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How to retain local senior managers in international joint ventures: The effects of alliance relationship characteristics

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Abstract

How can international joint ventures keep their local senior managers from quitting? Drawing on international business literature, social exchange theory, and social integration theory, this study examines how the characteristics of an alliance relationship affect local senior managers' turnover intentions. The findings from 139 ventures in China show that decision-making participation and social integration help retain local senior managers. However, the effects of participation and social integration decrease with high levels of foreign ownership control. Implications for researchers and practitioners are discussed.

Keywords: Turnover intention; Participation in strategic decision making; Social integration; International joint ventures

1. Introduction

As the pace of globalization accelerates, firms increasingly establish operations in other countries in the form of international joint ventures (IJVs). Multinational corporations rely heavily on a host country's managerial talent to oversee their subsidiaries abroad, which makes the turnover of local senior managers an acute and chronic problem for IJVs (Krug and Hegarty, 2001), especially considering Wozniak's (2003) report that 43% of senior managers in China voluntarily leave their organizations each year. This frequent turnover of top management team members results in high recruitment costs and can tarnish a firm's corporate image and reputation (Foo et al., 2006). Senior managers' turnover appears even more catastrophic to IJVs in emerging economies such as China, because executive succession can cause fundamental changes in the strategic activities of an IJV, thereby affecting organizational continuity (Boone et al., 2004; Hambrick and Mason, 1984). Moreover, turnover causes the leakage of important "inside" information to local competitors, or senior managers may take a portion of the firm's portfolio of customers with them when they leave (Gambel, 2000). Hiring replacement managers also becomes increasingly difficult due to the shortage of qualified local managers in emerging economies (Fryxell et al., 2004; Wong and Law, 1999).

Despite the significance of maintaining local senior managers for both international business research and multinational corporations (MNCs), little work has focused specifically on the turnover of local senior managers (Reiche, 2007). Thus, an important question remains: How can IJVs retain their local senior managers? Outside the international business area, a significant body of literature from fields such as organizational behavior, human resource management, and applied psychology attempts to explain why people leave (e.g., Huselid, 1995; Michel and Hambrick, 1992; Mobley, 1977; Mossholder et al., 2005). In general, such research identifies several antecedents of employee turnover, namely, individual factors, perceived opportunity, and work-related factors. Although these models improve understanding of employee turnover, existing research appears mainly within the context of domestic firms. In contrast, IJVs are legally and economically distinct entities created by two or more organizations, at least one of which is headquartered in

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another country (Johnson et al., 2002; Wong and Ellis, 2002). This cross-border, hybrid form of organization often makes it difficult to manage and retain local managers because of its intercultural and interorganizational nature (Gong et al., 2005; Li et al., 2006). This study therefore takes the viewpoint of the IJV to uncover some unique alliance partner variables related to local senior managers' turnover intentions.

In particular, this research examines the effects of two alliance partner relationship characteristics—participation in strategic decision making and social integration with overseas headquarters—on local senior managers' turnover intentions. Furthermore, we propose that their relationships may vary across different levels of ownership control. In this way, we provide an enhanced understanding of the turnover phenomenon by extending research from a domestic model to an international context and focusing on turnover within the local senior management team. We test our hypotheses in the context of IJVs in China, one of the largest recipients of foreign direct investment in the world. In China, IJVs face even greater management challenges due to the complexity, dynamics, and uncertainty associated with the country's transition to a market economy (Child and Mollering, 2003; Li, 2005). Therefore, IJVs in China provide a rich setting for investigating how to keep local senior managers from quitting.

2. Theoretical background and hypotheses

2.1. Turnover and turnover research

Voluntary turnover incidents are those "wherein management agrees that the employee had the physical opportunity to continue employment with the company, at the time of termination" (Maertz and Campion, 1998, p. 50). The phenomenon of voluntary employee turnover attracts enormous attention in the fields of organizational behavior and applied psychology, and the vast associated research efforts offer several models to explain employee turnover behavior (e.g., Mobley, 1977; Mossholder et al., 2005; Wayne et al., 1997). Researchers identify three major classes of antecedents of employee turnover: individual factors such as age and tenure, economic opportunities such as job alternatives, and work-related factors such as task repetitiveness and job challenge (cf. Griffeth et al., 2000; Maertz and Campion, 1998).

Recent growing interest focuses on the turnover of a special category of employees: senior managers. As Michel and Hambrick (1992) and Wiersema and Bantel (1993) define it, the senior management team refers to the top two tiers of an organization's management, including (1) the CEO and general managers, as well as (2) those who have direct reporting relationships with these positions. Turnover of senior managers represents a significant event for any organization and remains a crucial managerial challenge (Foo et al., 2006; O'Reilly et al., 1989). Existing studies in this research stream provide some explanations of why top managers quit. For example, drawing on the demography theory, several studies of top management teams associate team demographic heterogeneity, in terms of age, education, and team tenure, with turnover intentions (e.g., Boone et al., 2004; Smith et al., 1994). Herrbach et al. (2004) find that managers' perceived external prestige directly influences their intentions to quit. Yet other explanations of managers' turnover include strategic change, low salary, limited advancement opportunities, and limited recognition of firm performance (Smith et al., 1994; Wiersema and Bantel, 1993).

Despite the proliferation of research on senior managers' turnover in domestic firms , turnover in an international context remains underresearched (Reiche, 2007). IJVs are legally and economically distinct entities created by two or more organizations, at least one of which is headquartered in another country (Johnson et al., 2002). This hybrid, intercultural, interorganizational form of organization often suffers from high manager turnover rates, which are catastrophic to the venture's operation and performance (Wozniak, 2003; Zhang et al., 2006). Although insights from domestic turnover research provide a useful framework for international research, various venture-related characteristics must be considered specifically in an international business context (Krug and Hegary, 2001; Naumann, 1992).

Among the limited studies on turnover in MNCs, Krug and Hegary (2001) show that executives' perceptions of merger announcements and interactions with the acquiring firm's top managers influence their decision to leave. Zhang et al. (2006) find that local senior managers' perceptions of local staff incompetence positively affect their turnover intentions, but those intentions decrease with better communication quality with headquarters and more trust in headquarter management. Most recently, Reiche (2007) proposes that international staffing practice affects subsidiary staff retention through the local staff's perceived career prospects and organizational identification. Although these studies incorporate some international aspects into turnover research, less examined is how alliance-specific variables, such as shared strategic decision making or social integration between local senior managers and overseas headquarters, affect senior manager turnover. Nor does any research examine the role of the contingency effects of alliance partner characteristics, such as ownership control.

Extending previous work, this study examines local senior manager turnover in the international context of IJVs. In addition to related literature in the area of international business, it draws on social integration theory and social exchange theory to posit that higher levels of participation in decision making and social integration lead to lower turnover intentions among local senior managers. Moreover, ownership control moderates such effects.

2.2. Participation in strategic decision making

Social exchange theory describes how people form and maintain relationships in a social context and posits, as its key tenet, that human behavior reflects an exchange of rewards (Blau, 1964; Homans, 1961). According to this theory, employees feel obligated to remain with the company to reciprocate gestures of goodwill from their employers (Mossholder et al., 2005). For example, when MNCs localize their operations in the host country, it signifies their commitment to