Antecedents to Localization in Emerging Economy Multinationals: Evidence from Chinese Firms

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ABSTRACT

Purpose: The purpose of this study is to explore factors that influence the level of localization of talent and operations in emerging economy multinationals (EEMs).

Design/methodology/approach: We adopted a case method that helps us reach our research goal of understanding localization process in EEMs. We collected firm level data from personal interviews face-to-face and telephone and we triangulated some date by accessing published sources.

Findings: Our preliminary findings suggest that strategic resource seeking, legitimacy forces and subsidiary autonomy are likely the significant factors determining the level of localization of talent and operations in EEMs' international expansion.

Research limitation/implication: Our study contributes to the literature on localization by extending research to emerging economy multinationals and by integrating resource-based view and organizational legitimacy theory. Given the non-generalizability of our case method, future studies should investigate the relationship between localization and strategic resource seeking, legitimacy forces, and subsidiary autonomy, as well as localization and venture success by conducting large scale and longitudinal studies to gain insights on how the dynamics and interrelations among the antecedents might impact localization and how the timing of localization within a firm may impact venture success.

Practical implication: Our research provides insights for Chinese companies looking to internationalize in the future. In addition, we intend it to provide insights to international managers on how to identify factors that lead to localization and in turn lead to overseas venture success.

Key words: Localization, emerging economy multinational, globalization of Chinese business, legitimacy, autonomy, and strategic resource-seeking.

INTRODUCTION

The purpose of this study is to explore factors that influence the level of localization of talent and operations in EEMs' overseas ventures. The balance between globalization and localization has become an important debate in the international business literature as it affects strategic decisions regarding products, operations, marketing, structure, and human resource management as well as overseas venture success (see Fryxell, Bulter & Choi, 2004; Gomez, 2005; Law, Song, Wong & Chen, 2009; Selmer, 2004a).

As companies continue to internationalize, expatriate assignments become less affordable, and increasingly infeasible with a decrease in guaranteeing control of the foreign operations; instead, training and development of local managers will become more important (Kuhlmann, 2010). During the internationalization process, multinational enterprises (MNEs) begin to harness local talent as part of total talent management (Teagarden, 2009). Thus, localization of talent and operations has become of strategic importance to overseas ventures.

Although there are a few studies done on the localization issue in the context of Western MNEs with subsidiaries in emerging markets (see, Fryxell, Bulter & Choi, 2004; Law, Song, Wong & Chen, 2009; Law, Wong & Wang, 2004; Selmer, 2004a), very limited effort has been spent on studying localization of EEMs in developed countries. We believe it is important to close this gap because we have limited understanding of the antecedents and consequences of localization for EEMs that possess the following features not commonly found in Western multinationals:

1) Lightning speed of internationalization through mergers and acquisitions requires local talent to help these EEMs to integrate their operations into the parent companies.
2) Absence of competitive strategic advantages provides an impetus for acquiring local strategic assets (Yang, Lim, Sakurai & Seo, 2009)

This paper seeks to address the following research question: "What drives EEMs to localize their operations and personnel?" Our definition of localization has two parts: talent localization and operation localization. Different from Law et al. (2009)'s definition of localization, we define talent localization as the ratio of locally hired managers to expatriates brought in from home countries. We define operation localization as the local engagement as measured by the intensity of participation in local activities.

Our study addresses the above question by exploring factors influencing the level of localization in EEMs. We explore the issue of localization through the lens of resource-based view and legitimacy theory. We develop propositions and then provide preliminary evidence by presenting two case studies, VanceInfo and CSPC Pharmaceutical's operations in the U.S. to explicate our propositions. We have chosen China as our context because of its position as the world's fifth largest source of outbound foreign direct investment (FDI) since 2010 and the growth trend in FDI continues (Hanemann & Rosen, 2012). We will start with a review of literature on RBV and organization legitimacy and their relevance in the context of localization for EEMs. In the end, we provide implications for future research and companies looking to localize their talent and operations or to expand abroad in the future.

1. THEORETICAL DEVELOPMENT

As Law et al. (2009) point out, one of the major deficiencies with previous studies on localization is that the studies typically do not explain the localization process and its determining factors from a theoretical perspective. In addition, most previous studies are done in the context of Western MNEs in emerging countries. In this study, we attempt to address these deficiencies by employing RBV and organizational legitimacy theory to explain what drives localization of talents and operations in EEMs. We also develop a theoretical framework depicting the antecedents to localization (see Figure 1).

Insert Figure 1 about here

1.1 Resources and Localization

The resource-based view (RBV) describes the firm as a unique collection of resources and argues that the possession of key resources, along with their effective development and deployment, allows the firm to achieve competitive advantage and succeed in the marketplace (Clulow, Barry, & Gerstman, 2007; Goh, Prakash, & Yeo, 2007). These key resources become a source of sustained competitive advantage when they create unique value, when they are rare, when they are imperfectly imitable, and when they reside in an effective organization (Barney, 1991). For firms to successfully operate in a foreign country, they need to utilize these resources to overcome the inherent liability of foreignness (Zaheer, 1995). Foremost, firms begin to harness local talent during the initial international phase to cope with cultural and language difficulties (Prahalad, 1998; Teagarden, 2009). The advantage of using local talent rather than expatriates is that local hires have a more complete understanding of the local political systems and business practices (Prahalad, 1998). Empowering locally hired managers can thus facilitate EEMs to achieve strategic goals more effectively and more rapidly.

However, studies on EEMs suggest that they generally do not possess these key resources, and in fact, their strategic goals for international expansion are mainly to acquire such strategic resources to compensate for the absence of competitive advantages (Deng, 2009; Redding & Witt, 2009; Yang, Lim, Sakurai, & Seo, 2009). To achieve their strategic goals, subsidiaries need to acquire resources locally through the process of localization of talent and operations. It is generally agreed that local managers possess better knowledge about the local market environment and have better business networks that are critical for securing and building supplier and client network resources. Engaging in local activities to become a part of the local community allows subsidiaries to build invaluable good will in the host country and to create a favorable perception of a "local" company that can potentially help EEMs garner necessary strategic resources. We argue that the more EEMs focus on strategic resource seeking, the more likely they may localize talent and operations. This leads us to propose the following:

> **Proposition 1**: EEMs' strategic resource seeking goals are likely to have positive impact on the level of localization.

1.2 Legitimacy and Localization

Legitimacy is a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions (Suchman, 1995). Legitimacy represents a perception and assumption of observers to the organization as they are and is possessed objectively and created subjectively (Suchman, 1995). There are two forms of legitimacy, internal legitimacy and external legitimacy, both of which have an effect on MNEs.

Successful MNEs often face pressures to accomplish global efficiencies while remaining responsive to local needs (Gomez, 2005) and this requires them to conform to both internal and external legitimacy forces (Forstenlechner, 2011). External legitimacy is the acceptance and approval of the MNE by key stakeholders in the host country (Forstenlechner, 2011), while internal legitimacy is the acceptance and approval of the subsidiary activities within the MNE network (Forstenlechner, 2011). There are different situations in which one or the other type of legitimacy is favored. For example, MNEs that are under strong pressure to conform in the host country and at local industry levels of their institutional environment are more likely to behave as a local company, whereas MNEs that are under strong internal pressure to sustain their internal legitimacy at the corporate level will more likely follow the parent company's decisions (Yang & Rivers, 2009).

However, external legitimacy gives MNEs the ability to overcome the liability of foreignness and achieve social acceptance in host markets (Forstenlechner, 2011). The liability of foreignness, which could be in the form of lack of brand recognition, is the cost of doing business abroad that results in a competitive disadvantage for an MNE subunit (Forstenlechner, 2011). Such liability also contributes to the high percentage of new venture failures (Zimmerman, 2002). The liability arises from costs associated with spatial distance, firm-specific costs based on a particular company's unfamiliarity with and lack of roots in a local environment, and costs from the home country environment (Zaheer, 1995). MNEs can reduce these costs by giving autonomy to a foreign subsidiary and allowing it to behave like a local firm, leading it to mimic the organizational practices of local firms and show less evidence of the liability of foreignness (Zaheer, 1995).

Legitimacy is an important resource for gaining other resources, and as a result, improves the chances that an MNE will acquire all of the various resources needed to cope with the liability of foreignness (Zimmerman, 2002). Motivating factors for external actors to be forthcoming with such resources is their belief or feeling that the subsidiary is competent, efficient, effective, worthy, appropriate, and needed locally (Zimmerman, 2002). The new subsidiary must demonstrate its desirability by showing that it is and behaves in a manner that is considered legitimate (Zimmerman, 2002). In addition, creating the perception of a “local” company is a critical mechanism to gain external legitimacy.

Overall, legitimacy mitigates the liability of foreignness, so resource acquisition by the new venture is positively related to its level of legitimacy, and the growth of the new venture is positively related to the amount of resources it attains (Zimmerman, 2002). Conforming to well-established societal expectations signals adherence to local prescriptions of appropriate conduct and as a result, external legitimacy is garnered which subsequently helps firms in obtaining critical resources and rewards, and buffers it against external environment threats and risks (Forstenlechner, 2011).

Localization can play a large role in the first step toward gaining external legitimacy. People in host countries expect MNEs to create jobs for nationals (Forstenlechner, 2011). However, nationals not only expect MNEs to create jobs, they expect them to create jobs at a high managerial level, and the positions and numbers of nationals employed is an indicator of conformity to the local institutional environment and an important source of external legitimacy (Forstenlechner, 2011). Thus, these legitimacy forces are likely to lead to a higher level of localization. Thus, we propose:

> **Proposition 2:** Legitimacy forces are likely to have positive impact on the level of localization.

1.3 Subsidiary Autonomy and Localization

Subsidiary autonomy and parent company control have been identified as two important organizational variables in multinational operations (Foss & Federsen, 2002; Simonin, 1999). Law et al. (2009) argue that greater autonomy given to the subsidiary can lead to a high level of successful localization as it allows the subsidiary to react to the local environment more quickly and to build up the external and internal resources needed to compete locally.

Specifically, localizing talent is helpful in eliminating the cultural barriers in cross-border operations, as it coordinates the cultural differences within the company (Li, 2010). It also melts away cultural conflicts and promotes effective cooperation between the local subsidiary and foreign parent (Sun, 2010). One big advantage is that local managers are often more familiar with the local culture, government, suppliers, and employees. As a result, local managers may be better at negotiating with these local suppliers, firms, and governments which would have a positive impact on the performance of the subsidiary (Ito, 2010). In addition, local managers will be better able to communicate with the local workers (Sun, 2010). Oftentimes, local employees prefer to work and interact with local managers (Kuhlmann, 2010) and as a result, the employees may be more productive and the subsidiary more successful.

Allowing the subsidiary autonomy to make decisions for hiring and introducing new products and services based on the local market conditions may increase the chances the subsidiary will survive and succeed. We argue that the degree of subsidiary autonomy has a positive correlation with level of localization for the following reasons. First, the higher degree of autonomy facilitates a speedy response to the local market changes and faster decision making in unforeseen circumstances. Second, a high degree of autonomy in decision making and operations in the local market can help subsidiaries to achieve strategic goals more effectively. Thus, we posit:

Proposition 3: Subsidiary autonomy is positively related to the level of localization.

2. METHODS

In order to understand what drives localization of EEM subsidiaries, we conducted interviews with two Chinese firms based in San Francisco and the Bay Area. California is ranked number one in attracting the Chinese firms investing in the state (Rosen & Hanemann, 2012). The representativeness and logistic ease make the San Francisco Bay Area a logical venue for conducting exploratory studies.

We collected firm level data from personal interviews face-to-face and telephone and we triangulated some date by accessing published sources. We collected firm level data to identify resource, legitimacy and autonomy drivers in the localization process. We adopted the case method as our study is exploratory in nature at this point. The case method helps us reach our research goal of understanding localization process in EEMs.

The choice of two firms; VanceInfo and CSPC Pharmaceutical Group Limited (CSPC), one in IT and the other is in pharmaceutical industry was motivated by our observation that both companies have been facing the pressure of localizing talents and operations. We choose to study as it is one of the largest IT outsourcing companies in China and is one of the most active in international expansion. CSPC, as one of the largest pharmaceutical companies in China, is chosen as a complementary case on the account of its significant international expansion - especially in the US, like VanceInfo. By choosing these two large firms, we hope to gleam the intricate motives for their localization behavior.

3. EVIDENCE FROM TWO CASE STUDIES

With the continuing increase in outward FDI, Chinese companies are expanding with both greenfield investments and mergers & acquisitions. Chinese companies tend to use top managers' domestic mindsets to scan international opportunities (Deng, 2011). As a result, the greatest challenges these companies face are the successful integration of people with different cultural backgrounds and the promotion of mutual understanding and cooperation (Sohm, 2009). This is partly due to the circumstance that intercultural sensitivity is very important to the Chinese (Sohm, 2009). With the high cultural distance between China and the Western world, Chinese MNEs often need to take special care with their efforts of integration with the local workforce.

Chinese companies, however, often underestimate the East-West cultural differences and over-estimate their abilities in managing multinational companies (Sohm, 2009). This suggests that managerial orientation may be more important than the number of firm specific resources in making strategic decisions such as outward FDI (Deng, 2011). As a result, recommendations for Chinese firms looking to internationalize include working with people in the same country as the subsidiary and hiring local workers (Sohm, 2009).

3.1 VanceInfo and CSPC's Localization Process

We now present case studies to illustrate what drives localization in two large Chinese multinational firms' subsidiaries in the US. As we examine the expansion and localization in these two companies, we may be able to see that strategic resources, legitimacy forces and subsidiary autonomy may affect the level of localization and make possible inferences to potential outcomes of localization. We provide comparisons as well as key findings in discussions (see Figure 2 and Figure 3).

3.2 VanceInfo

Headquartered in Beijing, VanceInfo has been an industry pioneer in the information technology (IT) services industry since 1995, and is one of the leading offshore software development companies in China (vanceinfo.com). In an effort to locate their business in an area closer to their customers, and to bridge the gap between those customers and the delivery team in China, VanceInfo has grown their business through localization. They have been working to obtain new clients and expand their service lines, both through organic expansion as well as mergers and acquisitions (vanceinfo.com).

In 1999, they started a subsidiary in the U.S., looking to establish a U.S. based consulting practice that understood the U.S. consumer and could bridge the gap for the Chinese delivery team (vanceinfo.com). VanceInfo's California subsidiary was established in 2005, and is a wholly owned subsidiary of VanceInfo China (Yatsko, 2008). Since it was established, the subsidiary has grown quickly: by 2010 they had 200 employees, and more than doubled that number to 450 in 2011. Similar to the parent company, the subsidiary is in the service business and provides IT and telecom services.

VanceInfo has found that having local employees is helpful when managing cross-culturally because some cultures are very different from the Chinese culture. In VanceInfo America, out of 500 U.S. employees, 95% were hired locally. Approximately 50 local employees were hired in 2011, along with 200 that joined the company through acquisitions, and 60 additional local employees were hired in 2012. Localizing has helped give the company the perception of a local company, which has been beneficial in the wake of negative publicity about Chinese computer hacking and information security. One VanceInfo executive explains, "The reality of having a 'local' company is critical – meaning that cultural intelligence is indeed important to successfully conduct business in the US… Increase in local hires will allow us to move up the value chain with the services that we offer. Much of the local hiring is for higher value-add business and IT consultants as opposed to more commoditized software programmer resources. Those higher-end resources not only provide their own services locally to our clients, but also act as the front-end for much larger scale offshore engagements were most of the service personnel are located in China. Therefore, highly qualified local resources help us increase our offshore leverage."

In August, 2012, VanceInfo and one of their competitors, hiSoft, announced a merger agreement forming the company Pactera. Pactera created a combined company with 2012 revenue of over $670 million USD, making it the largest China-based offshore IT services provider[1]. They also have an increased focus on leveraging offshore talent to complement local onshore engagements in the U.S., which requires the hiring of local front-end resources. Pactera plans to continue localizing in the future and hopes to move up the value chain with the services they provide through localization. Much of their local hiring has been for higher value-added business and IT consultants. These talented employees provide both services locally to clients as well as manage large offshore engagements increasing Pactera's offshore leverage.

3.3 CSPC Pharmaceuticals

CSPC Pharmaceutical Group Limited (CSPC) is looking for business growth both in China and internationally through the process of localization. Headquartered in the Hebei Province of China, CSPC is one of the top five pharmaceutical groups in China (http://www.hdrinc.com/portfolio/cspc-pharmaceutical-group-corporate-hq-and-rd-center) with $1.8 billion USD of assets, about 20,000 employees, and more than ten affiliate companies including Zhongrun Pharma, Weisheng Pharma, Zhongnuo Pharma, Ouyi Pharma, and NBP (http://www.e-cspc.com/english/index.aspx). CSPC is a mega pharmaceutical enterprise specializing in science, technology, and trading (http://www.e-cspc.com/english/index.aspx) and are engaged in pharmaceutical product development, production, and sales (http://www.e-cspc.com/english/index.aspx). They produce both active pharmaceutical ingredients (API) and formulations (http://en.wikipedia.org/wiki/Shijiazhuang_Pharma_Group) and their key products include antibiotics, vitamins, cardiovascular and cerebrovascular medicines, antipyretic and analgesic drugs, and respiratory drugs (http://www.e-cspc.com/english/index.aspx).

In the past several years, CSPC Pharmaceuticals has been looking to improve their competitive position within China, as well as move into the international arena (http://www.e-cspc.com/english/index.aspx). Currently, they have a total of US$2.1B in revenue, but are hoping to see that increase by 30% each year. To meet that challenge, they want to more effectively compete with other Chinese pharma companies, as well as with large U.S. and European companies that have a presence in China. During the Board Chairman address, Cai Dongchen, Board Chairman of CSPC, stated that, "Through several years of efforts, CSPC Pharma has rapidly grown into a mega pharmaceutical enterprise holding the balance in the medical industry of China. Nowadays, CSPC Pharma is striding onto the international arena." In order to grow

[1] Please see source: http://www.prnewswire.com/news-releases/vanceinfo-technologies-inc-vanceinfo-and-hisoft-technology-international-limited-hisoft-to-combine-in-merger-of-equals-to-create-chinas-leader-in-global-it-services-165705526.html.

their business and improve both their position in China as well as become an international player, CSPC intends to expand internationally, with an initial focus on research and development.

In 2010, CSPC set up its first subsidiary CSPC Dophen Inc. in New Jersey. In early 2011, CSPC Dophen was relocated to Los Angeles, CA and in November, 2011, CSPC Dophen opened its first international research lab, Dophen Biomed, in Sacramento. Dophen BioMed in Sacramento is led by Dr. Sean Hu, who has over 15 years of drug R&D experience and has held managerial positions in international companies, including Novo Nordisk and Novozymes.

Opening a subsidiary in the United States and hiring local employees allows CSPC to leverage both cost savings and the strong U.S. talent pool. CSPC needs to invest in research internationally, as talented research employees are difficult to find in China. As a result, CSPC is looking to leverage talent from the U.S. and European markets. To attract overseas talent to China, higher salaries, generally 20-30% higher than the U.S. rate are necessary. In addition, research instruments and reagents are far more expensive in China than in the U.S. Overall, a U.S. R&D center makes it not only easier to attract top talent but also cheaper to operate. To demonstrate its long-term commitment and to take advantage of the U.S. real-estate market, CSPC is purchasing a brand new building of 21,000 sq. ft. for Dophen BioMed and will be furnishing it as a cutting-edge research facility. The local government, the City of Sacramento, is also lending needed help to build a win-win partnership for CSPC and Sacramento. These activities should help the subsidiary both localize and legitimize in the U.S. market.

China is not currently a major player in the global pharmaceutical market. As a result, CSPC is looking to use their subsidiary to invest in the future of the company by generating new drugs for the Chinese parent company and to help them remain competitive in the growing Chinese market. CSPC believes that they have between five and ten years to accomplish their R&D goals. They will be developing 2nd generation bio-therapeutics to allow CSPC to compete against U.S. and European companies in the fast growing bio-therapeutics market. The large international pharmaceutical companies (such as Roche, Pfizer, Novo Nordisk, etc.) with both marketing and R&D presence in China are making it difficult for CSPC and other Chinese pharmaceutical companies to compete in their home market.

CSPC’s growth has not been without challenges. Dophen BioMed’s two biggest challenges have been hiring and managing cultural differences. Dophen BioMed is still in the early stages of local hiring and has had trouble attracting talented researchers. To improve its international image, they have been paying special attention to cultural diversity while abiding by local non-discrimination labor laws. In 2012 they had nine employees, but were planning to hire an additional 20 by the end of the year. Originally they were looking to staff all open positions by March 2012, but they were running into problems finding the right people. Even though it was an employer’s job market and layoffs continued nationally, big pharmaceutical companies were expanding. Hence, to compete with the local pharmaceutical and biotech companies for the talent pool in the U.S., CSPC was at a disadvantage as a newcomer despite offering a very competitive salary.

CSPC’s second biggest challenge has been managing the cultural differences between the parent company in China and the subsidiary in the U.S. Dophen BioMed was following the existing parent culture but sensed the need to make some adaptations as a result of the new environment. In order to be more responsive to local market needs, the parent company was trying to grant some autonomy to the subsidiary while ensuring the CSPC subsidiary followed the core culture and values of the parent company, in the area of local hiring and participating in local communities activities.

While CSPC has used localization to set the stage to grow their business legitimately and to achieve the goal of acquiring strategic resources, they still face the dilemma of how far they should localize to grow their business in the US.

4. DISCUSSIONS AND CONCLUSIONS

This paper intends to explore antecedents to localization by developing a conceptual framework capturing three factors that potentially play an important role in determining the level of localization in EEMs as they expand internationally. These factors are strategic resources, legitimacy, and subsidiary autonomy. We explain how these factors impact the level of localization by employing RBV and organization legitimacy theory. We posit that the combination of strategic resource seeking goals, legitimacy forces and the degree of subsidiary autonomy will induce an EEM subsidiary to higher level of localization.

We employed two case studies to access initial evidence for our argument and facilitate us in grounding our theory development. VanceInfo and CSPC both demonstrate that strategic resource seeking goals have a positive impact on the level of localization (Proposition 1) and strategic resource seeking was a strong motivating factor to open U.S. operations for both companies. VanceInfo opened a subsidiary in California to be near its customers and hired 95% of the U.S workforce locally. In addition, to increase its resource base, VanceInfo leverages offshore talent to complement onshore engagements in the U.S. CSPC began U.S. operations with Dophen BioMed to specifically hire local R&D talent, a strategic resource to help the company grow within China and internationally.

CSPC’s Dophen BioMed needs to increase its legitimacy in the U.S. that will have a positive impact on hiring locally (Proposition 2). Dophen BioMed, however, is in a paradoxical situation: in order to obtain high-level local R&D talent, they need to be perceived as being legitimate, yet the difficulty of hiring local qualified professionals from North America inhibits their ability to legitimize. As such, Dophen BioMed needs to find a strategy to break out of this circle of non-legitimacy and non-hiring of local talent. One way Dophen BioMed is trying to legitimize its efforts is by partnering with entities such as the city of Sacramento, California. Conversely, VanceInfo has a large percentage of local hires and is perceived as a legitimate local company, having successfully overcome the disadvantage of foreignness. The different perceptions of legitimacy in the two cases support our Proposition 2 that legitimacy forces have a positive impact on the level of localization, and effort which Dophen BioMed is actively pursuing.

VanceInfo has also demonstrated autonomy from the parent company by the very nature of having such a high percentage (95%) of local hires in the U.S (Proposition 3). The ability to leverage offshore talent to complement its U.S operations further demonstrates the high level of autonomy and regard that the parent company has for its U.S. subsidiary. But with a small workforce in the U.S. and very few local hires, Dophen BioMed has not yet achieved the level of autonomy it needs to be perceived as legitimate. Having operations first in New Jersey and then in Los Angeles, California, and having its research facility built in Sacramento, California, is a clear indication that the parent company retains control of Dophen BioMed which is still trying to find its way to becoming a legitimate local company.

In summary, the case studies provide initial evidence that strategic resource seeking, legitimacy forces and subsidiary autonomy are likely the significant factors determining the level of localization of talent and operations in EEMs' international expansion.

4.1 Research Implications

Our paper contributes to our understanding of the dynamics of globalization in EEMs in general and localization in Chinese multinationals in particular through the lens of RBV and legitimacy theory. We contribute to the existing literature by building a conceptual framework to depict how strategic resource seeking, legitimacy forces and subsidiary autonomy could impact the level of localization in EEMs.

We explain how the outcomes of localization will help subsidiaries and firms build legitimacy in new, international markets. In addition, we suggest that localization may be a result of subsidiaries' desire to overcome the liability of foreignness in order grow business in local markets. Gleaming from the existing literature and our case studies, we may make tentative proposition that localization of talent and operations may positively impact growth of EEMs subsidiaries.

We call for future studies to continue to investigate the relationship between localization and strategic resource seeking, legitimacy forces, and subsidiary autonomy, as well as localization and firm performance by conducting large scale and longitudinal studies to gain insights on how the dynamics and interrelations among the antecedents might impact localization and how the timing of localization within a firm impacts firm performance.

4.2 Managerial implications

Our research also provides insights for Chinese companies looking to internationalize in the future. In addition, we intend it to provide insights to international managers on how to successfully localize their workforces, and in turn improve the morale and performance of local employees, better understand the local business practices, and grow their businesses. Chinese companies and managers looking to internationalize need to realize that localization will be a key to the growth of their subsidiary. Localization will help the subsidiary overcome the liability of foreignness, better understand local business practices, motivate their local workers, and above all, grow their profits. As companies continue to globalize, and expatriate assignments become less feasible and affordable in guaranteeing control of the foreign operations, training and development of local managers will become more important (Kuhlmann, 2010).

Successful localization also points to the issue that the local employees and managers receive comprehensive socializing into the corporate culture at headquarters (Kuhlmann, 2010). A popular way for companies to accomplish this has been to send local managers to headquarters to train (Kuhlmann, 2010). This increases their commitment to the parent company as well as improves their management capabilities (Kuhlmann, 2010). One company that has employed this method is Baosteel Europe (Sohm, 2009). Baosteel is a German company with a Chinese parent. As part of their corporate culture and training, the German employees are brought to Shanghai for a week to meet their Chinese peers and to see the head office (Sohm, 2009)

Our study suggests that companies looking to expand internationally should look to localize as soon as they are able to do so. Starting international expansion with expatriates to ensure that corporate knowledge and corporate culture are maintained can be helpful to new subsidiaries, but localizing will help subsidiaries in the long run. Localization will allow subsidiaries to overcome the liability of foreignness, better understand the local market, and grow their business faster.

4.3 Conclusions

Our study seeks to address the research question: "What drives EEMs to localize their operations and personnel?" We propose in our conceptual framework that the degree of localization is influenced by EEMs' strategic resource seeking goals, legitimacy forces and subsidiary autonomy and provide initial evidence through two case studies of Chinese multinationals investing in the US. Furthermore, we suggest that level of localization may be positively related to subsidiary performance. We provide implications for future research and management practices. Our study contributes to the literature on localization by extending research to emerging economy multinationals and by integrating resource-based view and organizational legitimacy theory.

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Figure 1. Antecedents and outcomes of localization

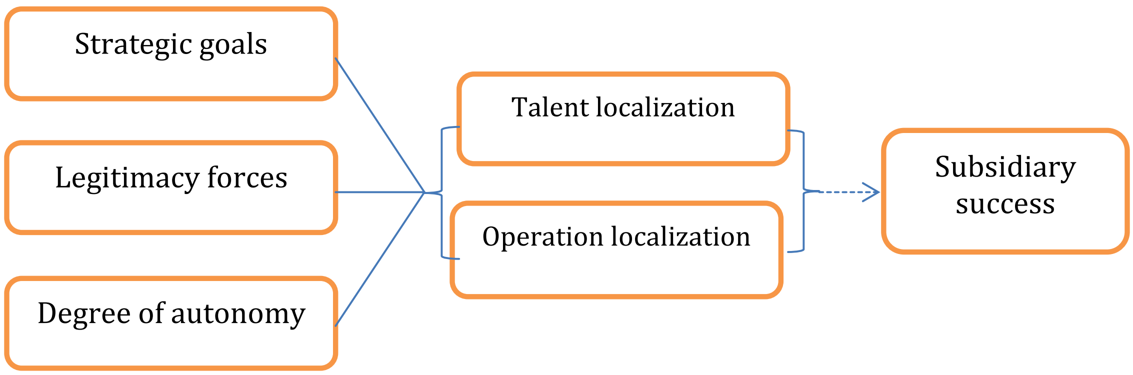

Figure 2. Demographic Characteristics for VanceInfo (Pactera) and CSPC

	VanceInfo (Pactera)	CSPC Pharmaceuticals
Industry	IT Services	Pharmaceuticals
Parent Company Location	Beijing, China	Hebei, China
US Subsidiary Location(s)	San Diego, Seattle, San Francisco, New York,	Los Angeles, Sacramento
Revenue (2012)	$670 million USD	$2.1 billion USD
Total Number of US	500	29*

Subsidiary Employees		
Percent of Employees Hired Locally	95%	100%*

*Based on anticipated hiring plans

Figure 3. Key Findings for VanceInfo (Pactera) and CSPC

	VanceInfo (Pactera)	CSPC Pharmaceuticals
Strategic resource seeking goals	People Resources: • Bridge the gap between international customers and Chinese delivery team • Highly qualified locals increase off-shore leverage with clients	People Resources: • Leverage US talent pool • Leverage cost savings with respect to salaries Materials: • Cost savings on research instruments and reagents • Cost savings in US real estate market
Legitimacy forces	• Realize that having the subsidiary be perceived as local is important- and that increasing the number of local hires will help this • 95% of subsidiary employees hired from the local market	• Building a partnership with the local government of the city of Sacramento
Subsidiary autonomy	• Requires further investigation	• Parent working to grant some autonomy