offer brief

theoretical overviews of these perspectives and integrate these literatures with research on subsidiary staffing to build our hypotheses.

2.2. The institutional perspective on managing liabilities of foreignness

The work of institutional theorists (e.g. DiMaggio and Powell, 1983, Zucker, 1983) suggests that organizations, like individuals, are subject to pressures for conformity (Meyer & Rowan, 1977). Therefore, an institutional theory-based solution for alleviating liabilities of foreignness is the adoption of local isomorphism strategies (Rosenzweig and Singh, 1991, Zaheer, 1995). These involve imitating the business practices of domestic firms. Indeed, scholars have found that in return for conforming to explicit rules, laws, and regulations and adhering to cultural institutions, such as social norms, values, and beliefs, organizations are rewarded with legitimacy and reputational benefits by relevant stakeholders (Scott, 1995, Staw and Epstein, 2000).

Imitating the business practices and strategies of host-country rivals is thought to be beneficial for foreign firms because domestic firms' behaviors and strategic choices tend to fit the demands of the local environment. Using domestic firms' strategic positioning and behavior as a template, foreign subsidiaries reduce risk of losses due to misalignment between internal strategic choices and external market conditions. Through mimicry of local firms' visible features or strategic choices, foreign firms also take on the appearance of a local entity, which enhances their legitimacy in the host-country market. Empirical research on the relationship between liabilities of foreignness and foreign firms' propensities to engage in isomorphic behavior has found that greater institutional differences between the home country and host country (which are believed to drive liabilities of foreignness, Eden and Miller, 2004, Kostova and Zaheer, 1999) are associated with higher levels of local isomorphism strategy (Salomon & Wu, 2012).

2.3. The competitive advantage perspective on managing liabilities of foreignness

Unlike the institutional perspective, which emphasizes the benefits of isomorphic adaptation, the competitive advantage perspective argues that parent firms endow their foreign subsidiaries with firm-specific advantages to neutralize, counteract, and overcome the negative impacts of foreignness (Caves, 1971; Hymer, 1960/1976; Kindleberger, 1969; Kindleberger, 1969). At the heart of this reasoning is the idea that intangible assets or resources developed in one country can be transferred within organizational boundaries at decreasing incremental costs to other markets (Caves, 1971). This in turn generates economies of scope for MNCs and competitive advantage for their subsidiaries over local rivals (Dunning, 1993, Kogut and Zander, 1993, Rugman, 1982). Empirical research shows that intangible assets and knowledge-based advantages can mitigate the impacts of liabilities of foreignness experienced by foreign subsidiaries in host-country environments (Morck & Yeung, 1992). In particular, greater multinationality (Delios & Beamish, 1999; Hitt, Hoskisson, & Kim, 1997), higher regional agglomeration (Barkema, Bell, & Pennings, 1996), and more extensive host-country experience (Mezias, 2002, Zaheer and Mosakowski, 1997) have all been shown to be positively associated with higher organizational performance among foreign subsidiaries.

There is also evidence that foreign banks with owners from advanced economies tend to be more profitable and efficient than their emerging market domestic rivals (Claessens, Demirguc-Kunt,

& Huizinga, 2001; Cull & Martinez Peria, 2010; Micco, Panizza, & Yanez, 2007). Scholars attribute this result to subsidiaries' abilities to access parent firms' capital and organizational knowledge (Guillen and Tschoegl, 2000, Sengupta, 2007). In focusing on advantages due to multinationality, regional agglomeration, and host-country experience in our contingency analysis, we are in essence studying the influence of knowledge-based advantages on executive staffing strategies.

Scholars typically distinguish between two kinds of knowledge: explicit knowledge, which is revealed through communication, and tacit knowledge, which is revealed through application (Grant, 1996, Polanyi, 1962). The distinction between explicit and tacit knowledge is also sometimes articulated as 'knowing what' versus 'knowing how' (Grant, 1996:111). Explicit knowledge is characterized as codifiable, articulable, and easy to communicate (Polanyi, 1962). Although these characteristics make it easy to transfer this type of knowledge across borders, they also mean that this asset is difficult to protect from the competition (Zhao & Anand, 2009). As a consequence, although explicit knowledge is transferable, both domestic and global organizations have difficulty appropriating returns from assets based on explicit knowledge.

In contrast, tacit knowledge in the form of accumulated expertise and know-how that is unique to the organization (e.g., multinational experience, regional experience, and host-country experience) has been shown to play a central role in firms' abilities to achieve and sustain performance-based competitive advantages (Barney, 1986). Like explicit knowledge, tacit knowledge can also be valuable and rare. But by its nature of being difficult to articulate, it is also difficult to imitate, allowing firms to capture returns from their knowledge assets. Indeed, tacit knowledge diffuses more slowly between organizations and across national borders (Kogut, 1991, Kogut and Zander, 1992, Nonaka and Von Krogh, 2009).

Tacit knowledge is experiential and largely embedded in individuals (Argote and Ingram, 2000, Starbuck, 1992). Because it can only be revealed through application and acquired through practice (Grant, 1996), it requires the use of personnel and human resources to facilitate the transfer process (Nonaka, 1994). Regarding process, moving individuals from one part of the organization to another has been shown to be one of the most effective means of transferring knowledge (Kane, Argote, & Levine, 2005).

Subsidiaries have substantial advantages over their domestic rivals in knowledge generation and knowledge transfer. Knowledge transfer has been shown to be more efficient *within* networked or hierarchically-embedded organizations than *between* independent organizations (Anand, 2011; Darr, Argote, & Epple, 1995; Powell, Koput, & Smith-Doerr, 1996). As a consequence, subsidiaries are able to benefit from knowledge generated not only in headquarters, but in other subsidiary locations. Aided by expatriates who "cross-pollinate" ideas between subsidiary locations (Harzing, 2002:369), cross-cultural knowledge sharing and generation of best practices contributes to organizational performance (Berry, 2015) and is difficult for domestic firms to replicate.

3. Hypotheses

3.1. Local isomorphism and the role of local CEOs

The implications of an institutional approach for foreign subsidiary CEO staffing are that subsidiaries are likely to utilize the local knowledge and network embeddedness of local CEOs to a greater extent in more institutionally distant environments. Relative to expatriate CEOs, local CEOs are poised to lead the subsidiary toward greater alignment with the local market through isomorphic adaptation (Rosenzweig and Nohria, 1994, Rosenzweig and Singh, 1991). They are familiar with local demand preferences (Bartlett & Yoshihara, 1988; Du, Deloof, & Jorissen, 2011), can navigate the local institutional environment (Du, Deloof, & Jorissen, 2015; Gupta & Govindarajan, 1991; Luo & Shenkar, 2011), and are embedded in local networks (Tung, 1982). The human resources and experiences that local CEOs possess means they can be effective at adapting global product ideas, and transforming them into products better suited to local tastes (Bartlett and Yoshihara, 1988, Gupta and Govindarajan, 1991). This in turn increases the competitiveness of the foreign subsidiary against domestic rivals. Furthermore, having a local CEO as the public face of the firm enhances acceptance and perceptions of legitimacy in the host-country environment. Overall, local CEOs have the necessary experience and skills to overcome liabilities of foreignness from lack of familiarity, legitimacy, or embeddedness in local networks. Therefore, we hypothesize:

> **H 1.** Foreign subsidiaries are more likely to staff the CEO functional role with local managers in more institutionally distant subsidiary environments.

3.2. Firm-specific advantages and the role of expatriate CEOs

The competitive advantage approach argues the opposite. It asserts that in the presence of liabilities of foreignness due to institutional differences, being in possession of firm-specific advantages rooted in intangible assets shifts MNCs' subsidiary staffing strategies from a preference for local CEOs to a preference for expatriate CEOs. The logic is that expatriate CEOs can facilitate knowledge transfer and monitor implementation of best practices across borders.

In MNCs, the human capital of expatriates is widely utilized for transferring knowledge and skills to foreign subsidiaries (Bonache and Brewster, 2001, Franko, 1973, Tsang, 2001). The other fundamental role of expatriates is as strategically deployed instruments of coordination and control (Edstrom and Galbraith, 1977, Egelhoff, 1984, Martinez and Jarillo, 1989). Indeed, expatriates are useful facilitators of organizational integration and informal coordination of the subsidiary network (Edstrom & Galbraith, 1977). Furthermore, since expatriate contracts specify that deployment is temporary and that they are expected to eventually return to the parent organization, expatriate executives are accountable to the parent company for their behavior (Gupta & Govindarajan, 1991). Expatriates are also likely to behave more predictably than local executives in the eyes of parent country headquarters. Of course, it is possible for expatriates to "go native" with a greater duration of time spent in a host country and no longer advocate for parent company interests (Gregersen & Black, 1992). But generally speaking, expatriates' loyalty to the parent company can be leveraged for conscientious transfer of knowledge embedded in organizational processes and in organizational knowledge networks, as well as for coordination of dispersed subsidiary units.

3.2.1. The moderating impact of advantages due to multinationality

Experience with managing international operations has been linked to foreign subsidiaries' abilities to cope with liabilities of foreignness (Shenkar, 2001), and to the superior performance of foreign subsidiaries relative to local firms (Sethi & Guisinger, 2002). Specifically, scholars have found that subsidiary performance rises with increased international presence and with greater diversity of the parent firm's international footprint (Nachum, 2003). Also, the likelihood of subsidiary survival increases with MNC international experience (Garg & Delios, 2007), as do MNCs' propensities to continue to enter new foreign markets (Zhou & Guillen, 2015).

There are numerous reasons why subsidiaries are likely to benefit from their parents' previous international experience. First, experience can help avoid elementary mistakes in foreign market entry (Barkema et al., 1996). Second, subsidiaries belonging to a larger international network can access a global resource base of diverse knowledge and capital (Caves, 1982, Dunning, 1993, Morck and Yeung, 1992, Nachum, 2003), and benefit from global brand equity (Sethi & Guisinger, 2002). Overall, scholars highlight that liabilities of foreignness do not impact all firms equally, but instead differ in severity relative to prior levels of international experience (Cuypers & Martin, 2010).

We argue that in more institutionally distant environments, subsidiaries with advantages of multinationality are more likely to staff the subsidiary CEO role with expatriates. Organizational experience with foreign markets is largely tacit and embedded in individuals and organizational routines (Argote & Ingram, 2000). To transfer this knowledge to foreign subsidiaries, MNCs are likely to rely on expatriate human capital (Nonaka, 1994) who can act as knowledge brokers between the parent firm and the foreign subsidiary. In unfamiliar environments, decision makers can be expected to staff subsidiary CEO roles with individuals who themselves possess a broad and relevant portfolio of know-how collected from multiple foreign competitive environments. But in addition to these personal experiential attributes, expatriates have a deep understanding of parent corporate culture (Kobrin, 1988), possess the requisite capabilities for effective knowledge transfer (Lyles and Salk, 1996, Nonaka, 1994), and are embedded in MNCs' informal communication networks (Banai and Reisel, 1993, Edstrom and Galbraith, 1977). Given their strong ties with headquarters, expatriates are likely to know whom to approach and how to ask for resources at MNC headquarters. MNCs in turn are more likely to trust expatriates with resource allocation decisions because they can be expected to enact the dominant logic and strategy of corporate leaders in a predictable manner (Boyacigiller, 1990; Prahalad & Bettis, 1986). This points to staffing the subsidiary CEO role with expatriates. Formally, we hypothesize:

> **H 2.** The positive relationship between institutional distance and staffing the CEO functional role with local managers decreases as MNC multinationality increases.

3.2.2. The moderating impact of advantages due to regional agglomeration

International experience allows foreign firms to mitigate liabilities of foreignness by accessing diverse, but potentially unrelated knowledge. In contrast, experience gained in proximate countries can benefit foreign subsidiaries in navigating the host-country environment based on

the reasoning that related experience boosts familiarity and eases the process of adjustment (Johanson & Vahlne, 1977). Furthermore, geographic agglomeration of organizational units within a region eases intra-organizational communication and knowledge transfer (Buckley and Ghauri, 2004, Sorenson and Baum, 2003). Research shows that expansion strategies following an outward, radial pattern are not only more common than random, diversified expansions routes (Arregle, Miller, Hitt, & Beamish, 2013) but also are more long-lived (Barkema et al., 1996).

We argue that in more institutionally distant markets, MNCs with a stronger regional presence will staff the subsidiary role with individuals with coordinative power and knowledge transfer capabilities. This is in order to leverage related experiences the MNC has earned in proximate locations. In addition to their role as enablers of knowledge transfer, expatriates are considered to be adept as agents of informal coordination within the subsidiary network (Edstrom and Galbraith, 1977, Harzing, 2002). The assignment of expatriates abroad creates verbal information networks, which tie together the entire organization in "decentralized coordination" (Edstrom & Galbraith, 1977:255). As opposed to a centralized bureaucracy, where each action is decided in a hierarchical manner, "decentralized coordination" exploits an informal network of verbal communication to retain organizational knowledge and to indirectly influence the decision-making process throughout the organization. Therefore, expatriates facilitate informal but routinized communication, which is a human resource that decision makers are likely to value when staffing the subsidiary CEO role in a region where the MNC has a stronger presence. We hypothesize:

> **H 3.** The positive relationship between institutional distance and staffing the CEO functional role with local managers decreases as MNC regional presence increases.

3.2.3. The moderating impact of advantages due to host-country experience

Another mitigating element that was recognized as significant by Hymer (1960/1976) is the duration of a foreign firm's operations in the host-country environment. The longer a firm operates in a foreign country, the more opportunity it has to learn about its environment (Barkema et al., 1996, Forsgren, 2002, Shenkar and von Glinow, 1994), accurately assess consumers', competitors', and regulators' actions, and develop relational ties with local actors (Johnson, Lenartowicz, & Apud, 2006). Indeed, empirical findings provide support for the diminishing effects of liabilities of foreignness with subsidiary age. This is evidenced by higher foreign subsidiary survival rates (Zaheer & Mosakowski, 1997) and loosening of headquarters control and oversight over subsidiary actions (Wilkinson, Peng, Brouthers, & Beamish, 2008).

As MNCs accumulate experience in a host-country environment, the need to rely on the local knowledge of local executives subsides and the organization can begin to reach for the benefits of global integration (Bartlett & Ghoshal, 1988; Prahalad & Doz, 1981). To leverage economies of scope across national boundaries, MNCs may choose to streamline tasks, optimize processes, or remove redundancies, which requires subsidiary executives to adopt a global perspective. Expatriates are more likely to identify with the parent organization as a whole and with its objectives (Kobrin, 1988). They are more likely than local executives to understand the parent firm's values, beliefs, and assumptions (Kobrin, 1988), and to enact the dominant logic and

strategy of corporate leaders (Boyacigiller, 1990; Prahalad & Bettis, 1986). Therefore, we hypothesize:

> **H 4.** The positive relationship between institutional distance and staffing the CEO functional role with local managers decreases as the duration of MNC host-country experience increases.

4. Methods

4.1. Industry context

To test our hypotheses about the relationships between institutional distance, firm-specific advantages, and CEO origin in the foreign subsidiary context, we examined the staffing strategies for CEOs of foreign-owned banks in the CEE region. We focused on this setting because there is great heterogeneity among the foreign-owned banks in the region and, in turn, in the level of their organizational and strategic advantages. Also, due to historical developments and the transition of CEE countries from centrally-planned to market-based economies, the region experienced significant shifts in institutional quality, which provides useful variance for our model.

Following the collapse of Communism, CEE countries became an important competitive domain for investors seeking to participate financially in the region's economic transition. While CEE countries prepared for accession to the European Union,[2] CEE banks captured the interest of foreign investors. Not only was the banking industry in CEE experiencing double-digit growth in consumer lending, but banking regulations were converging with Western European standards.[3] This created increased transparency and protection for western shareholders, and resulted in a wave of acquisition activity in the banking industry.

With increasing competition came demand for know-how, planning, and internal control procedures from western owners. Expatriates were widely used in CEE to transfer much needed financial and managerial knowledge across borders (Peterson, 2003). Yet the acquiring firms continued to serve a loyal, domestic clientele who demanded financial solutions tailored to local economic and institutional conditions. This necessitated reliance on the expertise of local managers and employees, who understood the demand preferences of the banks' retail and corporate clients, were able to navigate the national institutional environment, and were embedded in the professional network of the host country (Bartlett and Yoshihara, 1988, Gupta and Govindarajan, 1991). Although market entry via acquisition was relatively common in CEE, numerous western MNCs also entered the CEE market by successfully developing greenfield operations.

To this day, the CEE banking industry is composed of many international subsidiaries which vary in age, establishment mode, size, and profitability. The profiles of the parent banks differ

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2 Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, and Slovenia joined the European Union in 2004, and Bulgaria and Romania followed in 2007.

3 Accession to the European Union was accompanied by inclusion in the European System of Central Banks, which develops regulatory guidelines and implementation standards across the European Union.

greatly as well, with some having truly global footprints, while others remain regional players focusing on a small group of countries.

Overall, this setting not only provides interesting variance in institutional distance (which is a proxy for liabilities of foreignness in this study) - but also offers variance within the numerous, important contingency factors which have the potential to heighten or mitigate liabilities of foreignness experienced by the parent firm in the host country, and thereby influence MNCs' staffing strategies for the subsidiary CEO role.

4.2. Sample

We examined subsidiary CEO staffing strategies (and controlled for CEO-TMT configuration) in 75 subsidiaries of 33 U.S. and European banks[4] from 15 different home countries,[5] located in 12 CEE host countries[6] during the period 2005–2010.

The final sample is composed of 277 unique CEO-TMT configurations, observed during 2005–2010. Following 75 subsidiaries over six years yields 450 observations, however year-to-year, some foreign-owned banks saw no turnover in executive staffing. The final sample of 277 represents only the unique CEO-TMT configurations. Said in a different way, if the CEO and all TMT members remained unchanged in two or more subsequent years during 2005–2010, only the first observation of this CEO-TMT configuration is included in the analysis.

To understand not only CEO origin but the composition of the subsidiary TMT as an important control variable, we collected information on 689 unique executives. To decide who qualifies as a member of the TMT, we relied on information provided by the subsidiaries in their annual reports and/or on their web pages.

Unlike previous studies, we focused on a single industry: banking. Indeed, single-industry studies are sometimes criticized for their lack of generalizability. However, they have been shown to be useful in the study of managerial attributes, which differ significantly among industries (Norburn & Birley, 1988; Pegels, Song, & Yang, 2000). Perhaps more importantly, given strict regulatory oversight in the banking industry, we have confidence that subsidiary-level financial statements reflect real operating results, as opposed to MNCs' tax optimization strategies. This is an important consideration, because financial data enter our analysis as control variables.

The banking subsidiaries in our sample are national-level entities providing retail, private and/or commercial banking services. The subsidiaries publish separate profit & loss statements and are

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4 Allied Irish Banks Group, Alpha Bank, BNP Paribas, Banco Comercial Portugues, Bayern LB, Citigroup, Commerzbank, DNB Nord, DZ Bank, Danske Bankas, Deutsche Bank, Emporiki Bank of Greece, Erste Group, Eurobank EFG, Fortis, GE, HSBC, HVB, Hypo Group Alpe Adria, Intesa Sanpaolo, KBC Group, MDM Bank Group, National Bank of Greece, OTP, Piraeus Bank, Procredit Group, Raiffeisen International, SEB, Societe Generale, Swedbank, Unicredit, Volksbank, WestLB.

5 Austria, Belgium, Denmark, Germany, France, Greece, Hungary, Ireland, Italy, Norway, Portugal, Russia, Sweden, United Kingdom, United States.

6 Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Macedonia, Poland, Romania, Slovakia, Ukraine.

subject to the same rules and regulations as local banks. Most are wholly-owned by their parent companies and the sample does not include any joint ventures, representative offices, or foreign branches.

Because the purpose of this study is to estimate a contingency model of CEO origin, data were combined from multiple sources. Information on appointed subsidiary executives was hand-collected from biographies presented in subsidiary-level annual reports. Information on subsidiaries, such as their age, size, entry mode, and profitability came from the Bureau Van Dijk Bankscope, which is a global database of banks' financial statements and includes details on organizational structure. Information on MNCs' global presence and the countries where the MNC operates was hand-collected from MNCs' annual reports. Institutional distance measures were obtained from the World Governance Indicators database maintained by the World Bank (http://www.govindicators.org). Country-level cost of living data for locals and expatriates was obtained from Tan, Tan, Yuan, and Nguyen (2014).

4.3. Measures

4.3.1. CEO origin

CEO origin is a binary variable which is set to 1 if the CEO is a native of the host country, and 0 otherwise. Where available, we used nationality data provided in executive biographies in subsidiaries' annual reports. If the executive's nationality was not available in the biography, we used a three-phase approach to classify nationality. First, the first author (who has extensive experience in CEE) and a Slavic scholar used the executive's first and last name to make an initial classification of nationality. The two coders reached 98 percent agreement. Upon discussing the disagreements, the coders reached consensus on the remaining two percent of nationalities. This approach is similar to those utilized by Gaur et al. (2007); Gong (2003), and Harzing (2001). The high level of reliability in coding CEE nationalities is likely due to the region's historical development. Prior to 1989, citizens of countries in the Eastern Bloc had very limited travel and immigration opportunities, and 'westerners' rarely chose to immigrate to Eastern bloc countries, creating a very tight link between the name's ethnicity and the individual's nationality. This is in contrast with western names, which do not accurately represent nationality because of extensive immigration to the U.S. and, to a lesser degree, to Western Europe. However, in the CEE subsidiary context, having a western name *does* provide strong indication of expatriate status.

Second, after making this initial classification, we triangulated it against the executive's first country of higher level education and first country in which he/she gained work experience, to ensure consensus. Using an example from the sample, an executive at Bank Zachodni in Poland named Janus Krawczyk (which suggests a Polish nationality), who was educated at the Krakow Technical University (in Poland), and whose first job was at the Krakow City Council, was classified as having Polish origin although his nationality was not provided in the annual report. In the case of an executive at GE Money Bank in the Czech Republic named Wade Udell Robinson (which suggests an Anglo Saxon origin), who was educated at Brigham Young University (in the U.S.), and whose first job was at Citibank as a branch manager for the Mountain West region, he was classified as being an expatriate in the Czech Republic.

Finally, in an effort to ensure accuracy of our local/expatriate classification, we performed additional Internet searches on LinkedIn, Bloomberg Executive Profiles, media websites, and via Google on every single executive in our sample. This was especially important to ensure coding accuracy for female executives, who may have taken their partner's name in marriage. The case of Regina Ovesny-Straka, an executive at Erste Group's Slovenska sporitelna in Slovakia, is one such example. While her name is suggestive of Czech or Slovak nationality, she was educated at Vienna University of Economics and Business Administration. A deeper Internet search of her background indicated that she is an Austrian citizen, with Moravian grandparents. She is therefore classified as an expatriate in her post in Slovakia. In other cases, such as that of Irene Grzybowski, an executive at Unicredit's Bank Pekao in Poland, further search was triggered upon examining the first name, which remains indicative of nationality even upon marriage. Ms. Grzybowski's name is Irene, and not Irena (which would be the norm in CEE). Therefore, we searched further to find that she is a native of Massachusetts. This allowed us to confidently classify Ms. Grzybowski as an expatriate in her post in Poland.

4.3.2. Liabilities of foreignness

Scholars have used numerous measures of institutional distance[7] to operationalize liabilities of foreignness. The most often used measure among emerging market scholars is WGI (Dikova, 2009, Kolstad and Wiig, 2012, Shirodkar and Konara, 2017). It covers over 200 countries and has been shown to effectively compare differences in institutional strength both cross-nationally and year-on-year (Kaufmann, Kraay, & Mastruzzi, 2011). Our research context includes former communist countries during a period of institutional strengthening (shortly before or after accession to the European Union). It was important, therefore, for our chosen measure to be available for all countries in our sample and to capture year-on-year variance in institutional quality. For these reasons, we operationalized institutional distance using WGI.

The WGI integrates perceptions of institutional quality in a given country from surveys administered to commercial businesses, public sector organizations, and non-governmental organizations worldwide. The surveys question respondents regarding their opinion on six dimensions of institutional quality: citizens' voice and government accountability, political stability and absence of violence, government effectiveness, regulatory quality, rule of law, and control of corruption.

Using the WGI, we measured institutional distance using Kogut and Singh (1988)'s euclidean distance calculation, as follows:

$$\text{Institutional distance}_{\text{sp}} = \frac{\left(I_p - I_s\right)^2}{V_I}$$

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7 For instance: Berry, Guillen, and Zhou's (2010) multidimensional cross-national distance measures, the Dow Index (Dow & Karunaratna, 2006), International Country Risk Guide indices, indices from the World Competitiveness Yearbook, or World Governance Indicators (WGI) compiled by the World Bank. We use the WGI as it is the most often used measure among emerging market scholars.

where I_p denotes the WGI value (I) for parent country p, I_s denotes the WGI value (I) for subsidiary country s, and V_I is the variance of WGI values in the given year. This formula gave us the measures of institutional distance from the parent country to the subsidiary country for each year from 2005 to 2010.

4.3.3. Moderating variables

We examined three sources of firm-specific advantage which we expected to alleviate MNCs' liabilities of foreignness in the host country: *Multinationality*, *Regional agglomeration*, and *Host-country experience*. Degree of multinationality (or internationalization) is typically measured by percentage of foreign sales, percentage of foreign assets, or percentage of foreign employees. We measured *Multinationality* using the percentage of the MNC's employees in non-domestic (foreign) locations, as we were unable to consistently collect data on foreign sales or foreign assets for the MNCs in our sample. *Regional agglomeration* was measured as the number of countries in the CEE region in which the MNC operates. *Host-country experience* was measured as the duration in years of the MNC's operations in the host country (Nachum, 2003, Zaheer and Mosakowski, 1997).

4.3.4. Control variables

We controlled for the following factors that may also influence CEO staffing. *TMT composition* represents the percent of members in the TMT, excluding the CEO, who are native to the host country. *Entry mode* (or establishment mode) is a binary variable set equal to 1 if the subsidiary was an acquisition, and set equal to 0 if the subsidiary was established as a greenfield. *Subsidiary performance* is subsidiary net profit in the previous year as a percentage of average assets. *Subsidiary market share* is the subsidiary's share of the banking market in the host country measured in terms of assets. *Host market concentration ratio* is the market share of the country's five largest banks. We also included measures for the relative costs of staffing subsidiaries with expatriates or native citizens, which are likely to influence the proportion of expatriates in the TMT and in the CEO role. *Cost of living for native inhabitants* and *Cost of living for expatriates* are the costs of living for each group in the capital of the host country, indexed relative to New York City. Because spatial distance in and of itself creates considerable challenges for the sharing, transfer, and coordination of knowledge across borders, we also controlled for *Geographic distance* between the MNC home country and the subsidiary host country, measured as the distance between the two countries' geographic centers. Finally, we included *Year* dummy variables to control for global economic trends that affect all firms but differ year-to-year, and may influence the presence of CEOs of local or expatriate origin, independently of other explanatory or control variables.

4.3.5. Estimation method

The unit of analysis was the foreign subsidiary CEO–year, however foreign subsidiaries were nested with MNCs. To account for the nested, hierarchical structure of the multinational data (Hitt, Beamish, Jackson, & Mathieu, 2007), we estimated the hypothesized relationships using a hierarchical linear model with two-levels of variables: TMT-level and MNC-level.

5. Results

5.1. Summary statistics

Table 1 provides summary statistics for the variables included in the study. Statistics for the outcome variable of interest, *CEO origin*, show that 52 percent of CEOs in the sample are local managers and 48 percent are expatriates.

Table 1. Means, standard deviations, minima, and maxima.

#	Variables	Mean	St. dev.	Min.	Max.
1	CEO origin *(1 = local, 0 = expatriate)*	0.52	0.50	0	1
2	Institutional distance	0.94	0.87	0.01	4.47
3	MNC multinationality *(percentage of employees abroad)*	0.64	0.20	0.09	0.99
4	MNC regional agglomeration *(no. of countries)*	9.64	5.10	2	20
5	MNC host-country experience *(no. of years)*	10.21	4.19	1	24
6	TMT composition *(in percent, proportion of TMT of local origin)*	0.64	0.23	0.00	1.00
7	Entry mode *(1 = acquisition, 0 = greenfield)*	0.68	0.47	0	1
8	Subsidiary profitability *(in percentage points, return on assets, lagged)*	1.39	1.24	−5.87	4.45
9	Subsidiary market share *(in percentage points)*	8.80	7.18	0.00	27.00
10	Host market concentration ratio *(in percentage points, of top 5 banks)*	57.67	11.56	33.00	77.00
11	Cost of living for local inhabitants *(index value, 100 = New York City)*	35.49	12.19	19.50	49.92
12	Cost of living for expatriates *(index value, 100 = New York City)*	55.65	6.38	45.25	66.44
13	Geographic distance *(in km)*	1600.00	2210.89	293.00	8694.00

N = 277.

Overall, we see substantial heterogeneity in the contingency variables. There is great diversity among the foreign-owned banks’ parent companies’ levels of *Multinationality*. The average MNC has 64 percent of its employees outside its home country, but MNCs in the sample have as few as 9 percent and as many as 99 percent of employees abroad. *Regional agglomeration*, measured as the number of countries where the MNC operates in the region, varies from 2 to 20, with an average value of 9.6 countries. *Host-country experience*, i.e., the number of years the subsidiary has been under MNC ownership, ranges from 1 (BNP Paribas’ Ukrsibbank in the Ukraine, as of 2006) to 24 years (Citigroup's Citibank Hungary, as of 2008), with a mean of 10.2 years.

Among the control variables, the average TMT (excluding the CEO role) is approximately 2:1, local managers to expatriates. However, some TMTs (excluding the CEO role) are composed entirely of local managers, while others entirely of expatriates. Regarding *Entry mode*, 68 percent of the subsidiaries in our sample are acquired and the remaining 32 percent are developed as greenfields. *Subsidiary profitability* differs greatly between subsidiaries. We observe return on average assets ranging from highs of nearly 5 percent in pre-crisis periods down to lows of −6 percent during the peak of the financial crisis. In terms of *Market share*, the foreign-owned banks in the sample range from small players with imperceptible market shares to retail banking powerhouses, with host-country market shares of above 25 percent. Finally, the geographic distances between subsidiaries in our sample and their MNC headquarters range from just 293 to nearly 8700 km.

Table 2. Correlations.

#	Variables	1	2	3	4	5	6	7	8	9	10	11	12	13
1	CEO origin *(1 = local, 0 = expatriate)*	1.00												
2	Institutional distance	-0.18^{**}	1.00											
3	MNC multinationality *(percentage of employees abroad)*	−0.07	0.51^{***}	1.00										
4	MNC regional agglomeration *(no. of countries)*	0.06	0.07	0.58^{***}	1.00									
5	MNC host-country experience *(no. of years)*	0.09	-0.24^{***}	0.06	0.18^{**}	1.00								
6	TMT composition *(in percent, proportion of TMT of local origin)*	0.34	0.18^{**}	0.24^{***}	0.06	0.13^{*}	1.00							
7	Entry mode *(1 = acquisition, 0 = greenfield)*	0.10	-0.36^{***}	-0.42^{***}	-0.31^{***}	-0.57^{***}	-0.12^{+}	1.00						
8	Subsidiary profitability *(in percentage points, return on assets, lagged)*	−0.04	-0.18^{**}	0.01	0.07	-0.11^{+}	0.07	0.30	1.00					
9	Subsidiary market share *(in percentage points)*	0.06	-0.17^{**}	−0.06	0.16^{*}	−0.37	0.00	0.48	0.22^{***}	1.00				
10	Host market concentration ratio *(in percentage points, of top 5 banks)*	0.07	-0.33^{***}	−0.10	0.12^{+}	0.11^{+}	0.06	0.13^{*}	0.08	0.47^{***}	1.00			
11	Cost of living for local inhabitants *(index value, 100 = New York City)*	0.12	-0.46^{***}	-0.27^{***}	-0.24^{***}	0.29^{***}	0.05	0.20^{***}	0.14	−0.08	0.04	1.00		
12	Cost of living for expatriates *(index value, 100 = New York City)*	0.18^{**}	-0.31^{***}	-0.15^{*}	−0.04	0.18^{**}	0.09	0.20^{**}	0.06	0.20^{***}	0.55^{***}	0.63^{***}	1.00	
13	Geographic distance *(in km)*	-0.16^{**}	−0.09	-0.12^{*}	-0.16^{*}	0.14^{*}	0.01	0.05	0.22^{***}	-0.34^{***}	−0.08	0.33^{***}	0.22^{***}	1.00

$N = 277$. *** $p < 0.001$. ** $p < 0.01$. * $p < 0.05$. $^{+}$ $p < 0.10$.

Table 3. Results of regression analyses.

Dependent variable: CEO origin (1 = local, 0 = expatriate)	**(1)**	**(2)**	**(3) H1**	**(4) H2**	**(5) H3**	**(6) H4**	**(7)**
Independent variables							
Institutional distance		−0.06	−0.04	0.21**	−0.02	−0.09	0.19*
		(0.05)	(0.06)	(0.07)	(0.06)	(0.07)	(0.09)
MNC multinationality * Institutional distance				−0.23***			−0.18**
				(0.04)			(0.06)
MNC regional agglomeration * Institutional distance					−0.20***		−0.10*
					(0.05)		(0.04)
MNC host−country experience * Institutional distance						−0.06+	−0.02+
						(0.03)	(0.01)
MNC multinationality			−0.13	−0.12	−0.09	−0.13	−0.10
			(0.09)	(0.09)	(0.09)	(0.09)	(0.09)
MNC regional agglomeration			0.07	0.03	0.03	0.07	0.02
			(0.07)	(0.07)	(0.07)	(0.07)	(0.07)
MNC host-country experience			0.04	0.03	0.03	0.01	0.04
			(0.05)	(0.05)	(0.05)	(0.06)	(0.05)
Control variables							
TMT composition	0.65***	0.65***	0.73***	0.54***	0.62***	0.77***	0.52***
	(0.11)	(0.11)	(0.11)	(0.11)	(0.11)	(0.11)	(0.12)
Entry mode	0.42***	0.41***	0.56***	0.60***	0.63***	0.58***	0.62***
	(0.10)	(0.10)	(0.14)	(0.14)	(0.14)	(0.14)	(0.14)
Subsidiary performance	0.02	0.02	−0.02	0.01	0.00	−0.02	0.01
	(0.04)	(0.04)	(0.04)	(0.03)	(0.03)	(0.03)	(0.03)
Subsidiary market share	−0.13***	−0.13***	−0.09*	−0.12**	−0.13***	−0.11**	−0.12**
	(0.04)	(0.04)	(0.04)	(0.04)	(0.04)	(0.04)	(0.04)
Host market concentration ratio	−0.01	−0.04	−0.04	−0.03	−0.02	−0.03	−0.03
	(0.03)	(0.04)	(0.05)	(0.04)	(0.04)	(0.05)	(0.04)
Cost of living for local inhabitants	−0.12**	−0.16**	−0.09	−0.09	−0.11+	−0.10+	−0.10
	(0.04)	(0.05)	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)
Cost of living for expatriates	0.15***	0.16***	0.10*	0.15***	0.10*	0.10*	0.14***
	(0.04)	(0.04)	(0.04)	(0.04)	(0.04)	(0.04)	(0.04)
Geographic distance	−0.17*	−0.16*	−0.13*	−0.16+	−0.14*	−0.14*	−0.16+
	(0.07)	(0.07)	(0.06)	(0.09)	(0.07)	(0.07)	(0.08)
Year dummies	YES	YES	YES	YES	YES	YES	YES
Constant	−0.19	−0.21+	−0.23	−0.09	−0.18	−0.30*	−0.07
	(0.13)	(0.13)	(0.14)	(0.15)	(0.14)	(0.15)	(0.16)
Observations	277	277	277	277	277	277	277
Number of groups	25	25	25	25	25	25	25
Mean VIF	1.90	2.16	2.61	2.79	2.63	2.66	3.05

Standard errors in parentheses. *** $p < 0.001$. ** $p < 0.01$. * $p < 0.05$. $^{+}$ $p < 0.10$.

The pair-wise correlations between variables are reported in Table 2. Our data indicate that institutional distance is negatively correlated with cost of living for host-country nationals ($r = -0.46$) and to a lesser extent with cost of living for expatriates ($r = -0.31$) in the host country. We also find a negative correlation between institutional distance and entry mode ($r = -0.36$). This stands in contrast to many settings. Since acquisitions are thought to better alleviate liabilities of foreignness than host-market entry via greenfield, greater institutional distance is generally linked to entry via acquisition. In the CEE context, however, we see MNCs from institutionally proximate countries being more likely to enter the host market via acquisition than via greenfield. We think this may be because MNCs from institutionally proximate countries have better information and better access than MNCs from institutionally distant countries when bidding for the most lucrative targets: the large, state-owned banks. Indeed, we observe a positive correlation between entry mode via acquisition and subsidiary market share ($r = 0.48$).

5.2. Contingency analysis of subsidiary CEO staffing

To test the four hypotheses, we conducted multilevel regressions, the results of which are presented in Table 3. We mean-centered all right-hand side non-binary variables at zero. Collinearity diagnostics were not suggestive of multicollinearity, as the maximum variance inflation factor (VIF) score was 5.67 and the mean VIF was 3.05 when all interaction terms were included in the model. This is well below the suggested threshold (Belsley, Kuh, & Welsch, 1980).

We report seven model specifications. Model 1 is the baseline model, which includes only control variables. The results suggest that acquired subsidiaries are more likely than subsidiaries established as greenfields to staff the subsidiary with local CEOs, as are subsidiaries that operate in markets with a higher cost of living for expatriates. Subsidiaries with higher market shares are more likely to staff the subsidiary with expatriate CEOs. Subsidiaries that operate in markets with a higher cost of living for local inhabitants and subsidiaries that are at a greater geographic distance from MNC headquarters are also more likely to staff the subsidiary with expatriate CEOs.

In Model 2, we introduced the institutional distance variable. We included the three measures of firm-specific advantage in Model 3. In Models 4–6, we tested the moderating impacts of firm-specific advantages due to multinationality, regional agglomeration, and host-country experience on subsidiary CEO staffing strategies, respectively. Model 7 is the fully specified model.

Hypothesis 1 predicts that foreign subsidiaries are more likely to staff the CEO functional role with local managers in more institutionally distant environments. Across our seven models, Hypothesis 1 receives mixed support. The results of Models 2, 3, 5, and 6 show a negative, statistically insignificant relationship. However, in Model 4, which includes the moderating effects of firm-specific advantages due to multinationality, and in Model 7, which is the fully specified model, institutional distance has a positive, statistically significant relationship with local CEO origin. These models provide some support for Hypothesis 1.

Hypotheses 2, 3, and 4 have theoretical roots in the competitive advantage tradition and the knowledge-based perspective. We predicted that foreign subsidiaries with greater levels of firm-

specific advantages are less likely to staff the CEO functional role with local managers (and instead staff the CEO role with expatriate managers) in more institutionally distant environments.

We began in Model 4 by examining the interaction effect between multinationality and institutional distance. The negative and significant coefficient on the interaction coefficient (Model 4, $\beta = -0.23$, $p = 0.00$) indicates support for Hypothesis 2. Thus, firms with a greater percentage of their workforce in foreign countries are more likely to staff subsidiaries with expatriate CEOs than with local CEOs in more institutionally distant environments.

Model 5 examined the interaction effect between firm-specific advantages due to regional agglomeration and institutional distance on subsidiary CEO staffing strategies. Consistent with Hypothesis 3, the results indicate that the interaction between regional agglomeration and institutional distance is negatively related to the presence of local CEOs in foreign subsidiaries ($\beta = -0.20$, $p = 0.00$). The results support Hypothesis 3: MNCs with greater regional agglomeration are more likely to staff the subsidiary CEO functional role with expatriates than with local managers in more institutionally distant environments.

In Model 6, we tested the interaction effect of firm-specific advantages due to host-country experience and institutional distance on subsidiary CEO staffing strategies. In line with Hypothesis 4, we found a negative and marginally significant coefficient on the interaction between host-country experience and institutional distance ($\beta = -0.06$, $p = 0.06$). This provides weak support for Hypothesis 4.

The fully specified model (Model 7) provides further consistent support for these findings.

Overall, the results yield only partial support for Hypothesis 1, but provide strong support for Hypothesis 2 ($p = 0.00$) and Hypothesis 3 ($p = 0.00$), and marginal support for Hypothesis 4 ($p = 0.06$).

5.3. Post-hoc analysis

Additional analysis regarding the moderating effect of host-country experience indicates that host-country experience is indeed an important predictor of CEO staffing – but both its magnitude and statistical significance drop off once a threshold of experience is reached. Our data shows that the interaction of host-country experience and institutional distance has the greatest explanatory power for CEO staffing in MNCs with less than 11 years of host-country experience ($\beta = -0.16$, $p = 0.00$), and remains statistically significant in MNCs with less than 15 years of host-country experience ($\beta = -0.10$, $p = 0.01$). However, upon including MNCs with over 15 years of experience, the results are no longer significant at traditional levels. All results are available upon request.

6. Discussion

Following the seminal work of Perlmutter (1969), who first shifted attention to the importance of nationality mix in MNC management and ignited research interest in the relative merits of

various staffing strategies, scholars have set out to understand the relationship between institutional and/or cultural distance and foreign subsidiary staffing strategies at *the subsidiary level* (e.g., Boyacigiller, 1990, Gong, 2003, Wilkinson et al., 2008), the subsidiary *TMT level* (e.g., Gaur et al., 2007, Gong, 2003, Harzing, 2001), as well as the subsidiary *CEO level* (e.g., Baik and Park, 2015, Brock et al., 2008, Gaur et al., 2007, Gong, 2003, Muellner et al., 2017). At all levels of analysis, however, researchers' findings have been mixed. Studies examining subsidiary staffing strategies at the CEO level relative to institutional distance (which is the focus of this study) show positive relationships between institutional distance and the presence of expatriate subsidiary CEOs (e.g., Gaur et al., 2007), but also negative relationships (e.g., Baik & Park, 2015), and curvilinear relationships (e.g., Muellner et al., 2017).

In an effort to reconcile these previous findings, we introduced a contingency model which examined the extent to which possession of firm-specific advantages influences the relationship between institutional distance and presence of expatriates in subsidiary CEO roles. Our results show that in more institutionally distant subsidiary environments, MNCs with advantages due to multinationality, regional agglomeration, and greater duration of host-country experience are less likely to have local CEOs leading their foreign subsidiaries (and are more likely to staff the subsidiary CEO role with expatriates). This suggests that organizational experience can substitute for the local knowledge and network ties of local CEOs.

The findings correspond with the competitive advantage perspective as it relates to managing liabilities of foreignness (Caves, 1971, Kogut and Zander, 1993, Rugman, 1982). Specifically, the results support our theory that in more institutionally distant environments, MNCs with more multinational experience or greater regional presence leverage this firm-specific knowledge by relying on the coordinative power and knowledge transfer capabilities of expatriate CEOs. The results also support our theory that having accumulated some knowledge about the host-country environment over time, MNCs increasingly rely on expatriates who may be better able to adopt a global perspective to streamlining, optimizing, or aligning processes, in order to enjoy the benefits of global integration (Bartlett & Ghoshal, 1988; Prahalad & Doz, 1981).

Our findings are compelling in light of our empirical context. The banking industry (on average) relies on host-country nationals to a greater extent than other industries because of the need to communicate and network with host-country regulators (Ghemawat & Vantrappen, 2015). Furthermore, U.S. and Western European MNCs are generally known to use host-country nationals to a greater extent when staffing subsidiaries than Japanese or Korean MNCs (Kopp, 1994, Peterson et al., 1996). Given these general tendencies, we believe our findings regarding the contingent use of expatriate CEOs to be persuasive.

Two control variables in our model warrant further discussion: *TMT composition* and *Entry mode*. In studying subsidiary CEO staffing strategies, our study controlled for the composition of the remainder of the subsidiary TMT. Our regression models indicate that an increase in the proportion of local managers in the TMT is associated with the subsidiary being led by a local CEO. This is also evident in the correlation table which shows a positive correlation between these two variables; instead of these two roles/groups being opposite and substituting for one another, they seem to be commonly appointed. The results show that TMT composition is a statistically significant control variable, which ought to be included in future research on

subsidiary CEO staffing. Regarding *Entry mode*, our analyses consistently indicated that acquired subsidiaries were more likely to staff the CEO role with local managers. This may be an artifact of our context. Acquired subsidiaries were often-times the former state-owned monopolists from the communist era. Before transition to a market-based economy, these banks serviced the majority of domestic retail, corporate, or investment banking accounts. Due to their previous market power and familiarity, these formerly state-owned banks enjoyed extremely high levels of brand recognition and client loyalty post-transition. As a consequence, it was paramount that they retain the appearance of legitimacy in their markets, and also maintain a high-level of localization to effectively service their clients. These circumstances suggest greater use of local CEOs in acquired subsidiaries. Another factor that may be influencing the staffing of acquired subsidiaries is the length of time since the acquisition took place and the experience that other managers have with post-acquisition integration (Karim & Williams, 2012). To determine whether this result is indeed driven by context, or whether it is generalizable to other geographies requires multi-regional research and further controls.

Although it was not the focus of our study, we also used our data to examine the relationship between institutional distance and previous international experience of both local and expatriate executives. Contrary to expectations, we found that institutional distance is unrelated to having prior experience in the host country (or in the host region) among expatriates. Institutional distance is also unrelated to having prior experience in the MNC home country (or in the MNC home region) among local managers. However, institutional distance is positively related to greater length and variety of previous international experience among both expatriates and local managers. This suggests that to manage subsidiaries in institutionally distant environments, MNCs are not necessarily choosing individuals who have explicit knowledge about the home country–host country pair. Instead, MNCs appear to be choosing individuals with numerous, unrelated cross-cultural experiences. MNCs are favoring individuals with *tacit* knowledge about how to operate across foreign environments rather than individuals with *explicit* knowledge about the particular foreign environment. This additional analysis provides further support for the usefulness of the knowledge-based view in examining subsidiary staffing strategies.

6.1. Managerial relevance

Our results offer important managerial implications. As MNCs seek to configure their subsidiary TMTs to fit the demands of multiple host-country environments, they are constrained by the availability of qualified talent (Collings, Scullion, & Morley, 2007; Tung, 2016). This constraint is particularly acute in high-growth emerging markets such as Brazil, China, India, and Eastern Europe (Collings et al., 2007). As a consequence, the question of how to allocate a limited recruitment pool across different institutional contexts is practically relevant. The answers offered by our study suggest that allocation patterns of expatriate versus local CEOs across subsidiaries are not one-size-fits-all. Instead, they depend on interaction between (i) institutional distance and (ii) organizational characteristics of the MNC. While higher levels of institutional distance alone do not indicate a greater use of expatriates, expatriates are used more often by MNCs with firm-specific advantages in more institutionally distant environments.

6.2. Limitations and future research directions

There are certainly several limitations to our study which give rise to future research questions that will enhance our understanding of executive human capital allocation. First, although the reporting requirements in the banking industry in CEE facilitated access to subsidiary-level information on executives and firm characteristics, focusing on a single region and industry limits the generalizability of our findings. A meaningful extension of this research would be to explore whether the staffing strategies found here hold more generally across industries and in other parts of the world. Since this study was performed in the transitioning CEE host markets, it would be particularly valuable to have comparison with Asian communist/transitioning economies.

Our study covered the period between 2005 and 2010, which is approximately 15 years following the fall of Communism in CEE. It would also be worthwhile to examine whether our results also hold in the early post-communist era. Furthermore, our sample consisted of MNCs from more developed countries operating in comparatively less developed countries. However, it would be interesting to examine whether the staffing strategies found here also apply to emerging-market MNCs operating in developed markets.

It would be interesting to examine whether there is a higher concentration of self-initiated expatriates in more institutionally distant host countries. Unfortunately, our data did not allow us to test this.

Our data also includes instances of expatriates with family origins in the CEE region. These individuals may possess higher levels of host-country knowledge than expatriates without ancestral ties to the region, and this knowledge may reduce firms' liabilities of foreignness. However, including CEO family origin was also outside the scope of this research.

We focused on the interaction between firm-specific advantages and institutional distance. However, a related literature stream on emerging markets highlights the role of culture (or cultural-cognitive informal institutions) in weak institutional environments (Puffer & McCarthy, 2011; Puffer, McCarthy, & Jaeger, 2016). Examples of these cultural-cognitive informal institutions include relying on social networks, mutual favors, nepotism, or one's word to substitute for weak or unreliable governance (Puffer, McCarthy, & Boisot, 2010). Future research can extend our understanding of subsidiary staffing by also examining the interaction between institutions and culture, in addition to the interaction between institutions and firm-specific advantages.

7. Conclusion

We began this study with an interest in examining whether (in more institutionally distant host countries) possession of firm-specific advantages shifts subsidiary CEO staffing strategy. We hypothesized that possession of firm-specific advantages shifts subsidiary CEO staffing strategy from a local isomorphism strategy based on utilizing the host-market insights of local CEOs, to a strategy which seeks to leverage knowledge transfer and coordination capabilities of expatriates. In pursuing this topic, we sought to reconcile the contradictory findings regarding the relationship between institutional distance and subsidiary CEO staffing strategies. Building on prior research which suggested that certain firm-specific advantages enable foreign subsidiaries

to mitigate the detrimental effects of liabilities of foreignness, we analyzed the moderating influences of MNC multinationality, MNC regional agglomeration, and MNC host-country experience on subsidiary CEO staffing strategy in the presence of institutional distance.

The findings of our study show that MNCs with these three types of firm-specific advantages are more likely to staff the subsidiary CEO functional role with expatriates than with local managers as institutional distance increases between the home country and the host country. The possession of firm-specific advantages appears to shift subsidiary staffing strategies for the CEO role toward the types of individuals who are believed to be skilled at transferring organizational knowledge across national borders and integrating subsidiaries into global operations. These results also indicate that in institutionally distant host countries, firm-specific advantages arising from multinationality, regional agglomeration, and host country experience appear to substitute for the host-market insights of local CEOs.

Disclosures

To the best of our knowledge, there are no conflicts of interest in the submission or review of this manuscript at the Journal of World Business.

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