

Transformational Leadership of Expatriates and Foreign Subsidiary Performance

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Abstract—Expatriates and their leadership play more and more important roles in international business of multinational corporations. The purpose of this research is to explore how the transformational leadership of expatriate managers has an effective influence on overseas subsidiary performance. Based on previous literature and theoretical analysis from several facets including member's job performance, innovation and corporate governance, this paper provides the framework of underlying process for transformational leadership to facilitate foreign subsidiary performance.

Index Terms—Transformational leadership, expatriate, foreign subsidiary performance, multinational corporations.

I. INTRODUCTION

In this globalized environment, there is an increasing number of multinational corporations (MNCs). They must manage overseas subsidiaries, including local employees, clients, and other related business. In MNCs, expatriates play important roles in subsidiary governance, the transfer and coordination of technology and knowhow with headquarters, local business exploitation, and relationship-building with local governments.

The term “expatriates” here refers to home-country nationals (i.e., citizens of the country in which the multinational firm is headquartered) who are sent by headquarters to fill foreign positions and accomplish the transfer of technology or knowhow from headquarters to subsidiaries and to manage subsidiaries for at least three years [1].

When middle managers at the parent corporation are sent to the host corporation—a subsidiary in another country—some of them are promoted to top managers. They are thus expatriates there. It is a new cultural environment for them, and they will face many challenges related to leadership. A leadership gap occurs between middle managers and top managers. Based on the results of a questionnaire survey by Japan's Ministry of Foreign Affairs, Shiraki states that Japanese expatriates lack communication ability with local people and good personal relationships outside the company [2]. Compared with local senior managers, Japanese expatriates are not good at leadership, subordinate training, and business operations capability.

Some scholars have researched the effects of the Transformational Leadership (TL) of expatriates on

adjustment, performance, innovation, and other factors [3]–[5]. On the other hand, some researchers have done analysis on the effect of TL on many facets of organization behaviors. However, how TL of expatriates influence foreign subsidiary performance is still unclear.

II. LITERATURE REVIEW

A. Reasons for Deploying Expatriates

In general, there are several reasons why MNCs use expatriates instead of local people. The first is to reduce transaction costs between headquarters and subsidiaries. The second is to reduce cultural frictions and risk. The third is the necessity of running internal labor markets in MNCs. The fourth is for foreign subsidiary control.

From the viewpoint of agency and transaction costs theories, MNCs contain principal–agent relationships between headquarters and the subsidiary. As the headquarters and subsidiaries of MNCs are in different countries, it takes a lot of time to observe and monitor managers' work. This creates asymmetric information and bargaining problems. Thus, MNCs must reduce the cost of communication between the headquarters and their foreign subsidiaries by sending expatriates to important positions in their foreign branches [1], [6].

The second reason for using expatriates is that using expatriates may reduce cultural frictions and risk, providing competitive advantage and improving performance [7]. The multi-national internal labor markets theory posits that sufficient basic human resources in the subsidiaries of an MNC are a necessary condition for the formation of multi-national internal labor markets. In an internal labor market, human resources can flow from one company to another when necessary. The lack of such a market hampers MNCs' human resources management. For instance, if a foreign subsidiary lacks knowhow or technology in some field, the MNC would be unable to send an expatriate to fill the gap. Multi-national internal labor markets theory, agency theory, and transaction cost theory suggest that it is necessary for MNCs to use expatriate assignments, as they cannot be totally replaced by local people.

Reducing transaction cost is very important in corporate governance and subsidiary control. The definition of “subsidiary control” has been debated for a long time. It mainly concerns who makes decisions and where decisions are taken [8] and whether the subsidiary is in accord with the expectations established by the policies, plans, and targets of headquarters [9], [10].

In a study of Vale of Brazil, Macedo-Soares and Schubsky

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(2010) found that expatriates could contribute to the success of the corporate governance of the subsidiaries of international firms, especially through informal elements pertinent to the social mechanisms of governance, such as commitment, communication, flexibility, trust, and interdependence [11]. Pudelko and Tenzer (2013) stated that Japanese MNCs used indirect subsidiary control mechanism through expatriates while German and US MNCs used direct control from headquarters [8]. In 1991, professor Ito of Hitotsubashi University of Japan conducted a questionnaire survey, finding that, in Japanese corporate groups, 66% of the managers of domestic subsidiaries were on temporary assignment from headquarters and 41% of the directors of domestic subsidiaries were on temporary assignment from headquarters [12]. This indicates that Japanese companies monitor subsidiaries mainly by using managers and directors from headquarters. This governance style is also used widely in overseas subsidiaries.

It is thus clear that expatriate managers may play a more important role in executing the policies of headquarters in centralized corporations than in decentralized corporations. MNCs are strategic network organizations that follow four types of organization model: global, multinational, international, and transnational [13]. The global organization model is a kind of centralized model. In this model, headquarters controls the decisions of subsidiaries very powerfully. Power is centralized in the headquarters. Many Japanese MNCs are of this kind, such as Kao, Panasonic, and NEC. This kind of corporation uses more expatriates than other kinds of organizations because its headquarters need expatriate managers to execute management policies in overseas subsidiaries.

B. Leadership and Transformational Leadership

Leadership types include leadership in public administration, leadership in government, leadership in education, leadership in a family, leadership in sports group, and leadership in enterprises. Leadership varies across organizations. Leadership of expatriates is a specific kind of leadership in enterprise. Enterprise leadership has been defined in many ways. The study of leadership has evolved over the last 100 years, starting with the belief that leaders are born and not made, and then changing to the view that good leaders can be trained. In the 1980s, the two factors of consideration and initiation were added to the concept of leadership [14]. However, in the 1990s, the focus shifted to transformational, visionary, and charismatic leadership [14], [15]. In the 1990s, leadership was defined as the “behavior of an individual in a managerial position towards members of an organized group when directing the activities of this group toward some goal achievement” [16]. The extant research provides evidence that leadership behavior does not transcend cultures and that leadership behavior differs across regions. It is considered as crucial for leaders to be extraordinary and to transform subordinates and organizations into the best they can be to achieve a competitive edge.

Leadership style in an enterprise is influenced by factors such as the level of the manager, as managers at different levels have different leadership styles. Another factor is the

situation. The leadership styles 100 years before differ from the ones today. Another factor is the type of activity. The leadership style of a restaurant manager differs from that of the CEO of a multinational corporation. Even within the same company, the technical department manager’s leadership style differs from that of the sales and marketing manager. Another important factor influencing leadership style is the cultural environment. According to the research, leadership styles differ between the Middle East, particularly in the United Arab Emirates (UAE), and the US and Europe. Managers in the UAE have been found to be less transformational and more passive than managers in the US and Europe [5].

The concept of Transformational Leadership (TL) has absorbed a lot of attention of scholars. Trust climate theory and social exchange theory are used to do analysis on influence of TL on performance outcomes in terms of employee creativity, product innovation, business model innovation, innovation adoption and corporate governance. However, the mechanism by which TL of expatriates impacts performance of foreign subsidiaries is still unclear.

In Vecchio (2007), based on surveys and case studies, Bass pointed out that TL had four characteristics: “charisma, inspiration, intellectual stimulation and individualized consideration” [17]. According to DuBrin (2013), Kouzes and Posner (2002) suggested that TL consisted of five facets: “model the way, inspire a shared vision, challenge the process, enable others to act, and encourage the heart” [18], [19].

Expatriate competence includes many factors. The main ones are cultural adaptation and adjustment; achievement orientation; confidence; stress management; improved problem-solving and cognitive skills for managing uncertainty and ambiguity; better emotional stability; persistence, initiative, and motivation for solving problems despite difficulties; and communication capability for building effective relationships with host country nationals [20]. TL of expatriates is also an important content for expatriates in multinational corporations. In the framework section I analyze how TL of expatriate impact foreign subsidiary performance from several facets: job performance, innovation, corporate governance in international environment.

C. Transformational Leadership and Organizational Performance

TL has positive influence on creativity and job performance of followers or employees. Kase, S áez-Mart íez, and Riquelme (2005) state that “a transformational CEO has an ambiguous understanding for business and clear mental model of decisions” [21]. This is very helpful for organization performance up. According to [21], transformational CEOs motivate their followers better and help them be more confident and achieve their goals better. Through empirical analysis with data from 23 companies in Korea, Chun, Cho, and Sosik (2016) conclude that from the perspective of social exchange relationships, group-focused transformational leadership is positively associated with team performance, while individual-focused TL positively relates to team member’s performance [22]. Masa'deh,

Obeidat, and Tarhini (2016) also state that TL has significant impact on job performance and furtherly on firm performance based on data analysis from 179 employees [23]. Mittal and Dhar (2015) also conducted research on the relationship between TL and employee creativity based on data from 348 Indian manager-employee dyads and obtained similar conclusions [24]. With information from 130 Spanish firms, Camarero Izquierdo, Garrido Samaniego, and San Jos é Cabezero (2015) did an empirical research on the mediating role of information and communication technologies and concluded that TL exercised by purchasing managers proves relevant in achieving greater cost efficiency and coordination with suppliers and then had positive impact on firm performance by the strategic purchasing orientation [25]. Lin, Dang, and Liu (2016) discussed how CEO's TL had impact on top management team trust climates and furtherly performance outcomes [26]. Based on structural equation modeling and hierarchical regression analysis, Lee, Veasna and Wu (2013) found that TL made significant contributions to expatriate adjustment and performance [4]. To summarize, through social exchange relationships or trust climates in organizations, TL increases member's job performance and creativity.

D. Transformational Leadership and Innovation

TL facilitates product innovation, business model innovation and innovation adoption rate. Based on data of 151 sample from Chinese manufacturing firms, Chen, Tang, Jin, Xie, and Li (2014) did research on the relationship between CEOs' TL and product innovation performance and concluded that corporate entrepreneurship and technology orientation mediated the impact of CEOs' TL on product innovation performance [27]. They provided the mechanism that CEOs' TL influenced product innovation performance by corporate entrepreneurship and technology orientation. Elenkov and Manev found that the visionary-transformational leadership of senior expatriates had a direct influence on the rate of innovation adoption including both organizational innovation and product-market innovation [3].

Through a qualitative analysis, Bojoaga and Petrisor (2013) showed the effect of business models innovation on business performance [28]. According to [28], innovation is important for organizations to create competitive advantages and enhance their performance and business models innovation has effect on business performance. Maletic *et al.* (2016) states that sustainability-oriented innovation practices are positively related with the overall organizational performance [29]. Hence, from the perspective of innovation, TL has positive impact on business models innovation, product innovation, innovation adoption rate, and then furtherly impacts firm performance.

E. Transformational Leadership and International Corporate Governance

TL of top managers impacts managerial performance and governance outcomes. Nguyen, Mia, Winata, and Chong (2013) state that transformational leadership has a significant and direct effect on managerial performance [30]. O'Connell (2016) also concludes that transactional-transformational

leadership is a conducive style that is able to contribute to improved governance outcomes [31].

Furtherly, it is found that most research results show that corporate governance has positive impact on firm performance through the research of relationship between corporate governance and firm performance [32]. Based on [33], [32] shows that leadership structure has positive impact on financial performance. Therefore, according to the above analysis and conclusions of scholars, from the view point of corporate governance, TL style has positive impact on managerial performance, governance outcomes, and subsequently influence firm performance.

F. International Environment

TL of expatriates also play important roles in foreign subsidiaries of multinational corporations. Gundersen, Hellesøy, and Raeder (2012) did research on how TL has impact on team performance in international dynamic work environments [34]. Gundersen *et al.* (2012) conclude that TL has positive influence on team performance and the relationship between them is positively moderated by dynamic work environment [34]. Based on [34], Lee, Veasna and Wu (2013) state that in international projects, TL is proved to have positive impact on employee outcomes, including "team performance, work adjustment and job satisfaction" [4]. DuBrin (2013) analyzed the facilitation role of TL in a challenging situation such as a crisis. In a crisis, the four characteristics of TL (charisma, inspiration, intellectual stimulation and individualized consideration) help a leader to inspire and encourage the subordinate employees to work well in challenging situations [18]. Charism enables a subordinate to keep emotional identification with the leader. Inspiration is able to make an employee more confident in a complex situation. Intellectual stimulation and individualized consideration may provide supportive environment and reduce stress to subordinates.

International environment is a situation with distinct degree of complexity. It is a kind of dynamic work environment with more uncertainty. Employees face more challenges and changes in a foreign subsidiary. For expatriates, foreign subsidiaries are such working environments. Many researchers emphasized the significance of dynamic environment in influence of TL on organizational performance. TL of expatriates makes subordinates in foreign subsidiaries more creative [35]. Hence, previous literature shows that if an expatriate leader has good TL in international environment, it is more likely for the foreign subsidiary to have better performance.

III. FRAMEWORK

This section analyzes the mechanism that how TL of expatriates has positive impact on foreign subsidiary performance. The four characteristics of TL of expatriates in international environment facilitate the performance of foreign subsidiaries. They are "charisma, inspiration, intellectual stimulation and individualized consideration" [17].

Charisma of an expatriate contributes to trust climate in

organization. It helps local team members to adjust to work environment and work harder to obtain better performance and job satisfaction. If an expatriate manager is charismatic for local subordinates, it is easier for them to do better communication on foreign culture with each other. This also helps to build effective trust climate in the foreign subsidiary.

For a top manager in foreign subsidiary, charisma facilitates his or her followers to trust the manager deeper and build better relationship between the top manager and team or board members. Hence, it helps top managers to achieve better managerial performance and obtain more governance outcomes.

Good trust climate contributes to member performance, work adjustment and job satisfaction, as well as managerial performance and governance outcomes of an expatriate manager. This help to create better performance of a foreign subsidiary.

Proposition 1: Charisma of an expatriate benefits foreign subsidiary performance.

Inspiration is a second factor of TL. This characteristic of an expatriate leader or manager also helps a follower to create or keep high motivation and work harder. With the inspiration of a leader, the local staffs are more willing to challenge and overcome difficulties. Especially, when foreign subsidiary is in crisis, inspiration makes the strategies and plans seem more persuasive and realizable. It also helps members to persevering in the struggle with bad environment and subsequently improve their performance and job satisfaction.

Moreover, with inspiration from expatriate managers or leaders in a foreign subsidiary, it is more likely for members to conduct innovation in terms of organization structure, product design, and business model. Foreign environment changes greatly with the world situation in terms of political, finance and economy, international market, and international relationship, etc. Sometimes expatriate managers need to change strategies and do some innovation to adjust to the international business environment. However, as is known to all, innovation always brings costs and changes and is not easy for employees to accept. However, if a manager or leader has TL and inspires subordinates effectively, innovation related work can be executed more smoothly.

Member performance, job satisfaction and innovation have positive influence on firm performance. Hence, second proposition is stated as following.

Proposition 2: Inspiration of an expatriate contributes to foreign subsidiary performance.

The third component factor of TL is intellectual stimulation. This nature of an expatriate leader is advantageous to the potential development of members. When an organization is facing innovation, and needed to conduct transformation, it meets a lot of challenges and new situation. Members under this environment have to try new things that they have never done. They need to develop their potential for related work. In this case, if the expatriate leader has the intellectual stimulation ability, the intellectual capabilities of members would be extended and it is easier for both the organization and individuals to accomplish the tasks and targets of them.

Hence, intellectual stimulation is beneficial to both

member job performance and organization innovation. We raise the third proposition as following.

Proposition 3: Intellectual stimulation of an expatriate is advantageous to foreign subsidiary performance.

The fourth important point of TL is individualized consideration. If an expatriate leader has this ability, it also helps the leader build trust climate and communication relationship with subordinates, because every individual in an organization has distinct personality and is in different situation. If a foreign supervisor considers subordinates individually, the management style is more humanized and effective. The leader is able to understand the unique point of every subordinate and adjust the work style when he or she arrange work or do evaluation for subordinates. The work of this kind of expatriate leader can obtain more and better support from subordinates. This improves member performance, adjustment and job satisfaction and subsequently facilitates organizational performance.

If an expatriate manager has this nature and capability, it is more likely for he or she to win respect from subordinates. Then they are more willing to implement policies and strategies from the manager. Hence, the managerial performance and governance outcomes will be better.

Therefore, when organizational performance related indices of a foreign subsidiary are improved, such as member performance, adjustment, job satisfaction and governance outcomes, it is sure that the performance of that foreign subsidiary is raised.

Proposition 4: Individualized consideration of an expatriate is beneficial to foreign subsidiary performance.

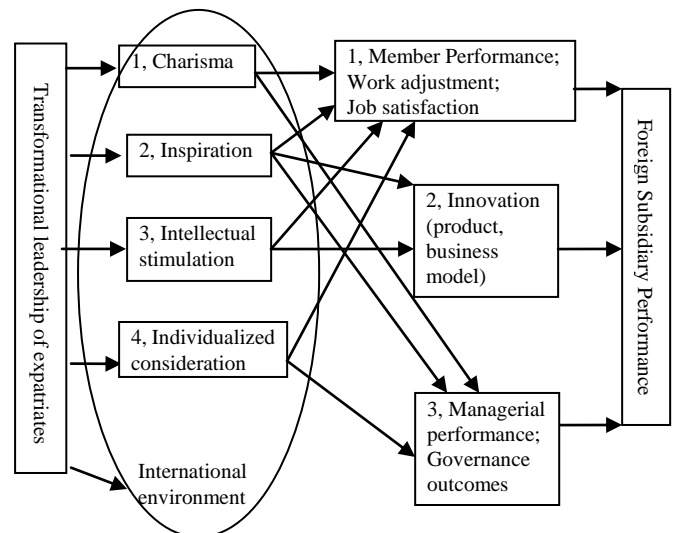


Fig. 1. Underlying influence processes for how TL influences foreign subsidiary performance.

IV. DISCUSSION

This paper offers a theoretical framework to clarify the underlying influence processes for how TL of an expatriate influences foreign subsidiary performance. It is proposed that the four characteristics of TL of an expatriate in international business environment facilitate the performance of foreign subsidiary.

Reference [19] shows that TL is consisted of five facets: “model the way, inspire a shared vision, challenge the

process, enable others to act, and encourage the heart". This opinion on TL seems different with the four component factors in the above framework according to [17]. However, it has the meaning of inspiration, stimulation and vision, too. According to the analysis above, it also has positive influence on member performance, work adjustment, job satisfaction, innovation, managerial performance, as well as governance outcomes, which of an expatriate subsequently contribute to foreign subsidiary performance, too.

V. CONCLUSION

This research contributes to the subsidiary management of MNCs and global leadership strategy by theoretical analysis. This paper provides the mechanism by which the TL of expatriates impacts foreign subsidiary performance (see Fig. 1). TL of expatriates mainly facilitates subsidiary performance from 4 facets: increasing creativity and job performance of followers by social exchange relationship in organization; strengthening innovation of product and business models and innovation rate; impacting managerial performance and corporate governance; international environment facilitates the trust climate and influence of TL on performance.

Therefore, to increase foreign subsidiary performance, an effective strategy is to assign expatriates who have good TL from headquarters. According to previous literature, leadership is not only born but also can be trained, human resource managers in MNCs may establish related leadership development programs to develop this TL of expatriates. Hence, experiential social learning is very important for TL development.

However, some scholars state that corporate governance has no or minus influence on firm performance. Therefore, the process is needed to be clarified to find out the effective corporation governance style caused by TL that facilitates subsidiary performance. Additionally, empirical research using data from different countries is also needed for future studies.

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