Expatriates of Host-Country Origin in South Eastern Europe: Management Rationales in the Finance Sector

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Multinational companies coming to grips with the major challenges of international staffing have developed a new practice. In recent years management scholars observed the assignment of so-called ‘expatriates of host-country origin’ (EHCOs), that is, employees of migrant backgrounds in the companies’ parent country sent to work in their country of origin. This paper explores management rationales behind this practice focusing on the posting of employees to transition economies in south eastern Europe. Data from Austrian banks and insurance firms operating in Bosnia and Herzegovina and in Croatia provide the empirical basis. The analysis reveals that headquarters’ management believe that due to their specific competencies EHCOs facilitate the relationship between the headquarters and the subsidiary, enhance resource accrual and offer competitive advantage. As institutional complexity in the host country and the cultural distance between parent and host countries increase, so do the relative advantages of EHCOs for management.

Keywords: International staffing; expatriation; skilled migrants; host country effect; south eastern Europe; multinational companies

Introduction

In a study on international staffing practices, Thite et al. (2009) consider the following example. When the Germany-based auto components manufacturer Bosch had to fill a management position in a subsidiary in India, the management chose a person of Indian origin who had previously studied and worked in Germany. Thite and colleagues argue that such ‘expatriates of host-country origin’ (EHCOs) are especially qualified for key positions in foreign subsidiaries because of their specific knowledge and skills related to both the parent country of a multinational company (MNC) and the host country. Additionally, EHCOs were especially likely to accept an international assignment (Thite et al., 2009). So, the question arises, is this relatively new practice a ‘golden parachute’ in international staffing? And, while the study of India suggests that EHCOs may be particularly effective in the context of emerging markets, what role does the host country context play in EHCO assignments? This article considers these questions, aiming to identify management rationales behind EHCO assignments in two different host countries.

While previous research highlights business benefits associated with EHCOs in general, scientific research into concrete management thinking behind this staffing practice is still scarce. However, scholarly knowledge of management rationales is crucial to enhance understanding of MNCs’ strategies in international staffing. As Mintzberg (1978) already has pointed out in his classical reading, if we want to gain deeper insight into strategy formation we have to consider both the observable results of managerial decisions and the intentions behind these decisions.

Several studies examined management rationales behind the use of expatriates and locals, for instance Fayol-Song (2011); Harzing et al. (2016); Kühlmann and Hutchings (2010); Mäkalä et al. (2009). However, with the exception of Thite et al. (2009), none of these studies considered the special group of EHCOs.

This article addresses this knowledge gap, thereby focusing on MNCs with subsidiaries in transition economies in south eastern Europe (SEE). We chose this...
focus for two reasons. First, for two decades these countries have been important candidates for investments on the radar of foreign companies (Estrin and Uvalic, 2013; Murgasova et al., 2015). These economies have not only transformed from socialist into liberal market systems, but they also present opportunities to rebuild infrastructure and introduce innovative products and services. Second, this setting is proto-typical of the infrastructure and introduce innovative products and systems, but they also present opportunities to rebuild not only transformed from socialist into liberal market economies.

2013; Murgasova et al.

countries have been important candidates for investments on the radar of foreign companies (Estrin and Uvalic, 2013; Murgasova et al., 2015). Challenges associated with international staffing in transition economies are especially great since the political, legal and economic business environments of these countries are highly complex. Moreover, a negative image associated with a transition economy makes it difficult to find people ready to work in such an environment (De Eccher and Duarte, 2016).

Thus, our research questions are: first, do MNCs assign EHCOs to their subsidiaries in transition economies, and what are management rationales behind these decisions? Second, how do host country conditions affect these decisions?

Theoretically, this study is informed by key tenets of resource dependence theory (Pfeffer and Salancik, 1978) and the resource-based view (Barney, 1991). Drawing on these perspectives, we argue that the assignment of EHCOs to key positions in subsidiaries in transition economies facilitates the accrual of critical resources and contributes to competitive advantage for an MNC.

Methodologically, this study adopts a qualitative design using semi-structured interviews. For simplicity we concentrate on two selected host countries, one parent country and one industrial sector. As host countries we selected Bosnia and Herzegovina (thereinafter: BiH) and Croatia. This selection enables insightful comparisons since the two countries share geographical and political-historical similarities but differ in many institutional and cultural features. We describe these countries in more detail below. With regard to the parent country, this study focuses on MNCs with headquarters in Austria. This is an appropriate choice as Austria is the biggest foreign direct investor in BiH and Croatia, particularly in the finance sector (CNB, 2017; FIPA, 2017). At the same time, Austria hosts a large pool of potential EHCOs from BiH and Croatia. In 2016 more than 164,000 people of BiH origin and over 44,000 people of Croatian origin were resident in Austria (Statistics Austria, 2017a).

As for the industrial sector, this study focuses on firms operating in the finance sector. The finance sector is particularly appropriate to investigate for several reasons. First, it has the highest proportion of foreign direct investment in BiH (27%; FIPA, 2017) and in Croatia (31%; AIK, 2017), with the largest amount coming from Austria. Second, this business area is highly idiosyncratic, and thus, particularly demanding for MNCs (Gleisner et al., 2010; Seltzer, 2017). Third, the finance sectors in transition economies are under-researched (an exception is Meardi et al., 2013).

Overall, this study contributes to management literature by illuminating business practices associated with EHCOs, that is, a group of international employees at the centre of an innovative way of international staffing. In particular, the research findings provide a more nuanced understanding of management rationales from an insider perspective. Furthermore, by focusing on transition economies in SEE we look ‘beyond those normally addressed in the literature’ (Furusawa and Brewster, 2015: 135).

Distinguishing EHCOs from other forms of international staffing

Whereas EHCOs are a relatively new ‘species’ within the group of employees working in an international setting, the phenomenon of expatriation has a longer research tradition. To carve out the specific features of EHCOs we first summarise relevant literature on other types of international assignees. Then we juxtapose EHCOs to these types.

In the literature, the following three main groups used by MNCs in international staffing are identified: parent country nationals (PCNs), host country nationals (HCNs) or third country nationals (TCNs) (e.g. Bonache et al., 2001; Novicevic and Harvey, 2004; Tarique et al., 2006; Gaur et al., 2007; Collings et al., 2009). These people have in common that they help MNCs to manage tasks associated with global integration and local responsiveness (Bartlett and Ghoshal, 2002). They are key actors in management practices related to coordination, control and knowledge transfer (Edström and Galbraith, 1977; Harzing, 2001a; Chang and Smale, 2013; Harzing et al., 2016). To effectively fulfil their management tasks, they need to be both sensitive to local conditions and loyal to the MNC (Doz and Prahalad, 1986).

MNCs especially rely on PCNs when they build a foreign subsidiary from the ground up as greenfield investments (Bonache and Brewster, 2001; Harzing, 2001b; Chang et al., 2012) and to operate subsidiaries in institutionally and/or culturally distant locations (Gong, 2003; Tharenou and Harvey, 2006; Ando and Paik, 2013). PCNs especially tend to transmit the MNC’s corporate culture, communicate with the headquarters and control the subsidiary (Tarique et al., 2006). In addition, expatriation of PCNs can function as a means of career management, namely, to develop individuals (Andresen and Biemann, 2012), or it can be the single remaining option, if there is a shortage in skilled HCNs and TCNs (Furusawa and Brewster, 2015). Yet there are
challenges associated with sending PCNs abroad, such as necessary family adjustment, premature return or repatriation difficulties (Haslberger and Brewster, 2008; Brewster et al., 2014; Firth et al., 2014). Other drawbacks include high expatriation costs (Collings et al., 2009) and scarcity of qualified PNCs willing to accept expatriate assignments (De Eccher and Duarte, 2016; Harvey et al., 2000; Tung, 2007).

In contrast, MNCs assign HCNs – and, to a smaller extent, TCNs – to key positions of subsidiaries to use their country-specific knowledge and competences (Harzing, 2001b; Tarique et al., 2006; Widmier et al., 2008). However, MNCs relying on HCNs or TCNs experience shortcomings, such as a lack of knowledge of the headquarters’ specific capabilities, routines and practices, lack of professional managerial skills and difficulties in communicating with headquarters (Furusawa and Brewster, 2015; Mäkelä et al., 2009). To overcome these deficiencies, MNCs have to invest a lot of effort into training, especially in transition economies (Moser et al., 2014). Another problem relates to the scarcity of highly skilled professionals. Particularly in transition economies, the turnover rate among local managers is high, since MNCs compete for a smaller number of qualified professionals (e.g. Moser et al., 2014; Tian et al., 2014).

As this outline indicates, the ideal candidates for key positions in foreign subsidiaries should be familiar with both of the settings in which the MNC is operating, that is, the management systems of the headquarters and the parent country as well as the business context of the host country. While in principle this familiarity could be acquired through training, such training is time-consuming and expensive. In addition, business activities in transition economies require specific cross-cultural competences that are difficult to obtain (Lenartowicz and Johnson, 2007; Li and Scullion, 2010). Against this background, both management scholars and practitioners turned their attention to EHCOs as a new kind of expatriate. In their foundational article, Thite et al. (2009) stressed that these persons may be particularly qualified to manage the relationships between headquarters and foreign subsidiaries, since they combine the advantages of PNCs, HNCs, and TNCs (also see Tung and Lazarova, 2006; Furusawa and Brewster, 2015).

Thite et al. (2009: 270) define an EHCO as ‘an expatriate who is a permanent resident of the parent country but belongs to the ethnicity of the host country and is hired and/or transferred by the parent country organization to the host country location on a semi-permanent or a permanent assignment’. Following this definition, for the purpose of this study we define an EHCO as an Austrian permanent resident of BiH or Croatian migrant background who has work experience in an Austrian MNC and is assigned to a management position in a subsidiary of this MNC in either BiH or Croatia. By the term ‘migrant background’ we refer to both first generation migrants, namely persons with their own migration experience, and second generation migrants, persons who were born in Austria, but whose parents immigrated to Austria.

EHCOs differ from HCNs in that they are more familiar with the headquarters, its business context and cultural context. In general, HCNs can obtain similar knowledge and skills by means of inpatiation, i.e., a temporary assignment to the headquarters (Harvey et al., 2000; Harzing et al., 2016). Depending on the length of an inpatiation period, the boundary between EHCOs and HCNs who have been inpatiates is fluid. Likewise, there are overlaps between EHCOs and PCNs. EHCOs differ from PCNs in that they are more familiar with the host countries. Yet it can be argued that second generation immigrants lack experience in the host country. However, as research on transnational identities of second generation immigrants has shown, these people usually have cultural knowledge and skills related to the host country, as they are socialised through their extended family and other members of their ethnic community (Haikkola, 2011; Schneider et al., 2012).

Previous research on EHCOs focuses on various country contexts, such as persons of Indian background assigned by MNCs from Western countries to subsidiaries in India (Jain, 2011; Thite et al., 2009) and persons of Chinese background assigned by Western MNCs to subsidiaries in China (Selmer, 2002a, 2002b). Whereas these studies highlight the high competences of EHCOs which enable them to act as boundary-spanners or institutional bridges, assigning EHCOs to foreign subsidiaries is not completely free from drawbacks. For instance, EHCOs may face difficulties in adjusting (Selmer, 2002b), or find themselves struggling with their ethnic identity (Jain, 2011). Likewise, research on returnees and self-initiated repatriation revealed that these people face difficulties in re-adjusting to cultural norms and living conditions in their countries of origin (Guo et al., 2013). Moreover, there is no guarantee that they can transfer knowledge to this country.

To summarise, first, existing research shows that EHCOs seem to provide added value for MNCs operating in transition economies, but knowledge concerning the management rationales behind this staffing practice is scarce. Second, previous studies on EHCOs focused on single host countries; thus, to date it is unknown in what way host country context matters. Third, previous studies on EHCOs concentrated on geographic regions apart from SEE. However, BiH and Croatia are not only highly attractive to foreign investors, but these two countries also represent ideal settings for comparative research into
the role of host country conditions in international staffing decisions.

The next section provides a more detailed description of the two countries.

**Research context: BiH and Croatia**

The following country description uses the framework proposed by Whitley (1999) that identified the state, the financial system, the labour market as well as the education and training system as the key institutional arenas of a country’s business system. This framework has proved to be fruitful in international comparative studies, and also for the analysis of transition economies, were institutions typically are weak and frequently changing (Whitley, 1999; Brewster and Viegas Bennett, 2010; Dalton and Bingham, 2017). In addition, we describe selected cultural features of the two countries.

BiH and Croatia are former Yugoslavian states whose economies are shaped by the transition from a centrally-planned economy to a market-based economy. In the aftermath of the series of wars that had started in 1991 and lasted until 1995, fundamental changes, such as those from governmental production plans for companies and over-employment towards a market-based system, have affected all business actors and institutions (Estrin and Uvalic, 2013; Poór et al., 2014). Like many other transition economies, BiH and Croatia rely on foreign direct investment for a substantial part of their economies. Among foreign investors, Austria is the most important country, with investments of 1.3 billion euro between 1994 and 2016 in BiH (FIPA, 2017) and 3.8 billion euro between 1993 and 2017 in Croatia (CNB, 2017). Also typical of transition economies, the business environments in both BiH and Croatia are affected by issues such as limited access to finance, political instability, legal insecurity, inefficient bureaucracy, wide-spread corruption, unfavourable tax systems, restrictive labour regulations as well as poor work ethic and lack of skilled professionals (EBRD, 2013; Schwab, 2014; FIC, 2017).

However, there are important differences between the two countries, too. For instance, in a recent World Bank ranking on the ‘ease of doing business’ in 190 countries, BiH ranked 86th, whereas Croatia ranked 51th (World Bank Group, 2018). Specifically, in fields such as ‘starting a business’, ‘paying taxes’ or ‘registering property’ Croatia ranked substantially better than BiH. These differences are partly rooted in different political systems. BiH is a highly decentralised country. It is politically divided into two entities, namely the Federation of Bosnia and Herzegovina (51% of the territory) and the Republika Srpska (49% of the territory) making business complicated. Moreover, the state of BiH provides little business support, and the political climate is volatile with frequent public disturbances (Toperic et al., 2017). Croatia’s business environment is less complex than BiH’s. The Croatian political system is comparatively stable, and the institutional and legal frameworks are in line with EU standards, as the country joined the EU in 2013.

In both countries, labour markets are challenging for international investors. In BiH, high tax rates on labour and high non-wage labour costs present obstacles, whereas in Croatia investors face relatively high wages, strong employment protection, high dismissal costs and inflexible working time arrangements (Clauwaert and Schömann, 2013; FIC, 2017; Toperic et al., 2017). The labour law in BiH is inconsistent, as it is not harmonised across jurisdictions and different courts apply conflicting interpretations. Improvements set out in the ‘Reform Agenda’ adopted in 2015 lead to modest progress in harmonisation to date (Toperic et al., 2017). In Croatia, the government proposed several changes in labour law during the EU accession procedure, yielding slow but steady improvements (FIC, 2017).

In both countries, education and training systems do not fit well with labour demand. In BiH, professionals with skills in specific technical areas as well as in communication and leadership are lacking, since a substantial proportion of skilled workers emigrated during the last two decades (World Bank Group, 2016). Moreover, the division of the country into the two entities impedes labour mobility and knowledge flow (Arandarenko and Bartlett, 2012). In Croatia adult education and training is under-developed, and although recent Croatian government moves resulted in a higher number of persons with tertiary education, the problem of skill shortage remains (CEDEFOP, 2016).

This country overview suggests that MNCs need employees who do not only have professional skills but also profound knowledge of how to navigate through highly complex business cultures. So, the institutional distance between Austria and BiH is larger than the one between Austria and Croatia, mainly because both Austria and Croatia are EU Member States. Likewise, various indicators point to a larger cultural distance between Austria and BiH as compared to the Austria–Croatia relation. For instance, while both BiH and Croatia were part of the Habsburg Empire, historically the ties with Croatia were tighter than those with BiH (e.g., Kann, 1980). Also, religion plays a role. Austrians, the majority of whom are Catholic Christians (around 64% in 2016, Goujon et al., 2017), are closer to Croatians with 86% Catholic Christians in 2011 (Croatian Bureau of Statistics, 2013) than to BiH people, who predominantly are Muslims (51%; typically ethnic Bosniaks) or Orthodox Christians (31%; typically ethnic Serbs) and only

Further important sources of foreign direct investments in BiH include Serbia, Croatia, Russia and Slovenia (FIPA, 2017). For Croatia, these are the Netherlands, Germany, Hungary and Luxembourg (AIK, 2017).
15% Catholic Christians (typically ethnic Croats) (Agency for Statistics of BiH, 2016; figures refer to 2013). Finally, Austrians typically are more familiar with the Croatian context, since Croatia belongs to the most popular holiday destinations of Austrians (Statistics Austria, 2017b).

However, it is important to note that such objective features may not always translate into factors actually affecting staffing decisions. Rather, perceptions of organizational decision-makers matter in this regard. To take account of such subjective perceptions we chose a qualitative methodology, as outlined in the next section.

Methodology

We applied a qualitative methodology using semi-structured interviews, which is especially well suited for the exploration of under-researched fields, such as staffing practices of MNCs operating in SEE. We respond at the same time to a call by Collings et al. (2009) seeking to exploit the scope for more qualitative research on international staffing decisions. Previous research in related fields demonstrated the fruitfulness and appropriateness of an interview approach (e.g. Thite et al., 2009; Guo et al., 2013).

We aimed to examine all Austrian MNCs in the finance sector operating in BiH and/or Croatia. We identified the relevant companies with the help of the Austrian Federal Economic Chamber and through a document search covering company websites and annual HR reports. Two criteria led the selection of Austrian companies. The company had to have subsidiaries in BiH and/or Croatia and the company had to employ persons of BiH or Croatian background in their Austrian headquarters. Of the ten companies that fulfilled these criteria, five banks and three insurance companies agreed to participate in this study.

The field phase lasted from April 2013 to May 2014 and comprised several trips to BiH and Croatia. The first-named author of this article conducted interviews with 30 company representatives of different functions and hierarchical levels in the MNCs’ Austrian headquarters and their subsidiaries in BiH and Croatia, such as management board members, country/regional managers and HR managers. These key informants were the most knowledgeable persons concerning international staffing practices. The interviews were structured by written interview guides and conducted face-to-face or via telephone in either German or Bosnian/Croatian. They covered topics such as basic company characteristics, the SEE investment strategy, the HR strategy and HR practices addressing EHCOs. The interview guides can be found in the Appendix.

The interviews lasted between 45 and 120 minutes. They were audio-recorded and supplemented by detailed handwritten field notes and additional material, such as newspaper articles, annual financial statements, performance indicators, job advertisements and recruitment profiles. We used this additional material as background information in the interviews and to describe the business context in the eight companies. In total, the data includes over 400 text pages. Table 1 presents key figures concerning the companies and the interviewees.

To analyse the data we chose the content analytical strategy proposed by Miles et al. (2014). Using the computer software NVivo (QSR International, Brisbane), in a first step, we coded the data ‘in vivo’ by searching for relevant words and phrases addressing EHCOs. While the research questions outlined above guided our analysis we exploited the advantages of qualitative approaches through remaining open for unexpected topics, for which we generated new codes. We repeatedly went back and forth between our data and the existing literature. We searched in our data for topics addressed in previous studies, and vice versa, if we identified significant topics in our data we searched in the literature for related theories and topics, also under different terminology. In the second step, we linked the identified topics with host country features. We first applied the coding case by case and then analysed the identified topics across the eight cases. In a third step, we grouped the cases into distinctive categories, such as ‘deliberate strategy’ or ‘intended strategy’. Table 2 displays exemplary codes and quotes from the interviews. Finally, we made a selection of interview excerpts that allowed us to theorise on management rationales, as presented in the next section.

Findings

Strategic assignment of EHCOs

Our first research question asked whether MNCs assign EHCOs to their subsidiaries and what are the management rationales behind these decisions.

Of the eight companies analysed in this study five assigned EHCOs to key positions in their subsidiaries in BiH or Croatia. Of these five companies, we categorised three as having deliberate strategies in the sense of Mintzberg (1978): FinCo1 with a board member in BiH, FinCo2 with the head of HR in Croatia and FinCo6 with two board members in BiH. Two further companies reported on EHCO assignments, too, but with less strategic intent: employees of BiH background themselves initiated their assignments in FinCo4 (assistant to the management board in BiH) and FinCo7 (member of the risk management in BiH).

Concerning management rationales, all interviewees from FinCo1, FinCo2 and FinCo6 – those companies with deliberately strategic EHCO assignments – emphasised...
|          | FinCo1 | FinCo2 | FinCo3 | FinCo4 | FinCo5 | FinCo6 | FinCo7 | FinCo8 |
|----------|--------|--------|--------|--------|--------|--------|--------|--------|
| Size     | Medium | Large  | Medium | Small  | Large  | Small  | Large  | Large  |
|          | 15     | 200    | 30     | 2      | 30     | 10     | 200    | 100    |
| No. employees Austria | 1,500 | 15,000 | 400 | 700 | 6,000 | 1,000 | 7,000 | 3,000 |
| No. employees worldwide | 6,000 | 50,000 | 6,000 | 1,000 | 14,000 | 4,000 | 40,000 | 60,000 |
| BiH      |        |        |        |        |        |        |        |        |
| Year of market entry | 2006 | – | 2001 | 2003 | 2005 | 1998 | 2008 | 1999 |
| Investment strategy | Brownfield | Brownfield | Greenfield | Brownfield | Greenfield | Brownfield | Brownfield | Brownfield |
| No. employees | 400 | 1,000 | 20 | 200 | 200 | 1,000 | 1,500 | 1,500 |
| Croatia  |        |        |        |        |        |        |        |        |
| Year of market entry | – | 2001 | 1994 | 1995 | 1999 | 1993 | 2002 | 1994 |
| Investment strategy | – | Brownfield | Greenfield | Greenfield | Greenfield | Brownfield | Brownfield | Greenfield |
| No. employees | 2,500 | 1,500 | 200 | 400 | 700 | 5,000 | 2,000 |        |
| Interviews total | 4 (1 EHCO) | 5 (1 EHCO) | 1 | 3 (1 EHCO) | 5 | 6 | 3 | 3 |
| Austria  |        |        |        |        |        |        |        |        |
| Member MB |        |        |        |        |        |        |        |        |
| Head HR |        |        |        |        |        |        |        |        |
| BiH      |        |        |        |        |        |        |        |        |
| Member MB (EHCO) | – | – | Assistant | Head MB | Head MB | Member Sales | Member HR | Member HR |
| Head HR |        |        |        |        |        |        |        | Head HR |
| Croatia  |        |        |        |        |        |        |        |        |
| Member MB (EHCO) | – | – | Head MB | Head MB | Head MB | Member MB | – | Head HR |
| Head HR |        |        |        |        |        |        |        |        |

Notes: All figures refer to the year 2012 and have been rounded. DM = diversity manager; HR = human resources; ID = international desk; MB = management board; PR = public relations.

Source: Publicly available documents from company websites (financial statements, annual HR reports) and interviews with company representatives.
the benefits associated with the EHCO’s in-depth knowledge of the business context of BiH and Croatia. The interviewees highlighted that these assignments contributed to competitive advantage over international competitors. For instance, Russian MNCs were less able to employ EHCOs.

Specifically, interviewees stressed that it is crucial that managers understand the foreign culture and institutional settings, as the following quote by the diversity manager of the Austrian headquarters of FinCo2 illustrates:

It is not only about the professional expertise … if we want to do business in these countries we also need this cultural knowledge.

At the same time, obtaining the required competencies is difficult for Austrians. As the head of Group HR of FinCo2 puts it:

One has to grow into the local language … maybe not be completely fluent from the beginning, but one has to understand and know the local laws. That is important. Also the cultural assimilation and to achieve that in the shortest time is a huge requirement.

While according to the interviewees the companies share similar management rationales for the assignment of EHCOs, FinCo6 has the most elaborated strategy concerning EHCOs. For instance, job advertisements put emphasis on skills typical of EHCOs, such as native-like fluency in a language from the region, willingness to accept a long-term assignment and competence in managing knowledge transfer to foreign subsidiaries. In addition, FinCo6 has a companywide HR development programme for employees from SEE. The following quote of the head of the management board in the Austrian headquarters describes the strategy of FinCo6:

[There] was certainly a consideration from our side, from the beginning, to have people with a migration background [in the headquarters] and train them accordingly, and if they develop accordingly, also give them the chance to take on these tasks [in the subsidiaries]. That is a question of [corporate] culture and at the end a question of responsibility … [It is]

about, first of all, securing that the communication channels are open and then securing the transfer of the corporate culture.

This quote not only illustrates the strategic emphasis FinCo6 puts on EHCOs, but it also indicates a further rationale for assigning EHCOs, namely that EHCOs improve the transfer of the corporate culture from the Austrian headquarters to the subsidiaries. This is similar to FinCo1, where the interviewed board member of the Austrian headquarters stresses the importance of effective communication also for maintaining control over the subsidiary’s operations, as the following quote illustrates:

I believe that this is generally an advantage. Of course it depends on the person, but having someone who can transfer formal, informal communication and explain the institutional system easier [throughout the Group] gives you a lot … I think it is good for some sort of control function to send someone from the Group, to have this operational presence and the depth … This combination of Western … experience and our in-house experience with the institutional understanding [of the host country] is generally very good.

Prior research revealed that the communication and control functions may be even more critical in the case of greenfield investments as compared to brownfield investments (Harzing, 2002). This is also reflected in our data. For instance, the interviewed assistant to the management board of the subsidiary in BiH of FinCo4 was assigned to this key position in the course of a greenfield investment, when the company lacked alternative sources of knowledge of the BiH market. As this interviewee puts it:

We needed someone with an understanding of the company and the market, so I did that … There is a lot of informal communication with the rest of the region [SEE] and this is the attractiveness of greenfield investment.

This quote also illustrates that even in a company with less strategic intent behind an EHCO assignment – in FinCo4 the interviewee self-initiated her assignment – specific advantages of EHCOs are recognised.
Three companies in our sample did not assign EHCOs to their subsidiaries, namely FinCo3, FinCo5 and FinCo8. To understand management rationales behind EHCO assignments it is also interesting to study these companies, because rationales behind non-assignments may mirror boundary conditions of actual assignments. Interestingly, however, according to the interviewees there are no particular reasons for this observation. On the contrary, and resembling a proto-typical intended not realised strategy in the sense of Mintzberg (1978), the head of HR of the subsidiary in BiH of FinCo8 stated, ‘these candidates are always interesting for us’.

A good example of such an intended, but at the time of this study not realised strategy towards EHCO assignments is FinCo5. This company trained future EHCOs, and it has adopted an ‘international hub’ where people from SEE are employed at the headquarters to act as links between headquarters and subsidiaries. The following quote by the head of Group HR in the Austrian headquarters illustrates this strategy:

Yes, they are a link. Due to their language skills it is just easier … We employ them primarily because of the language, but also because of this international mind-set. In Austria there are a lot of persons who think ‘Austrian’. They knew that the countries [in SEE] exist, but they did not have this international thinking. That is why we have created this international hub here in [the headquarters] with around 60 people, who are this interface to the countries outside … The majority of these persons grew up here in Austria, so either second generation or they came here at an early age, either from Croatia, Bosnia [and Herzegovina], Serbia … and grew up here.

However, although the interviews provided a plethora of insights into the benefits associated with the competencies of EHCOs, it also became clear that EHCOs often simply compensate for a lack of Austrian nationals willing to accept an assignment to a subsidiary in Bosnia or Croatia. In the words of the head of the management board of FinCo6 in Austria: ‘We often have the case that the typical Austrian is not mobile’. Yet, some employees of BiH or Croatian background refrain from accepting assignments to their countries of origin, too. The head of Group HR of FinCo5 in Austria describes this problem as follows:

This is a challenge, because there are many people who say ‘I don’t want to go back anymore’. In these cases, the company strategy does not work out … In general, we cannot force anyone to go back.

While employees of BiH or Croatian backgrounds are said to be hesitant to ‘leave the environment in Austria, which is quite pleasant’ (member of the management board of FinCo1 in Austria), those who are willing to accept an assignment to their country of origin typically experience career progress. Nevertheless, the interviewees indicated that sometimes it is difficult to find EHCOs, especially for subsidiaries in BiH. They see the reasons lying in the worse general living conditions in BiH as compared to Croatia. This ties in with the role of host country context in EHCO assignments, to which we turn in the next subsection.

The role of the host country context

Our second research question focused on the role of host country context in EHCO assignments. Our findings suggest that decision-makers take account of these conditions, because only FinCo2 had an EHCO in a Croatian subsidiary. All interviewees from companies with deliberately strategic EHCO assignments (FinCo1, FinCo2 and FinCo6) emphasised that the peculiarities of the host country’s institutional environment were important staffing factors. Regarding BiH, interviewees pointed to the extensive complications associated with the political and the institutional system as well as the poor education and training system and the lack of managerial professionalism. Interviewees named a set of challenges in BiH including non-transparency of official decision-making, corruption, lack of professional skills, restrictive labour legislation and the observation that work attitudes are very different from those prevailing in Austria. The assistant to the management board of FinCo4 in BiH describes the situation as follows:

This is definitely a challenge when you come from outside to adapt here, starting from bribery and corruption to the education system in this country.

FinCo1 and FinCo3 faced problems when they entered the BiH market and appointed PCNs and HCNs to management positions. According to the interviewees, PCNs had difficulties in adjusting to the country. In addition, some of them engaged in illegal activities and had to be replaced. FinCo1, FinCo3, FinCo4 and FinCo6 especially suffered from lack of professionalism among HCNs. The companies had to change the management boards over time. Eventually, FinCo1 and FinCo6 assigned EHCOs on a long-term basis to the management boards of their subsidiaries in BiH. According to the interviewees, these deliberately strategic assignments facilitated adaptation to conditions of BiH and vice versa. EHCOs transfer the corporate culture to BiH, and the headquarters maintains better control over the subsidiaries. This approach is exemplified in the following quote from the head of the management board of FinCo6 in Austria:

Our basic philosophy is that we always have an employee from the headquarters in the management
board of a subsidiary ... We have four board members in Sarajevo ... two of whom are Bosnian-Herzegovinian women who had been living in Austria [prior to their appointment] ... These are people with Bosnian-Herzegovinian roots, but have been living with us [in Austria] for different amounts of time, who have been trained and socialised here and who are now responsible for the subsidiary.

Staffing decisions concerning Croatia differ from those concerning BiH. The analysed companies rely much more on HCNs in Croatia than in BiH, as explained by the head of the management board of FinCo6 in Austria in the following quote.

It is different in Croatia. We have one Austrian down there [in the management board], who has been there for 15 years ... He speaks the language and his family is also there ... The other board members are Croats.

All interviewees assessed the business environment in Croatia as less challenging than in BiH. The interviewees perceive the institutional and cultural distance between Austria and Croatia as comparatively small and HCNs as being well trained and trustworthy. Furthermore, in most companies the management board has not changed since the time of the investment. The overall good experience contributes to trustful relationships and hence to the deliberate assignment of HCNs to key positions. As a board member of FinCo1 in Austria explains:

Usually they are locals and from the beginning, we appointed Austrians in crisis situations only. Sometimes this might not have been smart, but in Croatia we have the same management board that was there 20 years ago. There we have really good experience with the same team. In other countries, we usually had to replace the management board after either a longer or a shorter period of time ... So we changed the management in Bosnia [and Herzegovina] ... Only in Croatia ... we have the original team.

Different from these views, interviewees from FinCo2, where the head of HR is an EHCO, see advantages of EHCOs over HCNs in Croatia too. In particular, the headquarters rely on EHCOs to transfer knowledge and to implement strategic decisions.

To summarise, these findings indicate that EHCOs are seen as especially valuable in subsidiaries in BiH, but far less in Croatian ones because of the different degrees of complexity attached to the host country conditions. In the next subsection we provide a framework that theoretically integrates our findings.

A resource perspective on EHCO assignments

To theorise about the management rationales behind EHCO assignments we identified in our data, we draw on resource dependence theory (Pfeffer and Salancik, 1978) and the resource-based view of the firm (Barney, 1991). Whereas resource dependence theory states that organizations strive for reducing dependencies from external actors and chose those strategies that secure resources critical for the MNC’s survival, such as customers, money and knowledge, the resource-based view maintains that organizations chose those strategies that maximise competitive advantage through resources – including personnel – that are valuable, rare, difficult to imitate and non-substitutable.

Figure 1 depicts a summarising framework that organises our findings according to these theoretical perspectives. Against the background of resource dependence theory our findings suggest that EHCOs are of strategic importance to an MNC since they provide critical resources such as language skills as well as institutional and cultural knowledge. Also, their readiness to accept an assignment to BiH or Croatia as well as their ability to adapt personally quickly to these countries present critical resources of EHCOs. Further, our findings suggest that these individual resources facilitate the management of the relationship between the Austrian headquarters and the subsidiaries in BiH and Croatia, in particular the knowledge transfer between the headquarters and the subsidiaries, the transfer of the corporate culture from the headquarters to the subsidiaries and maintaining control by headquarters over the subsidiary.

The degree to which individual resources of EHCOs facilitate the headquarters–subsidiary relations depends

![Figure 1 Framework of management rationales behind EHCO assignments](https://ssrn.com/abstract=3599372)
on the host country context. Thereby, the more complex the perceived institutional context and cultural distance are, the more relevant is the assignment of EHCOs, because the relative value of EHCOs’ individual resources increases as compared to individuals of other origins.

Finally, our findings suggest that improved headquarters–subsidiary relations lead to outcomes for an MNC, in the form of enhanced accrual of further critical resources from other providers, such as customers, suppliers or local authorities. While this reasoning is in line with Pfeffer and Salancik’s resource dependence theory, from Barney’s resource-based view the resources improving headquarters–subsidiary relations lead to competitive advantage over other MNCs operating in BiH and Croatia, because EHCOs are valuable, rare, difficult to imitate and non-substitutatable.

Discussion

This study explored a form of international staffing that in the future might become increasingly important given continuing trends of business globalisation and worldwide migration. It examined whether and why MNCs assign EHCOs to subsidiaries in transition economies and how host country conditions relate to these staffing decisions. The empirical analysis focused on Austrian MNCs in the finance sector operating in BiH and Croatia. We found that some of the analysed companies indeed pursued a deliberate strategy concerning EHCO assignment (FinCo1, FinCo2 and FinCo6), others used EHCOs, too, but in the form of emergent strategies (FinCo4 and FinCo7) and the remaining study companies had respective intentions, though they hadn’t realised these strategies at the time of this study (FinCo3, FinCo5 and FinCo8). The management rationales for assigning EHCOs to subsidiaries in BiH and Croatia specified the individual resources of EHCOs that facilitate the relations between the Austrian headquarters and the foreign subsidiaries, contribute to company resources and give competitive advantage.

These findings go beyond previous research on international staffing in the following three ways. First, they provide insight from an insider perspective. Thus, they take account of management perceptions and rationales behind observable staffing practices, and they also highlight intended staffing strategies that may become relevant in the near future. Second, they emphasise the role of (perceived) host country context by examining two host countries, focusing on transition economies and comparing two countries at different developmental stages. These findings resemble existing research according to which MNCs prefer to staff foreign subsidiaries with HCNs if the institutional distance between parent and host country is small (Harzing, 2001b; Ando and Paik, 2013). However, whereas previous studies considered mainly HCNs or – more seldom – TCNs as alternative to PCNs, this study highlights the benefits associated with EHCOs in this regard. Third, by taking a resource perspective on EHCOs, we contribute to the theoretical underpinning of the literature on international staffing and expatriation. Such an attempt is important, as current literature is mainly driven by empirical evidence, lacking sound theoretical grounding.

Our findings resonate with management literature on bicultural people (Brannen and Thomas, 2010; Hong, 2010) that especially highlights the benefits associated with the boundary-spanning function of biculturals. Likewise, the identified rationales resemble a managerial strategy labelled ‘adding value through ethnic background’, proposed in a resource-based typology by Ortlieb and Sieben (2013). Our study adds to this literature by demonstrating that companies do benefit from biculturals’ competencies not only in their headquarters, but also through assigning them to foreign subsidiaries.

Of the identified management rationales, the control purpose is particularly interesting, as the MNCs’ management apparently trust EHCOs due to their socialisation in Austria and at the same time they highly value EHCOs’ cultural and institutional knowledge of the host country. The control purpose is seen as one of the main reasons for sending expatriates abroad (Gaur et al., 2007; Evans et al., 2011). In the context of EHCOs, this topic is novel as the MNCs do not only rely on employees from their headquarters, that is, PCNs. Instead, by assigning EHCOs MNCs combine the control purpose with specific host country knowledge, utilising the familiarity of EHCOs with both ‘worlds’.

Furthermore, we see here a link to the literature on skilled migrants (Al Ariss et al., 2012; Guo et al., 2013; Crowley-Henry et al., 2016). That literature highlights the agency of skilled migrants in navigating their transnational careers, and it shows that skilled migrants use varying strategies to accumulate career capital (Al Ariss and Syed, 2011) and to adapt to the foreign working context (Zikic et al., 2010; Winterheller and Hirt, 2017). Our study adds to this literature by pointing out transnational career trajectories that on the one hand resemble a high degree of career agency typical of skilled migrants, but on the other hand take place in the special environment within an MNC and in the special geographic direction of returning to the country of family roots. While research on return migration found that returnees struggle with succeeding in the labour market, especially in transition economies (Barcević et al., 2012), our findings indicate comparatively good career prospects of those skilled migrants who return to an SEE country under the umbrella of an MNC.
A surprising finding of this study relates to the assignment of PCNs. Although expatriate literature emphasises the benefits associated with PCNs in terms of transfer of knowledge and corporate culture (Chang et al., 2012; Tharenou and Harvey, 2006), and some of the analysed companies decided to assign PCNs for exactly these reasons, it turned out that the local culture of the host country affected the behaviour of the PCNs rather than the other way around. The fact that these PCNs were susceptible to bribery and other unacceptable business practices can be interpreted as a kind of over-adaptation (Patrou, 2014), indicating a lack of certain competencies needed for effective expatriate adjustment (Firth et al., 2014). In contrast, EHCOs might have a greater awareness of the boundary between acceptable and non-acceptable or even illegal behaviour, and they may be capable of doing business according to the standards of the host country. However, we cannot substantiate this conjecture on the basis of our empirical material. Thus, further research on ethical behaviour of EHCOs and comparison with ethical behaviour of other types of expatriates is needed.

Yet, our study also shows that companies face problems over the reluctance of qualified employees of BiH or Croatian backgrounds to return to these countries. As current literature shows, often the problem lies in the poor perceived future prospects of these persons in their countries of origin (Tung and Lazarova, 2006; Tung, 2007; Thite et al., 2009).

Accordingly, practical implications of our study refer to attracting those employees of migrant backgrounds who are willing to move to their country of origin and to creating a respective ‘talent pool’. For instance, recruiting practices targeting candidates of migrant backgrounds are recommendable, as well as respective development programmes or the implementation of ‘international centres’, that foster knowledge transfer between organizational members of different backgrounds. Such centres could provide opportunities for knowledge transfer towards the headquarters (Harzing et al., 2016) and at the same time for training future EHCOs, including the demonstration of long-term career prospects in order to increase their willingness to accept an assignment. *Vice versa*, organizational decision-makers could first identify talents of migrant backgrounds already working with the organization and base their internationalisation strategy on the possible assignment of these employees. Another practical implication refers to (possible) EHCOs themselves. Our findings suggest that skilled migrants who achieve control over critical resources in a company should use this position to advance their career, especially in the context of foreign investments.

This study has several limitations. First, the sample comprises well-known companies representative of the Austrian finance sector. The methodological approach is appropriate to shed light on the scope of EHCO assignments and the underlying management rationales. To enhance the generalisability of the findings, future research should analyse EHCO assignments in various other country and/or industry contexts. In particular, this study focused on transition economies, arguing that these countries are ‘special’, as regards institutional and cultural context. However, the following three questions remained open. First, do the study findings also hold for other transition economies? Second, what exactly makes these countries so special, as compared to other emerging markets, for instance in some Arab or African countries? While these questions are beyond the scope of this article, future research should develop these specifics. Third, as part of the nature of transition economies is being in transition, how can we generalise from empirical material at a given point in time? Although we maintain that our data collected in 2013/14 still is valid – and anecdotal evidence supports this claim – interpretation of our findings has to take this historical, political and economical change into account.

Another limitation of this study is that it primarily relies on management representatives whose responses might be biased due to their roles in the companies. In particular, interviewees might have *post hoc* rationalised certain HR practices in the sense of Alvesson (2003). However, such tendencies prevail throughout expatriation literature in general, mainly because it is difficult to assess the impact of specific expatriation practices on business performance (Gong, 2003; Welch et al., 2009; Chang et al., 2012). Nevertheless, the data demonstrate strength, because they rest on a number of key actors in both headquarters and subsidiaries, enhancing validity and reliability of the findings.

Finally, we were not able to conduct interviews with all of the EHCOs themselves, except for the EHCOs employed by FinCo1 and FinCo4 in BiH and by FinCo2 in Croatia. Although we did not find differences in interview statements between EHCOs and other interviewees, this is obviously a point to consider in future research. In particular, a longitudinal study of EHCOs who are on a long-term assignment is important to expand knowledge concerning the function of EHCOs as an ‘institutional bridge’. In addition, future studies would benefit from investigating self-initiated return of migrants to their country of origin and circular migration, and the role MNCs and business systems play in these phenomena (Al Ariss and Özbilgin, 2010; Andresen and Biemann, 2013). Future research focusing on the processes of adaptation of EHCOs during their assignments and on their managerial success as compared to PCNs or HCNs in similar positions would also be beneficial in understanding the business impact of EHCOs (Jain, 2011). Such studies...
should also examine differences within the group of EHCOs. Due to data restrictions we were not able to obtain detailed biographical information concerning the EHCOs in this study. This shortcoming is common in the international staffing literature, where detailed background information on PCNs, HCNs and TCNs also is scarce. However, given the increasing variety in professional and migrational trajectories worldwide, future research should prevent over-simplification by taking account of such information, as an individual’s background turned out to be a crucial topic in international staffing.

Conclusions

This study analysed a staffing practice that management scholars hitherto have not sufficiently considered, namely MNCs that assign employees of migrational backgrounds as expatriates to management positions located in foreign subsidiaries linked to the employees’ background. Through shedding light on this practice, this study contributes to the literature in the fields of international management and international human resource management. Specifically, the analysis of management rationales underlying EHCO assignments contributes to understanding of strategic staffing decisions. This study goes beyond existing research by focusing on EHCOs in transition economies of SEE – that is, it provides an insider perspective on a new way of international staffing and an under-researched geographic region that still is in transition. The findings highlight that context matters: viewed from the resource perspectives by Pfeffer and Salancik (1978) and Barney (1991), decision-makers in MNCs rely on EHCO assignments because EHCOs are better suited than PCNs, HCNs or TCNs to accrue critical resources and to create competitive advantage, especially in highly complex host country contexts.

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Appendix

Interview guides (depending on the role of the interview partner slightly different version of this guide were used, e.g., for members of the management board or their heads or heads of human resources).

1. Please briefly describe your position and function at your company.
2. Could you give a short overview of the personnel structure (organisational chart)?
3. Please describe the business strategy.
4. What are the investment strategies of your company in the Western Balkans (in particular in Bosnia and Herzegovina, Croatia)?
5. What factors influence these strategies?
6. Do the investment strategies differ between the countries? If so, how do they differ and what factors influence the differences?
7. How are the subsidiaries in the Western Balkans connected to each other? How do they cooperate?
8. Please describe your human resource strategy.
9. How is the HR strategy being developed, who participates in the development process and who is responsible for strategy development?
10. What are the factors that influence the human resource strategy?
11. How is the HR strategy embedded in the business strategy?
12. How is the HR strategy adapted to the internationalisation strategies?
13. According to your opinion, what makes your HR strategy or HR practices special?
14. Is there a specific HR strategy for the subsidiaries in the Western Balkans? Does it include specific elements that are related to your subsidiaries in the Western Balkans?
15. Does your company transfer (partially or fully) the HR strategy and HR practices from headquarters to your subsidiaries in the Western Balkans (e.g., reward system, personnel development, training programmes, certain details of employment contracts)?
16. Does the HR strategy depend on the internationalisation strategies in the Western Balkans?
17. How do the headquarters influence the HR management in the subsidiaries?
18. Does your company send employees as expatriates into your subsidiaries in the Western Balkans?
19. What is the procedure of your company concerning international assignments? What kind of HR practices?
20. Do the foreign assignments depend on the way the company internationalised?
21. Does your company recruit ethnic minorities from the Western Balkans in order to employ them in your subsidiaries in the region?
22. What are the factors that influence the (non-)transfer of ethnic minorities as expatriates into their home countries?
23. What is an ideal profile for an expatriate? What skills and knowledge do expatriates need? What do you look for in particular? Do you also look at the ethnicity?
24. What is the distribution of nationals to ethnic minorities in the company (what is it at the executive level)? What factors affect the employment of ethnic minorities (internally/externally)?
25. How are ethnic minorities recruited and how they are promoted within the company (e.g., special programmes in your company that specifically target ethnic minorities?)
26. Do ethnic minorities play a role in the internationalisation of your company? If so, what role (e.g., personal networks, knowledge)?
27. Does the employment of ethnic minorities (home/host country) depend on the type of internationalisation?
28. What are the experiences in the context of collaboration between nationals and ethnic minorities?
29. Is cooperation being promoted through specific measures?