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Lessening the divide in foreign subsidiaries: The influence of localization on the organizational commitment and turnover intention of host country nationals

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ABSTRACT

The retention of host country nationals (HCNs) has become a key challenge for many foreign subsidiaries of multinational enterprises. This study examines whether localization, the replacement of expatriates with HCNs, could serve as a counter-strategy to increase the organizational commitment and reduces the turnover intention among HCNs. Based on social identity theory, we have developed a model to explain the heterogeneous nature of this influence on HCNs depending on different individual-level characteristics, e.g., gender, educational level, organizational tenure, and managerial position. Survey results from 197 Chinese white-collar employees showed that localization increases organizational commitment, which in turn reduces their turnover intention. This tendency was the strongest among male and highly educated employees. Practical and theoretical implications are further discussed.

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1. Introduction

Host country nationals (HCNs) are known to play a pivotal role within foreign subsidiaries of multinational enterprises (MNEs) in competing in, and responding to local markets (Harzing, 2001), decreasing costs (Fryxell, Butler, & Choi, 2004; Harzing, 2001), and improving subsidiary performance (Law, Song, Wong, & Chen, 2009). Nevertheless, the low commitment and high turnover rates of HCNs (Froese & Xiao, 2012; Fryxell et al., 2004; Gamble & Huang, 2008; Walsh & Zhu, 2007; Wong & Law, 1999) denote the challenges of managing HCNs. However, research on the antecedents of organizational commitment and turnover intention, the two main predictors of employee turnover (Cotton & Tuttle, 1986; Griffeth, Hom, & Gaertner, 2000), among HCNs remains largely underdeveloped (Froese & Xiao, 2012; Toh & Denisi, 2003, 2007). Hence, understanding the processes relating to these work attitudes has substantial implications for retaining HCNs (Cotton & Tuttle, 1986;

Griffeth et al., 2000), and avoiding the consequential financial loss thereof (Allen, Bryant, & Vardaman, 2010; Cascio, 2006).

In this study, we explore the extent to which localization has beneficial influences on the organizational commitment and turnover intentions of HCNs. Localization is the replacement of expatriates with competent HCNs to take over the tasks that were originally performed by expatriates (Law et al., 2009; Potter, 1989). This process transfers decision making power from expatriates to HCNs, provides greater career advancement opportunities to HCNs, and minimizes status differentiation among expatriates and HCNs (Banai, 1992; Reiche, 2007). Past findings suggest that ensuring both participation in decision-making, and the vertical mobility of HCNs (Björkman & Lu, 1999; Gong & Chang, 2008; Legewie, 2002; Wong & Law, 1999) have profound implications on their working attitudes. Furthermore, Wong and Law (1999) suggest that such practices would be more effective in retaining HCNs in the long run than, e.g., increasing the amount of pay or providing better compensation packages. Given these findings, localization may perhaps improve the working attitudes of HCNs. To the best of our knowledge, however, the association between localization and HCNs' work attitudes has been barely researched.

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Banai (1992), Reiche (2007), Wong and Law (1999), and Zheng and Lamond (2010) touch upon related issues, however, they have different foci. The conceptual study by Banai (1992) focuses on the cycle of how the ethnocentric beliefs of expatriates causes them to underestimate the performance and competency of HCNs, and subsequently decrease HCNs' commitment, loyalty, and motivation, which in return further reinforces expatriates' ethnocentric beliefs and staffing practices. The conceptual study by Reiche (2007) suggests a model of how certain organizational conditions determine the influence of various subsidiary staffing approaches on HCNs' perception of career prospects, organizational identification, and turnover. However, as Reiche (2007) also suggests, further consideration is necessary of the individual level conditions that may influence how HCNs perceive the staffing practices of their employer and their intention to stay. Based on their qualitative data, Wong and Law (1999) suggest a rather practical-oriented process model of how practitioners can smoothly localize foreign subsidiaries in combination with other human resource practices (e.g., the training of HCNs), in order to retain locals and encourage the repatriation of expatriates. Lastly, a quantitative study by Zheng and Lamond (2010) tests how different organizational variables, including the proportion of expatriates that fill managerial level positions in subsidiaries, influence the turnover of HCNs. The study found an inverse relationship between the proportion of expatriate managers in subsidiaries and the turnover of HCNs. As a possible explanation for such an observation, they propose that, perhaps, intergroup collision among HCNs and expatriates due to unequal power relations and opportunities may have encouraged turnover among the HCNs. These literature gaps, recommendations, and propositions, inspired us to pursue further empirical scrutiny with greater focus on individual-level conditions and the dynamics of the expatriate-HCN dyad in examining the influence of localization on work attitudes of HCNs.

In exploring the association between localization, organizational commitment, and turnover intention of HCNs, we apply social identity theory (SIT). We consider this theoretical framework to be especially applicable to our context for several reasons. First, SIT examines how identity-driven in- and out-group mentalities influence intergroup relations, and individual work outcomes (Hogg & Terry, 2000; Tajfel, 1982), e.g., organizational commitment and employee turnover (Ashforth, Harrison, & Corley, 2008; Riketta & van Dick, 2005; van Dick et al., 2004; van Knippenberg, van Dick, & Tavares, 2007). These group dynamics may result in favoritism and intergroup collision, where a cohort of employees enjoy power and success while degrading the advancement of another group (Ashforth et al., 2008; Ashforth & Mael, 1989; Hogg, Terry, & White, 1995; Tajfel, 1982). Given the reoccurring observations that HCNs and expatriates are involved in constant power struggles and inter-group conflicts (Legewie, 2002; Toh & Denisi, 2003), localization, which may lessen the divide, may enhance individual work attitudes. Second, given that group formulation is based on salient, distinctive personal characteristics, past studies indicate that social identities are particularly relevant in intercultural and diverse workplaces (Chattopadhyay, Tluchowska, & George, 2004; van Dijk & van Engen, 2013). Past studies suggest that SIT is particularly relevant in a foreign subsidiary setting where expatriates and HCNs work side-by-side, while expatriates enjoy greater status, power and career development opportunities than their HCN colleagues (Mahajan, 2011; Toh & Denisi, 2003, 2007). Third, SIT postulates that salient individual characteristics, e.g., gender, education, organizational tenure, and managerial position, define social identities and work attitudes (Ashforth & Mael, 1989; Hogg et al., 1995). Therefore, examining the possible conditional effects of individual level characteristics would increase our understanding of the extent to

which localization enhances organizational commitment among various subgroups of HCNs.

We specifically examine our model in the context of China. The significance of foreign companies in China is indisputable – the country has become the top destination of foreign direct investment in recent years (Su & Yao, 2015) and by 2014, foreign invested firms (including those from Macau, Taiwan, Hong Kong) employed approximately 30 million people in the urban area of mainland China (National Bureau of Statistics of China, 2014). However, many foreign firms in China are challenged by the high turnover rate of local employees, which is exacerbated by the scarce availability of local talent, frequent poaching of employees, low return on investment of training, and financial loss due to the replacement of employees (Gamble, 2000; Sheldon & Li, 2013; Wong, Wong, Hui, & Law, 2001; Zheng & Lamond, 2010). However, relatively little is known about the major antecedents of organizational commitment and turnover intention within the Chinese context (Newman, Thanacoody, & Hui, 2011; Zheng & Lamond, 2010). The association between localization and employee organizational commitment, as well as turnover intention in the Chinese context is yet to be explored. Thus, foreign subsidiaries in China provide an exciting context to investigate the influence of localization on HCNs' organizational commitment and turnover intentions.

Our research has the following contributions. First, our study focuses on the work attitudes of HCNs, an understudied but important population in the subsidiary management literature (Froese & Xiao, 2012; Toh & Denisi, 2003, 2007). Second, we extend prior, related research (Banai, 1992; Reiche, 2007; Wong & Law, 1999; Zheng & Lamond, 2010) by investigating the association between localization and work attitudes of HCNs. Third, based on SIT, we examine how localization has differential effects on HCNs depending on their social identification with diverse group identities. Accounting for these multiple subgroup identities may increase our understanding of the work attitudes of HCNs (Ashforth & Mael, 1989; Hogg & Terry, 2000). Fourth, by examining the research question in China, we highlight how critical localization may be for the success of foreign subsidiaries in a competitive, non-western market matched with scarce local talent (Gamble, 2000; Sheldon & Li, 2013; Walsh & Zhu, 2007; Wong et al., 2001). Lastly, we aim to provide practical implications on the extent to which localization is an effective strategy to manage local talent.

2. Social identity theory and hypotheses development

Social identity theory (SIT) explains the process of self-conceptualization and its attitudinal and behavioral outcomes in an intergroup context (Hogg & Terry, 2000). Tajfel first defined SIT as "the individual's knowledge that he belongs to certain social groups together with some emotional and value significance to him of this group membership" (Tajfel, 1972). 'Social groups' are defined by salient characteristics, whose significance emerges depending on their permeability and the given social context (Chattopadhyay et al., 2004; Hogg et al., 1995). Individuals cognitively recognize others with shared salient characteristics as an 'in-group', and the rest as an 'out-group' (Hogg et al., 1995). This group affiliation dictates how individuals behave within the group, and toward the out-group (Hogg et al., 1995). In-group membership reinforces its members' volition to internalize the group's norms and values, fostering internal cohesion (Tajfel, 1982). Furthermore, as humans have the basic need for self-enhancement and self-consistency, they are motivated to work toward strengthening and maintaining the identity and status of their own group (Hogg & Terry, 2000; Hogg et al., 1995). The presence of an out-group helps individuals to assess whether the

given context is favorable for the enhancement of the in-group or the out-group's identity and status (Hogg et al., 1995; Tajfel, 1982). In situations where individuals perceive the out-group as a threat to their own group's identity and status, inter-group conflict and favoritism arise, further fueling in-group cohesion and inter-group polarization (Tajfel, 1982).

Researchers have long acknowledged the relevance of SIT in organizational contexts, in which the organization serves as a social category that individuals identify with (Ashforth et al., 2008; Ashforth & Mael, 1989). Accordingly, past literature suggests that employees' identification with their employers is associated with organizational commitment (Ashforth et al., 2008; Riketta, 2005; Riketta & van Dick, 2005). Organizational commitment is the extent of employees' emotional attachment, identification, and involvement with their employer (Mowday, Steers, & Porter, 1979) together with positive evaluation toward being a member of the organization (Ashforth & Mael, 1989). Furthermore, research demonstrates that SIT has implications for turnover intentions (van Dick et al., 2004; van Knippenberg et al., 2007), employees' deliberate willingness to leave their employer (Tett & Meyer, 1993). Employees that value their identity based on their identification with their employers are less likely to leave as to maintain their identity and avoid the risk of losing that identity (van Dick et al., 2004; van Knippenberg et al., 2007).

The question is then, how can foreign subsidiaries enhance the identification among HCNs in order to enhance their work attitudes? As SIT suggests, intergroup cohesion and identification arise when the in-group members perceive similarity with the out-group and when status differences among groups become less salient (Ashforth et al., 2008; Ashforth & Mael, 1989). In ethnocentric management, nationality, i.e., home-country expatriates versus HCNs, is a salient characteristic that determines the career outlook, advancements, and opportunities in favor of expatriates (Reiche, 2007). Localization reduces the ethnocentric bias that reinforces the disparity across expatriates and HCNs and the second-class status of HCNs (Banai, 1992; Reiche, 2007). A study by Toh and Denisi (2007) found that the decrease in status and pay differentiation between HCNs and expatriates and greater career support for HCNs by expatriates, increased HCNs' identification of expatriates as 'one of us.' In a localized foreign subsidiary, HCNs, together with expatriates, have a greater role in addressing and shaping the future direction and fate of their employer (Law et al., 2009). This may lessen intergroup polarization, and instead yield a shared group identity, fate, and cohesion among HCNs and expatriates, in which HCNs and expatriates begin to internalize common goals, norms, and values (Ashforth & Mael, 1989; Hogg et al., 1995; Tajfel, 1982). Furthermore, this growing sense of shared group identity may enhance HCNs' perception that their foreign employer embodies their salient identity, values, and norms (Ashforth & Mael, 1989). Hence, we hypothesize that the more localized a foreign employer is, the greater the organizational commitment among HCNs, since organizational commitment involves greater identification and emotional attachment to the employer's values and goals (Mowday et al., 1979).

Hypothesis 1a. In foreign subsidiaries, localization is positively associated with organizational commitment of HCNs.

Past research has shown that social identity also has implications for employee turnover (van Dick et al., 2004; van Knippenberg et al., 2007). According to SIT theory, individuals are not only motivated to enhance their identity, but also strive for its consistency and continuance, and hence resist changes that may interfere with such valued self-conceptions (Ashforth et al., 2008; van Dick et al., 2004; van Knippenberg et al., 2007). Hence, leaving their employer would result in the loss of their self-concept that is tied to their current employer (van Dick et al., 2004; van

Knippenberg et al., 2007). Localization elevates the in-group status of HCNs, thereby endowing HCNs with greater opportunities, restoring their positive group identity, and developing cohesion among HCNs and expatriates. Thus, we hypothesize that in localized foreign employers, HCNs are more likely to stay to maintain their identity and group cohesion (Tajfel, 1982).

Hypothesis 1b. In foreign subsidiaries, localization is negatively associated with turnover intention of HCNs.

We further hypothesize that organizational commitment mediates the relationship between localization and turnover intention. When individuals are committed to their employer, insofar as they are emotionally attached to their employer, identify with their employer's values, and internalize the success of the company with their own (Mowday et al., 1979), employees are more likely to avoid behavior that would induce loss for their employer (van Knippenberg et al., 2007). As SIT argues, individuals are motivated to enhance their identity and esteem by engaging in behaviors that would improve the status and fate of the group that they identify with (Hogg & Terry, 2000; Hogg et al., 1995). Employee turnover evidently leads to extra financial and operational costs for the employers for refilling vacant positions and training new employees (Allen et al., 2010; Cascio, 2006). Hence, with a greater level of localization in which HCNs play an active role in shaping the success of the organization, HCNs are more likely to have greater attachment to their employer and hence are more likely to refrain from behaviors that would induce costs, such as turnover.

Hypothesis 1c. In foreign subsidiaries, organizational commitment mediates the association between localization and turnover intention of HCNs.

While nationality may determine group affiliation, individuals may further form subgroups nested within this aggregate, derived from other salient attributes (Hogg & Terry, 2000). The influence of individual-level characteristics on identification, status formation, and the conditions that enhances one's self-esteem are well established in the SIT literature (Hogg & Terry, 2000). One of the known individual-level characteristics that shapes social identities is gender (Chattopadhyay et al., 2004; Hogg & Terry, 2000; Tajfel, 1982). People who share similar salient identities, such as gender, also share similar values and norms (Tajfel, 1982; Hogg & Terry, 2000). Prior research suggests that men are more competition seeking than women and that outperformance fuels men's self-esteem (Gneezy, Niederle, & Rustichini, 2003). Furthermore, a longitudinal study found that greater decision-making and autonomy increase self-esteem among men but not women (Keller, Meier, Gross, & Semmer, 2015). However, foreign subsidiaries that exclusively appoint expatriates to important positions limit the career potential and decision autonomy of HCNs. This would particularly frustrate competition- and autonomy-seeking male HCNs. These disadvantages in internal competition for power and status along with a lack of authority would be perceived to be more detrimental by male compared to female employees (Keller et al., 2015). On the other hand, localization provides greater opportunities for HCNs to compete and advance to higher managerial levels (Law et al., 2009; Reiche, 2007), which would particularly fuel the self-esteem of male HCNs. This may make competition-seeking, male HCNs more committed to their foreign employer than female HCNs.

Hypothesis 2. Gender moderates the relationship between localization and organizational commitment of HCNs; insofar as localization increases the organizational commitment more among male HCNs than female HCNs.

In addition to gender, van Dijk and van Engen (2013) propose that individual characteristics such as education, determine group identity and status in organizations as it signals a performance capacity in which employees with a higher level of education obtain greater status. The study further proposes that when highly educated employees obtain an appropriate level of power and status, they show greater commitment and performance (van Dijk & van Engen, 2013). A study on MBA students further suggests that individuals with a higher level of education are more self-confident about their capabilities and are more achievement-seeking, and their positive career perception leads to greater satisfaction at work (Baruch & Leeming, 2001). However, in ethnocentrically managed subsidiaries, highly educated HCNs may not obtain their expected status and power by the very fact of their categorization as an HCN (Reiche, 2007). Therefore, ethnocentric management may especially hamper the commitment among highly educated HCNs. However, in localized subsidiaries, where power and career opportunities are also given to HCNs depending on their qualifications and performance, highly educated HCNs may exhibit greater commitment toward their foreign employer than HCNs with a lower level of education. Thus, such employees are less affected by the degree of localization. These arguments lead to the following hypothesis:

Hypothesis 3. The attained level of education moderates the relationship between localization and organizational commitment of HCNs; insofar as localization increases the organizational commitment more strongly among the HCNs who have attained higher levels of education than those with lower levels of education.

Previous research suggests that individuals also derive their identities from organizations, such as through long organizational tenure (Riketta, 2005). A past study has shown that employees with longer organizational tenure tend to perceive themselves as a highly important asset to their employer for having equipped organization-specific knowledge, skills, and networks (Ng & Feldman, 2010). Furthermore, another study suggests that employees with longer tenure exhibited greater identification with their organization than those with shorter tenure, when they perceived that their superiors considered their insights and skills valuable (Hameed, Roques, & Arain, 2013). Thus, HCNs with longer tenures would expect to be appreciated and promoted by the employer. However, if foreign subsidiaries appoint expatriates to important positions, this would be disappointing to HCNs with longer tenures, particularly those who would have deserved the position but were discredited because of their HCN status. In a related study, Watanabe and Yamaguchi (1995) found that HCNs with longer tenure evaluated expatriate managers more negatively. In contrast, localization would increase organizational commitment especially among the HCNs with longer tenure, because they are not downgraded for who they are, but appreciated for their expertise, which contributes toward their own career advancements (Ashforth & Mael, 1989; Hogg & Terry, 2000).

Hypothesis 4. Organizational tenure moderates the relationship between localization and organizational commitment of HCNs; insofar as localization increases the organizational commitment especially among HCNs with longer tenure than those with shorter tenure.

In addition to organizational tenure, managerial level is another organization-based identity which may influence the way in which one enhances their self-esteem (Li, 2008; Zimmerman, Liu, & Buck, 2009). Prior studies suggest that junior and senior managers' expectations toward their foreign employer differ (Wong & Law, 1999; Zimmerman et al., 2009). Junior managers prefer management by expatriates to learn management techniques (Zimmerman et al., 2009), whereas senior managers seek power sharing with expatriates (Li, 2008) and long-term career plans (Wong & Law, 1999). Perhaps, greater power and opportunities are more important for senior HCNs managers as they are most afflicted by the glass-ceiling effect (Zimmerman et al., 2009). Therefore, for senior HCN managers, localization is not only important to exercise greater influence and self-enhancement, but also to be considered as an in-group member by their expatriate colleagues (Hogg & Terry, 2000; Tajfel, 1982). Greater perceived shared membership should strengthen the cohesion among expatriate and senior HCN managers (Tajfel, 1982). In this perceived shared membership, senior HCN managers would be likely to exert greater efforts to reach the organizational goals of their foreign employer.

Hypothesis 5. Managerial level moderates the relationship between localization and organizational commitment of HCNs; insofar as localization increases the organizational commitment especially among the HCNs of higher management positions than those in lower management positions.

Fig. 1 provides an overall model of our hypotheses.

3. Method

3.1. Research design and sample

We collected survey data from 197 white-collar workers working for 12 Asian and 11 Western MNEs in manufacturing, technology, and service sectors in Beijing and Shanghai. Among the respondents, 55.2% were female, 64.9% were 29 years old or younger, and 89.2% had at least a bachelors degree. While not representative of Chinese society, these employee characteristics fit those reported in previous studies conducted in MNEs in China (Froese & Xiao, 2012). Young and highly educated HCNs are highly demanded by foreign employers, given the lack local talent and frequent poaching of the educated workforce (Gamble, 2000).

Measures

The English version of the questionnaire was translated into Chinese. We conducted back translation to ensure the reliability of the questionnaire and made minor changes where necessary.

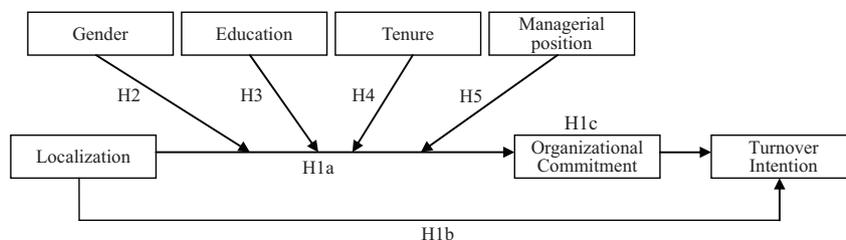


Fig. 1. Theoretical model.

Independent variable

For localization, we used the seven-item scale from localization success developed by Law et al. (2009). A sample item is “Many local managers have successfully replaced expatriate managers” (Law et al., 2009). A 7-point Likert scale (1 = strongly disagree to 7 = strongly agree) was used to measure the responses.

Mediator and dependent variables

We used the 15 items of the Organizational Commitment Questionnaire developed by Mowday et al. (1979) for organizational commitment. A sample item is “I talk up this organization to my friends as a great organization to work for” (Mowday et al., 1979). For turnover intention, we used the four-item scale developed by Farh, Tsui, Xin, and Cheng (1998). A sample item is “I may not have a good future if I stay with this organization” (Farh et al., 1998). For both scales, the respondents used the 7-point Likert scale (1 = strongly disagree to 7 = strongly agree) for response.

Moderating variables

Our moderating variables included gender, education, organizational tenure and managerial position. We created a dummy variable for gender, i.e., 0 for males and 1 for females. Regarding educational-level, we assigned the following values: 1 for high school degree or less, 2 for bachelors, and 3 for masters degree or more. For organizational tenure, we included the following categories: 1 for less than a year, 2 for 1–3 years, 3 for 4–7 years, and 4 for more than 7 years. For managerial position, we assigned the values: 1 for non-managerial, 2 for section chiefs, 3 for deputy department head, and 4 for department head.

Control variables

We included several individual and firm-level control variables. As for individual variables, we included performance-based pay. Such a pay system signals that employees have control over their reward and career outcomes and hence improves their work attitudes (Griffeth et al., 2000; Miceli, Jung, Near, & Greenberger, 1991). We used the four-item scale from Wang and Zang (2005). A sample item is “Specific pays are linked with performances” (Wang & Zang, 2005). The participants responded using the 7-point Likert scale (1 = strongly disagree to 7 = strongly agree). We included country of origin as there is a substantial difference between how Asian and Western MNEs manage their workforce in China, which may influence their respective HCNs' working attitudes (Zimmerman et al., 2009). We created dummy variables for country of origin, i.e., 0 for Asian MNEs, 1 for Western MNEs. In addition, we included ownership type, i.e., wholly foreign-owned and Sino-foreign joint venture. Past literature suggest that ownership type influences the extent to which local employees are engaged in decision-making (Li, 2008). Accordingly, we speculate that local employees may enjoy greater authority and hence have greater intentions to stay in joint ventures than in wholly foreign-owned firms. We created a dummy variable, i.e., 0 for wholly owned, and 1 for Sino-foreign joint venture. We also included subsidiary size. Larger firms tend to have more developed HRM systems and greater internal job opportunities than smaller firms, hence they may better maintain positive work attitudes of HCNs (Hom & Griffeth, 1994). Subsidiary size was categorized as follows: 1 = under 50 people; 2 = 50–150 people; 3 = 150–250 people; and 4 = more than 250 people. We included industry because of its known effect on employee turnover intentions and voluntary turnover (Cotton & Tuttle, 1986; Zheng & Lamond, 2010). The ongoing shift from manufacturing to a service centered economy may create more opportunities and demands in the service sector, leading to increased turnover intentions, unemployment, and employee turnover in the manufacturing sector (Zheng & Lamond,

2010). We created a dummy variable for industry, i.e., 0 for manufacturing, 1 for service and technology sectors.

4. Results

We first conducted confirmatory factor analyses to validate our scales. We followed the steps of Brown (2012) and Kline (2011), and referred to standardized residual covariance and modification indices to improve the model fit. For the organizational commitment scale (see Appendix A), we dropped the six reverse coded scale items (item 3, 7, 9, 11, 12, 15), item 4 (“I would accept almost any type of job assignment in order to keep working for this organization”), and item 13 (“I really care about the fate of this organization”) due to low factor loadings (<.40) and/or significantly high standardized residual covariance (>.40). The modification indices suggested to load these items onto our other latent variable, turnover intention, and/or to covary the error terms among them. To avoid overlap with the turnover intention scale, we therefore deleted those eight items. Other studies have also reported similar issues in factor dimensionality when simultaneously analyzed with turnover intention/cognition scales (e.g., Farh et al., 1998). However, there is a lack of empirical consensus on which item specifically should be discarded prior to data collection (Bozeman & Perrewé, 2001). For turnover intention, we dropped one item (“I plan to stay in this company to develop my career for a long time”) due to significantly high standardized residual covariance (>.40). For localization, we dropped one item “the progress of localization of my company is very successful”, due to high modification indices and standardized residual covariance (>.40). For performance based pay, we kept all but the one item (“bonus is linked with different position”) due to low factor loading (<.40). After making these modifications, we achieved a good model fit ($\chi^2 = 238.336$, $DF = 143$, $p < .001$, $CMIN/DF = 1.667$, $IFI = .961$, $TLI = .953$, $CFI = .960$, $RMSEA = .059$) according to the thresholds of Byrne (2001) and Hair, Black, Babin, and Anderson (2010).

We additionally tested the convergent and discriminant validities of the organizational commitment, turnover intention, localization, and pay for performance scales following the steps of Farrell (2010). We first conducted paired construct tests (Anderson & Gerbing, 1988). We compared the model fit of the original model with other models in which we constrained the correlation of every possible pairing of constructs in this study. Since the unconstrained, original model had a chi-square value that was significantly lower than any of the constrained models; we concluded that we achieved discriminant validity (Farrell, 2010). We further extended this test by calculating the AVE estimates (Fornell & Larcker, 1981), which was greater than the shared variance and the threshold of .50 (Hair et al., 2010). Hence, we conclude that our scales obtained convergent and discriminant validity (Farrell, 2010; Fornell & Larcker, 1981; Hair et al., 2010). Our scales also achieved composite reliability, as all of them had a value greater than the threshold of 0.70 (Hair et al., 2010). Table 1 presents the means, standard deviations, composite reliability, and correlations among the variables for the entire sample.

To reduce the risk of multicollinearity, we centered the moderating and independent variables. We further examined the variance inflation factor (VIF). As the highest VIF was 2.10, we concluded that multicollinearity was not an issue in our analysis (O'Brien, 2007).

4.1. Path analysis

We included all our variables to test the proposed model using AMOS. We allowed the control variables to regress on organizational commitment and turnover intention, and to covary among

Table 1
Means (M), standard deviations (SD), composite reliability (CR), and correlations among the study variables.

Variables	M	SD	CR	1	2	3	4	5	6	7	8	9	10	11	
1	Country of origin	.27	.45												
2	Industrial sector	2.10	.41		.52***										
3	Firm size	3.69	.86		-.18*	-.51***									
4	Ownership	.20	.40		.21**	-.16*									
5	PBP	3.77	1.42	.81	.23**	.12	.03	.05							
6	Gender	.55	.50		-.12	.05	-.05	-.12	-.03						
7	Education	2.11	.56		.15*	.13	-.11	-.28***	-.02	.05					
8	Tenure	2.07	.88		-.17*	-.16*	-.03	-.02	-.10	-.14*	.02				
9	Managerial Position	1.36	.82		-.08	-.11	-.00	.02	-.11	-.17*	.01	.38***			
10	Localization	3.27	1.31	.93	.31***	.11	.09	.20**	.56***	-.05	.03	-.20**	-.05		
11	OC	2.61	.76	.89	.13	.11	.13	.11	.38***	.15*	-.02	-.21**	-.05	.54**	
12	Turnover intention	1.86	1.34	.87	-.02	-.03	-.09	-.10	-.33***	-.15*	-.01	.26**	.05	-.47***	-.68***

Note: N = 197. PBP = performance based pay; OC = organizational commitment.

* p < 0.05.
** p < 0.01.
*** p = 0.00.

each other and with localization. We achieved a good model fit ($\chi^2 = 72.025$, $DF = 48$, $p = .014$, $CMIN/DF = 1.501$, $IFI = .961$, $TLI = .890$, $CFI = .956$, $RMSEA = .051$), according to the threshold suggested by Byrne (2001) and Hair et al. (2010). Tables 2 and 3 further report the estimated standardized regression weights, critical ratio, and p-values for each of the paths. In addition, Table 4 provides the bootstrapping results using the percentile method for the mediation effect of localization and organizational commitment on turnover intention.

As expected, localization is positively associated with organizational commitment ($\beta = .44$, $t = 6.10$, $p < .01$, see Table 2), hence supporting Hypothesis 1a. Localization is negatively associated with turnover intention ($\beta = -.16$, $t = -2.19$, $p < .05$), supporting our Hypothesis 1b. Table 4 shows a supporting result for our mediation hypothesis, Hypothesis 1c. Since the indirect effect was significant, i.e., the value 0 does not lie between the lower and upper bounds of 95% confidence intervals (Preacher & Hayes, 2004), we conclude that full mediation exists. For our moderation hypotheses, we found support for Hypotheses 2 and 3. According to Table 2, gender ($\beta = -.14$, $t = -2.33$, $p < .05$) and education ($\beta = .17$, $t = 3.01$, $p < .01$) significantly moderated the relationship between localization and organizational commitment. Unfortunately, we did not find support for Hypotheses 4 and 5 regarding the moderating effects of organizational tenure ($\beta = .07$, $t = 1.08$, $p > .05$) and managerial position ($\beta = -.03$, $t = -.48$, $p > .05$). We then plotted the significant moderating effects graphically for an

Table 2
Statistical results for hypothesized paths on organizational commitment.

Variables	Organizational commitment		
	Standardized β	CR	p
Country of origin	-.08	-.14	
Industry	.13	1.70	
Firm size	.14	2.05	
Ownership	.04	-.61	
Performance based pay	.12	1.70	
Localization	.44	6.10	***
Gender	.16	2.71	**
Localization \times Gender	-.14	-2.33	*
Education	-.01	-.14	
Localization \times Education	.17	3.01	**
Tenure	-.09	-1.50	
Localization \times Tenure	.07	1.08	
Position	.06	.90	
Localization \times Position	-.03	-.48	

* p < 0.05.
** p < 0.01.
*** p = 0.00.

increased understanding (see Figs. 2 and 3), following the procedures by Aiken and West (1991).

Fig. 2 suggests that localization is positively related to organizational commitment for both men and women. Results of simple slope analysis following the PROCESS procedure by Preacher and Hayes (2004), confirmed that the effect of localization was significant for men ($b = .36$, $t = 6.65$, $p < 0.01$) and women ($b = .19$, $t = 3.43$, $p < 0.01$).

HCNs of high educational qualifications (bachelors and more) demonstrated a greater level of organizational commitment when exposed to a high level of localization than the effect of localization among HCNs with high school diplomas. In order to conduct simple slopes analysis, we re-categorized the ordinal educational variable into a dummy variable; those with high school degrees (=0) and those with bachelor degrees or higher (=1). Results of simple slope analysis showed that localization had a positive effect on organizational commitment among HCNs with bachelors degree or more ($b = .31$, $t = 6.87$, $p < 0.01$), while the effect was insignificant for those with high school diploma ($b = -.01$, $t = -.12$, n.s.).

5. Discussion

The high turnover rate among HCNs, frequent poaching of trained HCNs by competitors, and scarcity of local talent, make the retention of HCNs a top priority for foreign subsidiaries (Froese & Xiao, 2012; Fryxell et al., 2004; Gamble & Huang, 2008; Han & Froese, 2010; Walsh & Zhu, 2007). Based on the past studies that suggest staffing policies influence the turnover of HCNs (Reiche, 2007) rather than actual pay or training opportunities (Wong & Law, 1999; Zheng & Lamond, 2010), we assessed the role of localization in increasing organizational commitment and intention to stay among

Table 3
Statistical results for hypothesized paths on turnover intention.

Variables	Turnover intention		
	Standardized β	CR	p
Country of origin	.14	2.04	*
Industry	-.01	-.14	
Firm size	.03	.42	
Ownership	-.03	-.60	
Performance based pay	-.05	-.78	
Localization	-.16	-2.19	*
Organizational Commitment	-.58	-9.28	***

* p < 0.05.
** p < 0.01.
*** p = 0.00.

Table 4
Standardized bootstrapping results for the mediation effect on turnover intention.

Variable	Direct effect 95%CI (lower to upper)	Indirect effect 95%CI (lower to upper)	Total effect 95%CI (lower to upper)
Localization	-.16 (-.30 to .02)	-.26 (-.38 to -.16)	-.41 (-.55 to -.25)

Note: Bootstrap samples = 1000.

HCNs. As predicted, localization increased organizational commitment and reduced turnover intention among HCNs. Moreover, our results demonstrate that localization had a stronger effect on the organizational commitment among males than females, and the effect was significant only among highly educated HCNs. Fig. 4 shows the overall findings.

5.1. Theoretical implications

Our theoretical framework based on SIT and empirical findings make several important contributions. Prior literature has concentrated its efforts on examining the role of localization on various organization-level performance indicators, e.g., responding to local markets, reducing costs, minimizing cultural distance, and increasing organizational performance (Gong, 2003; Harzing, 2001). In contrast, the influence of localization on work attitudes has been scarcely scrutinized apart from a few studies (Banai, 1992; Reiche, 2007; Wong & Law, 1999; Zheng & Lamond, 2010). Our study extends prior research on the individual-level consequences of localization in the foreign subsidiary context by drawing from identification perspectives based on SIT (Ashforth et al., 2008; Ashforth & Mael, 1989; Hogg & Terry, 2000; Hogg et al., 1995; Tajfel, 1982) and providing empirical evidence. Our findings show clearly that localization has a detrimental influence on HCN employees' organizational commitment and turnover intention.

Our focus on work attitudes among HCNs also contributes to both the existing employee turnover and subsidiary management literature. As Reiche (2008) argues, prior studies have mainly concentrated on identifying antecedents of employee voluntary turnover in a national context. However, the subsidiary context, where employees of various backgrounds, e.g., identity, work values (Froese & Xiao, 2012), and contractual relations, interact,

evidently further adds complexity and uniqueness to the employee turnover dynamic (Reiche, 2008). As our findings show, localization, a factor that only emerges in the foreign subsidiary context, served as an antecedent to organizational commitment and turnover intention, two established predictors of actual turnover (Cotton & Tuttle, 1986; Griffeth et al., 2000). Additionally, the focus on HCNs has implications for the subsidiary management literature. Despite the important role of HCNs in subsidiary success (Harzing, 2001), minimal attention has been paid to them, while extensive literature exists on expatriate management (Hechanova, Beehr, & Christiansen, 2003). In alignment with past studies on HCNs (Caprar, 2011; Froese & Xiao, 2012; Toh & Denisi, 2003, 2007) we encourage future studies to further identify the antecedents and conditions that lead to desirable work attitudes of HCNs.

Moreover, our study extends prior research on HCNs (Froese & Xiao, 2012; Toh & Denisi, 2003, 2007), by paying attention to the diversity of HCNs. The positive linear effect of localization on organizational commitment varied depending on the gender and educational background of the HCN. A stark contrast was observed particularly among HCNs of various educational backgrounds, in which localization had an influence on organizational commitment only among the highly educated, achievement-seeking cohorts. Therefore, our study responds to the call by Reiche (2007), for a greater emphasis on individual-level variables that could influence HCNs' perceptions of subsidiary staffing, career aspirations, and work attitudes. Considering their salience (Chattopadhyay et al., 2004; van Dijk & van Engen, 2013), these individual characteristics may also moderate the influence of other subsidiary management practices on desired work attitudes and behaviors and should be considered in future research.

In contrast to the conceptual and empirical suggestions (Ashforth & Mael, 1989), organization-related individual characteristics, i.e., organizational tenure and managerial position, did not interact with the staffing strategy and work attitudes of HCNs. Theoretically, this may be perhaps due to the relatively permeable nature of organization-based individual variables (Chattopadhyay et al., 2004). In other words, they allow individuals to move in and move out of the group in comparison to gender and education levels, weakening in-group cohesion (Chattopadhyay et al., 2004). From a statistical perspective, our low variance in organization tenure and managerial positions may have affected the outcome.

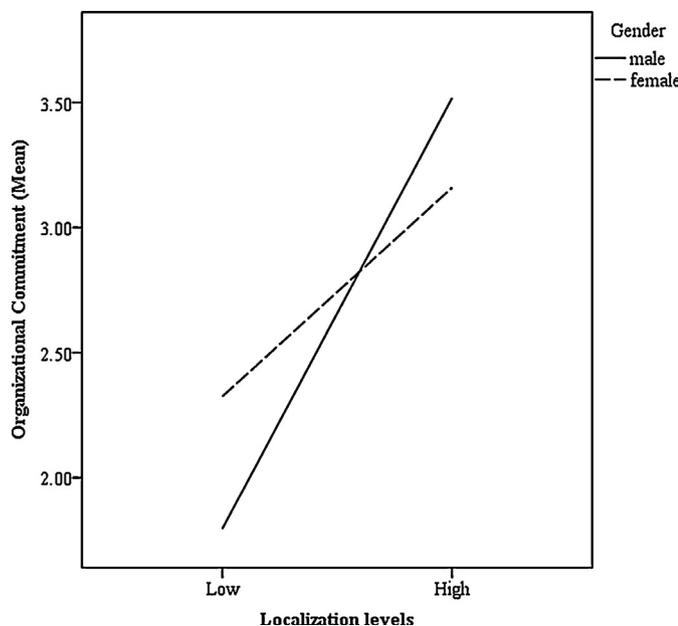


Fig. 2. Moderating effect of gender.

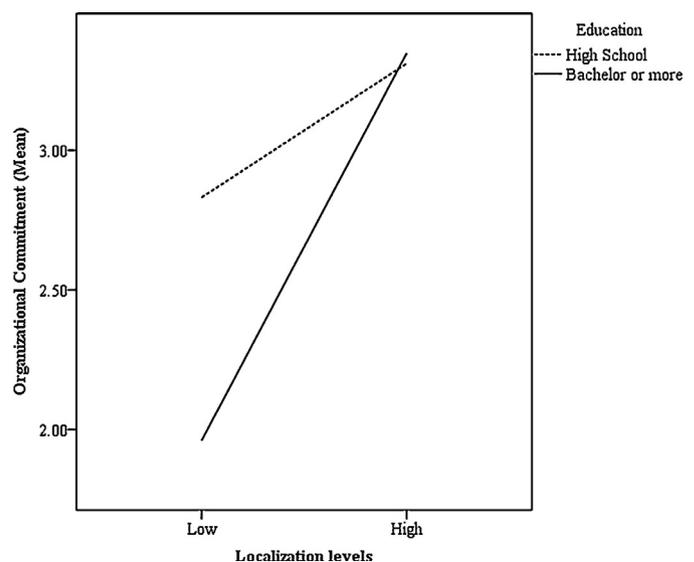


Fig. 3. Moderating effect of education.

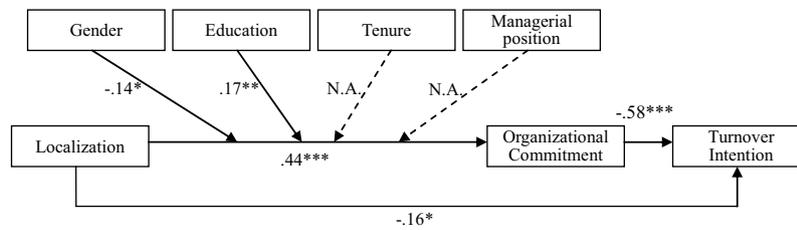


Fig. 4. Estimated results of a structural equation modeling.

Nevertheless, we have added more insight than previous studies that have only hypothesized and/or tested a linear relationship between localization and work attitudes and behaviors (e.g., Zheng & Lamond, 2010).

5.2. Practical implications

For those subsidiaries that identify the turnover of HCNs as a critical issue to their overall success, we recommend considering localization as a possible strategy to improve retention rates and circumvent further exacerbation (Reiche, 2007; Wong & Law, 1999). However, we also concurrently advise practitioners to proceed with great caution. Employee turnover is a product of an intricate process in which numerous individual-level, organizational-level factors and dimensions intervene (e.g., Cotton & Tuttle, 1986; Mathieu & Zajac, 1990; Meyer, Stanley, Herscovitch, & Topolnysky, 2002), beyond that encompassed in our study. Furthermore, as important as HCNs are for subsidiary success, expatriates also play an essential role to maintain internal control and to minimize risks (Gong, 2003; Harzing, 2001). In these regards, localization, if considered, should be implemented with concern for trust, communication, and relationships among expatriates and HCNs, and subsidiaries and headquarters (Wong & Law, 1999). Therefore, we recommend that practitioners employ such localization measures, while cautiously examining the conditions, identifying their priorities, and considering the operational capacity of the organization to implement such a transition.

Our results also imply future challenges for the human resource management of foreign subsidiaries. The moderating effects of individual demographics, i.e., gender and education, and localization on organizational commitment suggest that subsidiaries need to adapt and respond to their diverse workforce. This implication is in alignment with Allen et al. (2010) and Peltokorpi, Allen, and Froese (2015), who encourage employers to seek management strategies that address issues and demands that are present in specific contexts, among a certain cohort of employees. In particular, if foreign subsidiaries seek to recruit and retain male and/or highly educated employees they may consider ways to localize in order to increase the commitment and retention of this segment of the workforce. Localization is less important if foreign subsidiaries mainly seek to recruit and retain lowly qualified employees.

5.2.1. Limitations and avenues for further research

The limitations of this study generate new directions for future research. The cross-sectional design of this research cannot establish any causal claims, and is prone to common method bias. However, the causal link between organizational commitment and turnover intention has been established through meta-analyses (Cotton & Tuttle, 1986; Griffeth et al., 2000), while localization has been known to affect work attitudes among HCNs through qualitative studies (e.g., Wong & Law, 1999). Moreover, to reduce common method bias, we used different types of variables, both continuous and categorical, and conducted post hoc statistical tests, i.e., confirmatory factor analyses (Podsakoff, MacKenzie, Lee,

& Podsakoff, 2003). The demographic variables used in our model are all objective data that are less susceptible to social desirability (Podsakoff et al., 2003). Furthermore, most hypotheses concern moderating effects, which are difficult to anticipate by respondents (Podsakoff et al., 2003). Nevertheless, we highly recommend longitudinal studies for future studies.

Additionally, we recommend future studies to conduct a multi-source and multi-level analysis. In regards to multi-source, we encourage future studies to combine self-reported, individual-level data with relevant objective, organizational-level data on, e.g., localization policies, actual turnover, and salary. Inclusion of such data would deliver a more concrete and compelling result on the influence of localization on employee voluntary turnover. Additionally, considering that localization is often interrelated with, e.g., industry type, method of operation (e.g., joint venture, wholly owned enterprises), subsidiary autonomy, and subsidiary age, we highly encourage future studies to conduct a multi-level analysis. Moreover, concerning the fact that organizational tenure and managerial positions did not have a significant moderating effect, we suggest that future studies survey a broader range of participants to increase the variance of data.

We further suggest testing other possible moderating variables, such as English language skills or mobility, as they play a role in building a career at MNEs (Harvey, Novicevic, & Speier, 1999; Walsh & Zhu, 2007). Although we have examined the influence of localization and controlled for various individual and organizational level variables, we nevertheless suggest future studies further scrutinize the role of other factors that may influence the turnover among HCNs. As existing meta-analyses on organizational commitment and turnover reveal (e.g., Cotton & Tuttle, 1986; Mathieu & Zajac, 1990; Meyer et al., 2002), retention is an intricate and complex process in which multiple factors and conditions concurrently contribute to the employer–employee dyad and exchanges, such as e.g., self-interest, promotion, financial stability, and other individual and/or organizational level factors (Cotton & Tuttle, 1986; Mathieu & Zajac, 1990; Meyer et al., 2002). Considering the limited turnover research in the subsidiary setting (Reiche, 2007, 2008) and limited focus on HCNs (Froese & Xiao, 2012; Toh & Denisi, 2003, 2007), we urge future studies to continuously focus on identifying other factors that contribute to the retention of HCNs. Additionally, we further encourage future studies to also examine how localization could overcome other critical issues related to subsidiary success and survival that require further scrutiny, e.g., information asymmetry (Gong, 2003), socialization of expatriates and HCNs (Toh & Denisi, 2007), and expatriation success (Bruning, Sonpar, & Wang, 2012).

Lastly, this study was based on a sample of HCNs in foreign subsidiaries in China. While we assume that the observed mechanisms will be the same in other countries, the degree of certain relationships and salience of certain individual characteristics may differ. Our results are thus context bound. Future studies may replicate and extend our study in different country contexts. Despite these limitations, our study has brought new insights into the influence of localization on the organizational commitment and turnover intention of HCNs and hopefully inspires further

research on the work attitudes and behaviors of HCNs, an important but understudied population in the MNE.

Appendix A

Organizational commitment scale from Mowday et al. (1979).

1	I am willing to put in a great deal of effort beyond that normally expected in order to help this organization be successful.
2	I talk up this organization to my friends as a great organization to work for.
3	I feel very little loyalty to this organization. (R)
4	I would accept almost any type of job assignment in order to keep working for this organization.
5	I find that my values and the organization's values are very similar.
6	I am proud to tell others that I am part of this organization.
7	I could just as well be working for a different organization as long as the type of work was similar. (R)
8	This organization really inspires the very best in me the way of job performance.
9	It would take very little change in my present circumstances to cause me to leave this organization. (R)
10	I am extremely glad that I chose this organization to work for over others I was considering at the time I joined.
11	There's not too much to be gained by sticking with this organization indefinitely. (R)
12	Often, I find it difficult to agree with this organization's policies on important matters relating to its employees. (R)
13	I really care about the fate of this organization.
14	For me this is the best of all possible organizations for which to work for.
15	Deciding to work for this organization was a definite mistake on my part. (R)

Note: R = reverse coded.

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