Successful Localization: Antecedents and Consequences

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When local employees replace expatriate managers in corporate settings, that action is called localization. We sampled 229 multinational companies in China and found three factors predicting localization success: parent company support, local top management’s commitment, and localization-related human resource practices. Moreover, we found that the degree of localization success is positively related to firm performance.

Many multinational corporations (MNCs) have adopted localization as part of their international strategy. That is, they have replaced expatriate managers with local employees who are able to perform the jobs originally held by expatriates. We had two purposes for undertaking this study. First, we investigated the factors that lead to successful localization. Second, we investigated the relationship between localization and firm performance.

Parent Company Support

MNC parent companies can help their local companies build unique resources by recognizing that companies perform better by putting capable locals, who know and understand the local market better, at their helm. Second, network links are important competitive resources in developing countries where small groups of people control the rare ties with local businesses and where most localization efforts would take place. Because local managers are much better positioned to build local ties, parent companies can enter local business networks by localizing their managerial forces. Successful localization also promotes MNCs’ images in local communities because local governments and communities prefer to see local people in management positions.

Parent companies also localize their local operations to gain internal resources and improve their competitive edge. Replacing expatriates by locals motivates local managers and indirectly improves their commitment, morale, operational efficiencies, and quality of the product and services provided. Our in-depth interviews with local
managers at several MNCs revealed that many were disappointed because they saw no clear career paths, underscoring that companies risk negatively affecting motivation when they fail to localize.

**Local Company Commitment**

Although parent companies may encourage and support localization, some local companies may resist it. First, with the parent company supporting and providing resources for localization, local companies risk being held responsible for the results. Second, top managers in local operations may have opposing views about the need for localization. Third, local top managers are primarily concerned with the local company’s financial performance and may fear that localization will fail to immediately and positively affect their financial success. Before we collected our data, we conducted in-depth interviews with top managers and learned that they see China’s market as extremely volatile. Although they would like to implement localization policies, they focus most of their attention on immediate financial indicators of performance, so they may wish to delay localization until they can see immediate benefits to the bottom line.

**Local company HRM Practices**

Even when a local company has appropriate parent company support and top management commitment, real success in localization cannot occur without actual localization-related HRM practices indicating internal resources and effort actually allocated to implement localization. Local company commitment helps in mobilizing internal resources for localization, and HRM practices help in funneling those resources. Appropriate localization-related HRM practices include selecting expatriates who are willing to help develop the careers of local managers, providing them with appropriate incentives to encourage localization, setting up a localization-result-oriented appraisal system, training local managers for localization, retaining the developed local managers, and repatriating the expatriates appropriately.

**Research Method and Findings**

To investigate those issues, we first developed two questionnaires, one for top managers of Chinese subsidiaries of MNCs and one for local HR managers. Two university professors in Shanghai distributed 2,080 questionnaires (1) to chambers of commerce in Beijing and Shanghai representing various countries including Canada, the USA, the UK, Australia, and Japan, (2) to top managers in MNCs located in Shanghai and other provinces, and (3) at HRM conferences held in Shanghai, Shenzhen, and Beijing.

Overall, we collected 229 sets of useable questionnaires, a response rate of 11%. Twenty-six (11.4%) were from Beijing, 131 (57.2%) from Shanghai, 38 (17.6%) from Guangdong province, and 34 (14.8%) from other provinces. Forty companies were firms from the USA (20.1%), 12 from UK (6.0%), 29 from Hong Kong (14.6%), 13 from Taiwan (6.5%), 39 from Japan (19.6%), four from Korea (2.0%), four from Australia (2.0%), five from Switzerland (2.5%), eight from France (3.5%), 17 from Germany (8.5%), and 28 from other countries (14.1%). Eighty-three companies were in the manufacturing sector (41.3%), 29 in the high
technology sector (14.4%), 42 in the services sector (20.9%), and 47 in other industries (23.4%).

This study included two dependent variables: localization success and firm performance. Localization success was measured by subjective ratings and an objective ratio (expatriate positions successfully replaced by local managers to the total number of expatriates assigned to the focal firm since inception). For performance we asked top managers to evaluate the firms’ performance relative to other firms in the same industry.

We analyzed the data via confirmatory factor analyses and hierarchical regressions. The results confirmed that localization success is helped by: (1) Parent company support; (2) Top management commitment to localization inside the local firm; and (3) Localization-related human resource practices regarding assignment, evaluation, compensation, delegation, and repatriation of expatriates and selection, promotion, training, and retention of local managers. Moreover, we found that the degree of localization success was positively related to firm performance.

Managerial Implications

If localization of expatriate positions can help local MNC companies build resources for competing in the local market, what should parent companies do to facilitate localization? Parent companies must be willing to share more resources with their local companies. This sharing works via the strategic power of the local human resources department and the degree of autonomy parent companies grant to the locals. While parent companies may be willing to give resources to the local company to facilitate localization, top management of the local company must be willing to commit to localization as well. When those two factors coincide, they should transform into localization-related HRM practices.

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