



# Not all threats are equal: symbolic and realistic threats and the deployment of parent-country nationals

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## Abstract

Through extending the psychological approach to threats, we advance a threat–contingency model to understand how two domains of host-country threats—symbolic and realistic—drive multinational enterprises (MNEs) to deploy parent-country nationals to manage their foreign subsidiaries. When faced with symbolic threats related to ethics and morals in a host country, MNEs act rigidly and conservatively, increasing the likelihood of deploying parent-country nationals as executives in foreign subsidiaries. When dealing with realistic threats associated with potential economic losses in a host country, however, MNEs are adaptive, decreasing the tendency to transfer parent-country nationals abroad and increasing the use of host-country nationals in foreign subsidiaries. The two threats interact in affecting staffing decisions. Moreover, industry globalization moderates asymmetrically the influences of the two threats: globalization strengthens the effect of symbolic threats but weakens the effect of realistic threats. We used a primary archival study and supplementary laboratory studies to test our hypotheses. Overall, our study provides an additional theoretical account to explain MNEs' divergent responses toward two domains of threats in a host country. We conclude the study with implications for international business and global mobility research.

**Keywords** Multinational enterprises (MNEs) · Symbolic threats · Realistic threats · Industry globalization · Global mobility

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## Introduction

The international business world has witnessed the movement of not only products across national borders but also people (Andersson, Brewster, Minbaeva, Narula, & Wood, 2019; Caligiuri & Bonache, 2016). Indeed, the effective organization of employees and human capital across internal networks is the *raison d'être* of multinational enterprises (MNEs; Andersson et al., 2019; Fitzsimmons, Minbaeva, Phene, & Narula, 2021). Yet, as emphasized in the call for papers on global mobility, “this is no small feat in a world of complex MNEs with multiple (and heterogeneous) host locations” (Fitzsimmons et al., 2021: 3). Different host locations pose significant threats, making reacting to these threats a major task for MNEs (Doh, Rodriguez, Uhlenbruck, Collins, & Eden, 2003; Wettstein, Giuliani, Santangelo, & Stahl, 2019). A threat is defined as a “negative situation in which loss is likely and over which one has relatively little control” (Dutton & Jackson, 1987: 80). MNEs often rely on globally mobile employees, specifically parent-country nationals, to address threats in host locations (Belderbos & Heijltjes, 2005; Gaur, Pattnaik, Singh, & Lee, 2022). For example,



assigning parent-country nationals to lead subsidiaries is prevalent in host countries with challenging institutional environments (Gaur et al., 2022).

However, not all threats are equal. Relying on parent-country nationals to handle host-country threats is not always a viable solution (Harzing, 2001). Extant research has paid limited attention to the complexity of threats across host countries and, importantly, how different domains of threats may result in divergent decisions in using parent-country nationals to manage foreign subsidiaries. Host-country threats may have distinctive natures. For example, threats such as economic volatility are primarily concerned with material harm, whereas threats such as human rights violations are more related to ethical and moral values.<sup>1</sup> In a separate vein, psychological theories recognize two domains of threats: realistic (Sherif & Sherif, 1969) and symbolic (Kinder & Sears, 1981). *Realistic threats* refer to the perception that an out-group (e.g., nation or race) poses a risk to an in-group's economy or well-being and concern the tangible, financial, and physical losses that result from resource competition (Riek, Mania, & Gaertner, 2006; Sherif & Sherif, 1969). In contrast, *symbolic threats* refer to perceived risk to an in-group's "deep-seated feelings of social morality" (Kinder & Sears, 1981: 416) due to an out-group's "differences in morals, values, standards, beliefs, and attitudes" (Stephan & Stephan, 2000: 42), which stress the intangible realms of morals.<sup>2</sup>

<sup>1</sup> Economic volatility indicates the rate of change or the degree of instability of economic conditions within an economy (Dess & Beard, 1984). Economic volatility, normally visible in the fluctuation of gross domestic product (GDP), is likely to impose threats that mainly involve potential tangible losses, creating considerable challenges over firms' operations, such as resource acquisition, customer demand, and product sales (Abosedra et al., 2020). Human rights are defined as "inalienable fundamental rights to which a person is inherently entitled simply because she or he is a human being; they cover political, civil and socio-economic and cultural rights as defined by the UN Universal Declaration of Human Rights, and more broadly the International Bill of Human Rights and subsequent treaties" (Wettstein et al., 2019: 54). Different from economic volatility, human rights violations are more related to ethics and morality. International guidelines, such as the 1976 Organization for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises and the 2011 United Nations Guiding Principles on Business and Human Rights, emphasize the importance of MNEs' respecting human rights and upholding ethics globally.

<sup>2</sup> Symbolic threats also may involve economic and material losses (Stephan et al., 2009). However it is argued that such losses are the second-order consequence of symbolic threats. When facing symbolic threats, people are primarily concerned about potential losses in terms of their values and beliefs; individuals may uphold their moral standards, even when doing so will result in economic and material losses (Stephan et al., 2009). The distinction between the two threats has been well established in prior research (Cottrell & Neuberger, 2005; Stephan et al., 2009). With our experimental study in this research, we also aimed to reveal the distinction between the two threats.

Thus, the purpose of this paper is to address *how symbolic and realistic threats in host countries influence the likelihood of appointing parent-country nationals as executives of host-country subsidiaries*. Building on the psychological perspective, we advance a threat contingency model in which MNEs consider some host-country environmental threats as realistic and others as symbolic, leading to different strategies. When facing symbolic threats, MNEs become rigid and transfer parent-country nationals to foreign subsidiaries, hoping to maintain control and protect their fundamental values and beliefs. In contrast, when confronted by realistic threats in a host environment, MNEs become adaptive, delegating control to host-country nationals to leverage their local knowledge, enhance economic benefits, and reduce potential economic losses. The two threats also interact and jointly affect subsidiary manager deployment. Moreover, industry globalization serves as a boundary condition, strengthening the effect of symbolic threats while weakening the effect of realistic threats. Our archival data analyses of 19,444 subsidiaries by 5,371 Japanese MNEs that operated in 36 countries between 1990 and 2018 provided support for our hypotheses. Further, our supplementary laboratory studies revealed that these threats are associated with distinct cognitive and affective mechanisms.

Our study makes the following contributions. First, by linking the psychological research that distinguishes symbolic and realistic threats (Kinder & Sears, 1981; Sherif & Sherif, 1969) to global mobility research (Andersson et al., 2019; Caligiuri & Bonache, 2016), we provide a new theoretical lens to account for MNEs' decisions to deploy employees to handle host-country threats (Harzing, 2001). Indeed, responding to the complexity of host-country threats is imperative for MNEs because globalization dynamics have made them vulnerable to economic volatility, business ethics and moral concerns, and social responsibilities across the various host countries where they have expanded (Carroll, 2004). Second, we extend the literature on organizational responses to threats (Chattopadhyay, Glick, & Huber, 2001; Greve, 2011). Whereas existing research has focused mainly on tangible or financial losses (Chattopadhyay et al., 2001; Greve, 2011), we introduce the intangible (symbolic) domain of threats and contrast it with tangible (realistic) threats (Stephan & Stephan, 2000).

## Theory and hypotheses

### Realistic versus symbolic threats in host countries: A typology for MNEs

The distinction between realistic threats (see Jackson, 1993, for a review) and symbolic threats (see Sears & Henry, 2003,



**Table 1** Distinctions between symbolic and realistic threats

	Symbolic threat	Realistic threat
Examples in IB	Human rights abuse; Government corruption; low environmental, social, and governance responsibility	GDP volatility; unemployment; inflation; high interest rates
Definition	Threats to deep-seated feelings of social morality and ethics, highlighting intangible losses	Threats to economy, highlighting tangible, financial, and physical losses
Conceptual foundations	Symbolic racism theory (Kinder & Sears, 1981).	Realistic group conflict theory (Sherif & Sherif, 1969)
Primary emotional outcomes	Disgust	Anger
Primary cognitive outcomes	Cognitive rigidity	Cognitive flexibility
Primary behavior outcomes	Conservative behavioral responses: avoidance; conformity to own meaning systems, ethics, and morality	Adaptive or proactive behavioral responses: negotiation, approaching, and handling threats
Exemplar studies	Cottrell and Neuberg (2005), Martinez et al. (2022), McLaren (2003)	Cottrell and Neuberg (2005), Martinez et al. (2022), Morrison and Ybarra (2008)

for a review) can be traced to two psychological theories: realist conflict theory and symbolic racism theory. Realistic conflict theory (Sherif & Sherif, 1969) proposes that, when groups compete for scarce resources and have conflicting goals, the success of one threatens the well-being of the other, resulting in hostility and prejudice. Symbolic racism theory (Kinder & Sears, 1981) offers an alternative perception of threats that arise from conflicting values and beliefs rather than competition over tangible resources. Realistic threats focus on the tangible and physical aspects of harm or loss of material resources, and symbolic threats concern intangible differences among members, such as conflicting morals, values, beliefs, and worldviews, which could undermine one's meaning systems (Stephan & Stephan, 2000). As such, symbolic threats concern deep-seated conflicts in identities, values, and moral beliefs (Riek et al., 2006). Realistic threats "may come and go," but "the solid core of prejudice [symbolic threat] remains" (Kinder & Sears, 1981: 416). Scholars have applied the constructs of realistic and symbolic threats in global migration research by operationalizing realistic threats as perceived potential economic and material loss and symbolic threats as perceived threats to identities, values, and beliefs by others (McLaren, 2003; Pereira, Vala, & Costa-Lopes, 2010).<sup>3</sup>

Although realistic and symbolic threats result in negative attitudes, both independently and jointly (Riek et al., 2006), whether different threats may lead to divergent actions has been understudied (Stephan, Ybarra, & Morrison, 2009). Cottrell and Neuberg's (2005) biocultural model of threats suggests that emotional responses differ, depending on the domain of threats. They found threats to safety, physical possessions, and economic security (i.e., realistic threats) elicit

anger, whereas threats to integrity, values, and morality (i.e., symbolic threats) evoke pity. Martinez, van Prooijen, and Van Lange (2022) showed that hate is more strongly predicted by symbolic threats than realistic threats. In a recent study of the COVID-19 pandemic, Kachanoff, Bigman, Kapsaskis, and Gray (2021) found realistic threats are positively related to self-reported adherence to social distancing, whereas symbolic threats are negatively related to such adherence. Little is known, however, how the two threats exactly differ in affecting actual behavior.

Thus, there is a call for further examination of the relationships between different threats and their divergent responses, including emotional, cognitive, and behavioral outcomes (Stephan et al., 2009). In response to this call, we add a psychological perspective to the global mobility literature by examining how MNEs react differently to the two threats when transferring parent-country nationals to host-country subsidiaries. The upper echelons perspective suggests that executives' evaluations of external environments influence organizational responses to environmental threats (Hambrick & Mason, 1984). Executives filter and interpret external information and make organizational decisions based on their evaluations of the threat (Hambrick & Mason, 1984). Below we further explain how the two domains of threats generate opposing organizational decisions. Table 1 presents the differences between the two threats in regard to conceptual foundations and includes examples in international business; it also presents the emotional, cognitive, and behavioral outcomes of the threats.

### Symbolic threats and parent-country nationals as subsidiary managers

When MNEs are confronted with symbolic threats, their moral standards may be challenged based on their values and beliefs (Kinder & Sears, 1981). As discussed above, an example of symbolic threats is human rights violations. Another example of symbolic threats is government

<sup>3</sup> Although symbolic and realistic threats were originally developed at the group level, the definition of "group" could be generalized to include national and cultural groups. For example, McLaren (2003) measured levels of realistic threats in 17 European countries and found that levels of perceived realistic threats were related to a preference for the expulsion of immigrants.



corruption, or the abuse of public power for private gain, in a host country (Doh et al., 2003). Corruption is antithetical to the moral values of MNEs from countries with stringent anti-corruption regulations such as the Unfair Competition Prevention Act in Japan, the Foreign Corrupt Practices Act in the United States, and most OECD countries, which adopted the Convention on Combating Bribery of Foreign Public Officials in International Business Transactions in 1997 (Doh et al., 2003).

We propose that, when MNEs face higher levels of symbolic threats in a host country, they tend to appoint parent-country nationals to lead foreign subsidiaries. Symbolic threats often elicit rigid and defensive behavioral responses (Cottrell & Neuberg, 2005; Jetten, Postmes, & McAuliffe, 2002; Pereira et al., 2010).<sup>4</sup> For example, Cottrell and Neuberg (2005) emphasized that perceived moral contamination produces a tendency to expel the contaminated idea and protect one's ethical values. Jetten et al. (2002) revealed that, when faced with threats to their values, individuals enhance conformity to and integration of their group's beliefs and morality (Azar & Burton, 1986). Similarly, in their migration research, Pereira et al. (2010) found symbolic threats predict opposition to immigrant naturalization more strongly than do realistic threats, suggesting a desire to maintain the in-group meaning system. Drawing on this stream of research, we expect that, when a host country poses a high level of symbolic threat, MNEs will defend their core value systems by enhancing control over foreign subsidiaries. Compared to host-country nationals, parent-country nationals are better positioned to maintain and implement meaning systems from home country headquarters across foreign subsidiaries (Shay & Baack, 2004). Therefore, the likelihood of appointing parent-country nationals increases. Hence, we propose:

**Hypothesis 1** The higher the level of symbolic threats in the host country, the higher the likelihood of having

parent-country nationals as general managers in the host-country subsidiaries.

### Realistic threats and parent-country nationals as subsidiary managers

When MNEs consider a host country as posing a significant realistic threat, they believe that it will lead to financial losses for their subsidiaries. One example of realistic threats is GDP volatility, which is economic instability of a host country, creating uncertainties for all firms that operate within that country (Abosedra, Arayssi, Sita, & Mutshinda, 2020). Another example is high unemployment rates, which typically signal an economic recession and low purchasing power, consumption, and productivity, posing economic challenges to multinational firms.

We maintain that, when MNEs face high levels of realistic threats from a host country, they are less likely to appoint parent-country nationals to lead subsidiaries. Unlike symbolic threats, which elicit rigid and conservative responses, realistic threats often generate adaptive reactions (Azar & Burton, 1986; Cottrell & Neuberg, 2005; Stephan et al., 2009).<sup>5</sup> For example, Azar and Burton (1986) found that, compared to symbolic threats, realistic threats are more likely to result in negotiation. Realistic threats typically prompt adaptive and externally oriented behaviors to manage the threats (Stephan et al., 2009), including assertive actions to safeguard economic security (Cottrell & Neuberg, 2005). Building on this line of research, we posit that, when realistic threats are high, MNEs are less likely to retain their control-seeking intentions to appoint parent-country nationals as executives in foreign subsidiaries but likely to enhance their adaptive responses. By appointing host-country nationals, MNEs can access timely and valuable local

<sup>4</sup> Researchers acknowledge that these behavioral reactions can be influenced by affective and cognitive mechanisms. For example, prior research suggests that perceived symbolic threats to one's morals and ethics are associated with greater negative affect, such as heightened disgust (Cottrell & Neuberg, 2005). Moreover, research on the relationship between affect and cognitive overload has found that negative emotions are associated with cognitive inflexibility (Staw, Sandelands, & Dutton, 1981). That is, when individuals are emotionally activated (e.g., feeling disgusted), they are inclined to narrow the range of cognitive cues by reducing their sensitivity to peripheral cues and process new information as an "internal hypothesis" instead of an open-minded approach (Staw et al., 1981). Although negative affect also may generate positive outcomes (e.g., George & Zhou, 2002), such effects are contingent upon one's skills and strategies in coping or the contextual support that one receives. We thank an anonymous reviewer for pointing out this important insight to us.

<sup>5</sup> These behavioral responses are often related to affective and cognitive mechanisms. First, researchers posit that different perceived stimulus event classes elicit qualitatively distinct emotions and action tendencies (Cottrell & Neuberg, 2005). Perceived moral contamination (i.e., symbolic threats) primarily generates disgust, whereas perceived threats to economic resources (i.e., realistic threat) primarily produces anger (Cottrell & Neuberg, 2005). These two emotions may lead to differential behavior tendencies: Disgust often induces a tendency to avoid or reject threatening values, whereas anger typically leads to aggressive or proactive responses to obtain desired outcomes (Mackie & Smith, 2002). Therefore, perceived realistic threats may generate reactions such as anger, leading to proactive actions to deal with threats. Second, the cognitive mechanism suggests that people may be cognitively flexible and adaptive in the event of such threats (De Dreu & Nijstad, 2008). Research has shown that individuals who feel anger may be more motivated to mobilize cognitive resources and develop broader, inclusive, and adaptive thinking to address the problem compared to those in a mood-neutral control condition (De Dreu, Bass, & Nijstad, 2008). Taken together, these affective and cognitive mechanisms indicate that realistic threats may result in proactive or adaptive behavioral responses.



information and knowledge, which is critical to quickly identify and address adversity in the local environment. Hence, we propose:

**Hypothesis 2** The higher the level of realistic threat in the host country, the lower the likelihood of having parent-country nationals as general managers in the host-country subsidiaries.

### Interactions between symbolic and realistic threats

MNEs often experience both symbolic and realistic threats in host countries, and the two are often intertwined. Therefore, exploring the interaction between these threats is important. We propose that, when host countries pose high levels of symbolic threat, the negative effect of realistic threats on MNEs' appointments of parent-country nationals becomes weaker. Symbolic and realistic threats generate incompatible requirements: Realistic threats require flexible and adaptive responses (such as local adaptation), favoring the appointment of host-country nationals, whereas symbolic threats create a strong need for rigid and defensive reactions (such as global integration), encouraging the use of parent-country nationals to oversee subsidiaries (Jetten et al., 2002; Stephan et al., 2009). That is, enhanced pressure for global integration due to heightened symbolic threats offsets the pressure for local adaptation arising from realistic threats. Therefore, prominent symbolic threats in host countries have the potential to mitigate the negative impact of realistic threats on MNEs' use of parent-country nationals.

In contrast, when a host country presents a low level of symbolic threats to MNEs, the negative effect of realistic threats on MNEs' likelihood of appointing parent-country nationals is stronger. This is because when facing nonsalient symbolic threats in host countries, MNEs tend to devote greater attention to realistic threats, thereby increasing adaptive responses associated with realistic threats. We thus posit the following:

**Hypothesis 3** Symbolic threats weaken the relationship between realistic threats in the host country and the likelihood of having parent-country nationals as general managers in the host-country subsidiaries, such that the negative relationship becomes weaker when symbolic threats are at a higher level but stronger when symbolic threats are at a lower level.

### Industry globalization as a boundary condition

MNEs differ in the degree of globalization within their industry (Barlett & Ghoshal, 1989). Research has shown that executives' perceptions of environmental threats and industry characteristics can jointly influence organizational

decisions in response to threats (Chattopadhyay et al., 2001). Whereas symbolic and realistic threats in a host country influence executives' perceptions of the country's environment, industry globalization affects the salience of such threat perception to MNEs' operations. As such, industry globalization can moderate the influence of symbolic and realistic threats in the host country on MNEs' decisions to use parent-country nationals as subsidiary managers.

Industry globalization is a critical factor in the global integration-local responsiveness typology, which concerns the degree of linkages among national markets in terms of consumer demand and production activities and includes global industries at the high end and multidomestic industries at the low end (Barlett & Ghoshal, 1989). In global industries, domestic markets are integrated across national boundaries, and firms aim to achieve global economies of scale and coordinated value-chain operations by serving universal customer needs with standardized products (Kobrin, 1991). In such an environment, firms face substantial pressure for global integration and must optimize their value-chain operations to integrate their foreign subsidiaries into a globally coordinated network (Bartlett & Ghoshal, 1989; Yang, Lu, & Jiang, 2017). In contrast, firms that operate in multidomestic industries, characterized by competition based on diverse and fragmented cross-border markets, face increasing pressure for local adaptation due to the varying needs across foreign markets (Bartlett & Ghoshal, 1989; Yang et al., 2017).

### Industry globalization as a boundary condition for symbolic threats

We maintain that industry globalization *strengthens* the positive influence of symbolic threats on MNEs' appointments of parent-country nationals as foreign subsidiary managers. First, in global industries, MNEs have stakeholders worldwide (Barlett & Ghoshal, 1989). MNEs are expected to be ethical by doing "what is *expected* by global stakeholders" and to "be a good global corporate citizen" by doing "what is *desired* by global stakeholders" (Carroll, 2004: 116). When entering a host location with high-level symbolic threats, MNEs face ethical challenges (Kinder & Sears, 1981). The salience of such symbolic threats to MNEs' global operations is heightened due to the scrutiny and demands from global stakeholders (Carroll, 2004). It is, thus, essential for firms to defend their global reputation by addressing conflicting moralities in host countries and by upholding their core values and moral standards across borders (Huemer, 2010). Indeed, violation of MNEs' identity as ethical and responsible global players may be ruinous, as seen in the case of GlaxoSmithKline's bribery scandal in China, which resulted in a significant decrease in the firm's global sales (Hirschler, 2013). Therefore, under the condition of high



levels of industry globalization, MNEs pay particular attention to symbolic threats across host countries to protect their global moral reputation, leading to a higher likelihood of appointing parent-country nationals in response to symbolic threats.

Second, the literature on symbolic threats highlights the importance of upholding in-group ethics as a means to moderate the effect of symbolic threats on members' reactions (Rios, Sosa, & Osborn, 2018). When individuals have strong ties and identification with in-group ethics, the importance of protecting in-group ethics is increased (Morrison & Ybarra, 2008). Industry globalization increases MNEs' ties to and identification with global stakeholders, heightening the importance of maintaining global morals to these stakeholders (Carroll, 2004), thereby strengthening MNEs' responses to symbolic threats.

In multidomestic industries, however, firms' key stakeholders are localized, and their overseas operations are largely disconnected and independent (Kobrin, 1991). The negative consequences of symbolic threats in a specific host environment are, thus, less likely to affect MNEs' operations in other parts of the world. In other words, the importance of maintaining global ethics is weakened due to the subsidiary's limited exposure to global stakeholders. Hence, in industries with low levels of globalization, the influence of symbolic threats on the likelihood of appointing parent-country nationals in foreign subsidiaries becomes attenuated. Therefore, we propose:

**Hypothesis 4** Industry globalization strengthens the relationship between symbolic threats in the host country and the likelihood of having parent-country nationals as general managers in the host-country subsidiaries, such that the positive relationship becomes stronger when industry globalization is at a higher level but weaker when industry globalization is at a lower level.

#### Industry globalization as a boundary condition for realistic threats

We maintain that industry globalization *weakens* the negative influences of realistic threats on the appointment of parent-country nationals as subsidiary executives. First, when industry globalization is high, MNEs tend to prioritize global operations over local conditions (Barlett & Ghoshal, 1989). This reduces the pressure for local adaptation and diminishes MNEs' sensitivities to realistic threats in specific host countries. Unlike symbolic threats, which are subject to scrutiny from global stakeholders (Carroll, 2004), realistic threats do not involve business ethics and integrity and, thus, receive less scrutiny from global stakeholders. All of these factors mitigate MNEs' pressure to respond to realistic threats, weakening the negative influence of realistic

threats on appointing parent-country nationals as subsidiary managers.

Second, the literature on realistic threats suggests that, when people have easy access to material resources, the influence of realistic threats is reduced because there are fewer concerns about protecting the in-group's resources (Stephan et al., 2009). Consistent with this logic, MNEs in global industries have access to resources in multiple countries, thereby reducing MNEs' concerns about resources and realistic threats in specific host countries. As a result, the influence of these country-specific realistic threats on MNEs' decisions is lowered.

At the other extreme, firms that operate in multidomestic industries face increasing pressures for local adaptation due to the special needs of diverse foreign markets (Bartlett & Ghoshal, 1989; Yang et al., 2017). Firms in such industries need to access necessary material resources in host countries, increasing the prominence of the host country's realistic threats as affecting the firms' decisions. Therefore, in low-level industry globalization, the impact of realistic threats on using host-country nationals as subsidiary leaders is stronger. Therefore, we hypothesize:

**Hypothesis 5** Industry globalization weakens the relationship between realistic threats in the host country and the likelihood of having parent-country nationals as general managers in the host-country subsidiaries, such that the negative relationship becomes weaker when industry globalization is at a higher level but stronger when industry globalization is at a lower level.

#### Potential three-way interaction of symbolic threats, realistic threats, and industry globalization

There is likely a three-way interaction among industry globalization, symbolic threats, and realistic threats in predicting the likelihood of having parent-country nationals as general managers of subsidiaries.<sup>6</sup> When both symbolic threats and industry globalization are at low levels, the negative effect of realistic threats on the likelihood of MNEs' deployment of parent-country nationals as subsidiary managers is strongest. Symbolic threats that are less prominent allow MNEs to concentrate on realistic threats in the host country, strengthening the influence of realistic threats on firm decisions. Moreover, in industries with reduced globalization (e.g., multidomestic industries), firms face increasing demands from local stakeholders due to the need to acquire essential resources from certain host countries (Yang et al.,

<sup>6</sup> We thank an anonymous reviewer for suggesting the three-way interaction. For brevity, we do not develop a hypothesis for this interaction. Instead, we provide a brief explanation here and provide more details in the supplementary analysis.



2017). In such industries, MNEs must pay close attention to realistic threats in the host country. Low symbolic threats combined with low industry globalization then yield the strongest influence of realistic threats on the likelihood of using parent-country nationals in host-country subsidiaries.

When both symbolic threats and industry globalization are at high levels, the negative effect of realistic threats on the likelihood of using parent-country nationals as general managers in the subsidiaries is weakest. As discussed above, heightened symbolic threats weaken the influences of realistic threats for appointing parent-country nationals, as these threats pose incompatible requirements (Cottrell & Neuberger, 2005; Stephan et al., 2009). Industry globalization also weakens the role of realistic threats in decision making because, in global industries, MNEs prioritize global integration over local operations (Barlett & Ghoshal, 1989). A focus on global environments results in reduced attention to local situations, lowering MNEs' sensitivity to realistic threats in a particular country. Taken together, high levels of symbolic threats alongside high industry globalization generate the weakest influence of realistic threats on the likelihood of deploying parent-country nationals to host-country subsidiaries.

In cases in which symbolic threats are high and industry globalization is low, or vice versa, the negative effect of realistic threats on the likelihood of using parent-country nationals as general managers in the subsidiaries is moderate. In the former scenario, despite high symbolic threats, the lack of worldwide stakeholders in low industry globalization reduces the pressure to uphold global ethical standards, reducing the need to pay close attention to symbolic threats (Kobrin, 1991). In the latter scenario, heightened industry globalization strengthens the importance of global ethics (Carroll, 2004), but nonsalient symbolic threats in the host country do not pose significant challenges to MNEs. Thus, in both situations, the pressure to maintain world ethical standards in the host country is not substantial, allowing MNEs to attach average attention to realistic threats in the host country. This leads to a moderate influence of realistic threats on MNEs' use of parent-country nationals as managers in the host country.

## Methods

### Overview

We used a main archival study and supplementary laboratory studies to test our hypotheses. The archival study offers a large sample of MNEs for generalizability, and the laboratory studies allow us to examine potential mechanisms and

establish causality (Rios et al., 2018). The laboratory study, although valuable for causality and validating proxies, may lack generalizability to real-world business contexts. Thus, we used both methods in this research.

For archival data, we analyzed Japanese subsidiaries' use of parent-country nationals as managers across different countries, where symbolic and realistic threats vary by degree. The sample of Japanese MNEs is appropriate for our research because Japanese MNEs have a reputation for using an ethnocentric approach to staffing overseas subsidiaries (Kobrin, 1991). To supplement the archival study, we conducted three laboratory studies. The first study (Study A) validated the measures of symbolic threats and realistic threats. We found that business professionals perceive host government corruption and economic volatility as different threats; the former is considered a symbolic threat, and the latter is considered a realistic threat. The second study (Study B) explored the cognitive and affective mechanisms that explain differential reactions to the two threats. The third study (Study C) cross-validated the results using a different measure of symbolic threats. We present the methods of our main archival research below and provide the details of the three supplementary laboratory studies in the online Appendix I.

### Sample and data sources

We constructed our archival study sample from several sources. We utilized the Toyo Keizai Japanese Overseas Investment database, which provides comprehensive information on subsidiary characteristics, such as establishment date, ownership structure, total employees, industrial sector, equity capital, sales, and local and foreign employees, and has been widely used in prior studies (Gaur, Delios, & Singh, 2007; Gong, 2003; Yang, Wen, Volk, & Lu, 2022). Notably, the database includes the host country of each foreign subsidiary. Further, we extracted country-specific variables from other databases, including those of Amnesty International, World Bank, CEPII, United Nations Global Migration, and Thomson Reuters ASSET4. After merging and removing cases with missing values, our final sample comprised 19,444 subsidiaries, established by 5371 Japanese parent firms and operating across 36 countries between 1990 and 2018. The total observations were 151,877.

### Variables

The dependent variable, *parent-country national as general manager*, is a binary variable that is equal to 1 if the general manager of an affiliate is a parent-country national, and 0



otherwise.<sup>7</sup> It captures the changes in the top executive position of Japanese subsidiaries in the host country during the study period.

### Symbolic threats

To measure symbolic threats in a host country, we constructed a composite index. We assessed government corruption and human rights in a host country separately and then standardized them. We then averaged the two standardized scores to indicate symbolic threats. Following Spencer and Gomez (2011), we used Transparency International's Corruption Perceptions Index (CPI) to measure government corruption; the index provides a continuous score published annually and ranges from 0 (low corruption) to 100 (high corruption). A higher score indicates greater perceived corruption.

When human rights abuses occur in a host country, foreign investors may feel that their fundamental values and moral principles are at risk (Blanton & Blanton, 2007), which is considered a symbolic threat. To measure human rights conditions, we used the Political Terror Scale (PTS; Blanton & Blanton, 2007), which is derived from content analysis of annual reports published by organizations such as Amnesty International, Human Rights Watch, and the U.S. State Department. The scale ranges from 1 to 5, with higher scores indicating a greater level of human rights abuse. We measured a host country's human rights violations using the PTS based on Amnesty International reports. The other two PTS measures, based on the Human Rights Watch reports and U.S. State Department reports, exhibit high correlations with the PTS based on Amnesty International reports in our sample ( $r = 0.86$ ,  $r = 0.80$ , respectively).

The composite index for calculating the symbolic threats of a host country ( $i$ ) in year  $t$  is as follows:

$$\begin{aligned} \text{Symbolic threats}_{it} &= (Z - \text{score of government corruption}_{it} \\ &+ Z - \text{score of human rights}_{it})/2 \end{aligned}$$

In the robustness analyses, we replaced the PTS based on Amnesty International reports with two alternative PTSs, and the results were consistent. We also included the host country's environmental, social, and governance (ESG) sustainability performance score (reverse-coded), obtained from Thomson Reuters ASSET4, as an additional indicator of symbolic threat, along with government corruption and

human rights. The results were largely unchanged, although the number of observations decreased significantly due to ASSET4's covering fewer countries and having more missing values.<sup>8</sup>

### Realistic threats

We also used a composite index to measure realistic threats in a host country. Economic volatility increases the uncertainty of competition in the host country, creating tangible and economic threats for MNEs. To capture different dimensions of economic volatility, we measured the dispersion of GDP and unemployment rates in the host country over the past 3 years (Dess & Beard, 1984). Specifically, we used the coefficient of variation of GDP and the coefficient of variation of unemployment rates (Abosedra et al., 2020). The higher the dispersion of a host country's GDP and its unemployment rate, the greater the economic volatility of the host country.

The composite index for calculating realistic threats of a host country ( $i$ ) in year  $t$  is as follows:

$$\begin{aligned} \text{Realistic threats}_{it} &= (Z - \text{score of dispersion of GDP}_{it} \\ &+ Z - \text{score of dispersion of unemployment rate}_{it})/2 \end{aligned}$$

In the robustness analyses, we expanded our measure of economic volatility by including additional dimensions, such as the dispersion of inflation and the dispersion of interest rates in a host country. Despite a substantial reduction in sample size due to missing data across the different economic indicators, the results were consistent.

### Industry globalization

We measured *industry globalization* by using a continuous indicator, the level of international trade (LIT) index (Kobrin, 1991; Makhija, Kim, & Williamson, 1997). The LIT index reflects the proportion of international trade to overall consumption within an industry, whereby overall consumption is measured by subtracting industry exports from total industry production and imports (Makhija et al., 1997). To calculate the composite index of LIT, we used the United Nations Bilateral Trade Database and three-digit International Standard Industrial Classification codes. In the robustness analyses,

<sup>7</sup> Japanese firms have a reputation for seldom using third-country nationals in their overseas subsidiaries (Gong, 2003). Therefore, this dependent variable allows us to examine executive staffing as a binary decision between parent-country nationals and host-country nationals (Gaur et al., 2007; Gong, 2003).

<sup>8</sup> To provide further evidence of the validity of these indicators, we conducted laboratory studies to demonstrate that business professionals are likely to perceive host-country human rights and government corruption as symbolic threats. Similarly, the laboratory studies demonstrated that business professionals are likely to perceive economic volatility as realistic threats, providing further validity for our measures in the main archival study. We present details of the laboratory studies in online Appendix I (i.e., Studies A–C).





we also identified Japanese firms' motivations for improving global efficiency, which represented their specific orientation toward global integration, as a replacement for the industry-level indicator of global integration.

### Control variables

Our choice of control variables was guided by previous studies of MNEs' use of parent-country nationals in foreign subsidiaries (Gong, 2003; Yang et al., 2022). First, we controlled for parent firm characteristics. *Host-country experience*, calculated as the logarithm of the number of subsidiaries parent firms had established in the same host country prior to the entry year, was included to capture the potential reduction in MNEs' use of parent-country nationals (Belderbos & Heijltjes, 2005). We also controlled for the *total number of Japanese parent firms* invested in a subsidiary (Yang et al., 2022).

In addition, we controlled for subsidiary characteristics. The ownership structure of a subsidiary, indicating the equity holdings of Japanese parents in the subsidiary, served as a proxy for their resource commitment (Guar et al., 2007). The higher the *ownership ratio*, the greater the financial resources the parent has committed to the subsidiary and the greater the likelihood of having parent-country nationals in the subsidiary. We also controlled for subsidiary size, using *capital investment* from Japanese parents, as larger investments were associated with a higher probability of employing parent-country nationals. Next, *subsidiary age*, calculated as the difference between a subsidiary's year of formation and the year of observation, was included to account for MNEs' diminishing need for control through parent-country nationals over time (Gaur et al., 2007).

To account for country-level variations, we controlled for home–host-country CAGE distances, comprising cultural, administrative, geographic, and economic distances between home and host countries as well as their linguistic distances. Cultural distance is an important determinant of decisions to use parent-country nationals in foreign subsidiaries (Gong, 2003; Harzing, 2001). Administrative distance reflects differences in government policies, regulations, and institutions between home and host countries and incorporates regulatory institutional distance (Guar et al., 2007). We followed Berry, Guillén, and Zhou (2010)'s operationalization to measure *administrative distance*. *Geographic distance* is calculated as the great-circle distance between the Japanese city where the parent company is located and the capital cities of the host countries (Berry et al., 2010). *Economic distance* accounts for the disparity in economic development between the host country and Japan and is computed as the average gap between the two countries' per capita GDP, GDP deflators, and imports and exports of goods and services (Berry et al., 2010). *Linguistic distance* reflects the degree of linguistic

commonality between the two languages and is measured by taking into consideration the linguistic diversity of the host country (Yang et al., 2022). In addition, we controlled for the influences of prior immigrants in the host country (Scott & Scott, 2013). *Japanese immigrants* were computed as the logarithmic transformation of the number of Japanese immigrants in the same host country prior to the entry year.

We further controlled for a host country's terrorist attacks, labeled as "*terrorism*." This variable captures the total fatalities and injuries caused by terrorist attacks in a host country where Japanese subsidiaries were located (Liu & Li, 2020). Terrorism-related attacks are considered a distinct type of threat, separate from symbolic threats and realistic threats, as they involve safety concerns (Uenal, 2016). The raw numbers of terrorism-caused deaths and injuries were standardized every year to align with our operationalization of symbolic and realistic threats for comparability.

Finally, we controlled for *year-fixed effects* and *industry-fixed effects* in the models to address unobserved variations associated with time and industry. We also included *regional dummies* to control for regional heterogeneity that could affect the likelihood of having parent-country nationals as subsidiary managers.

### Modeling

We used discrete-time event history analysis, a method for estimating logit models of binary outcomes in panel data where the same units are observed at multiple time intervals (Allison, 1984). The method offered several advantages for our study. It allowed us to capture the influence of time on the probability of the executive assignment event. Moreover, given that our data were collected at relatively large intervals (e.g., years) and we lacked precise timing information (Allison, 1984) regarding the executive assignment events, we opted for discrete-time event history analysis. Research suggests that discrete-time models often generate results similar to those of continuous-time models (Allison, 1984). All of the independent and control variables were lagged by 1 year.

### Results

Table 2 presents the descriptive statistics and bivariate correlations for the main variables included in our archival data analysis. Correlations were generally low, but several exceeded 0.50. We tested for multicollinearity among all variables and found that the average variable inflation factor (VIF) was 2.72. All individual VIF values were below 10, indicating that multicollinearity would not be a major concern for our analyses (O'Brien, 2007).



Table 3 provides the results of the discrete-time logit analysis. We progressively added the key theoretical variables and their interactions across eight model specifications. Model 1 includes only the control variables. Model 2 adds symbolic and realistic threats. Model 3 further incorporates the moderator: industry globalization. Model 4 adds the interaction between symbolic threats and realistic threats. We then introduced the interaction between symbolic threats and industry globalization in Model 5 and the interaction between realistic threats and industry globalization in Model 6. Model 7 includes all of the two-way interaction terms. Model 8 provides a means to examine the potential three-way interactions among symbolic threats, realistic threats, and industry globalization.

Hypothesis 1 proposes that a higher level of symbolic threats in a host country raises the likelihood of using parent-country nationals as executives in host-country subsidiaries. The coefficient for symbolic threats is positive in Model 2 ( $\beta = 0.404$ ,  $p < 0.001$ ), providing support for Hypothesis 1. Hypothesis 2 proposes that a higher level of realistic threats in a host country reduces the likelihood of hiring parent-country nationals as executives in subsidiaries. The coefficient for realistic threats in Models 2 is negative ( $\beta = -0.158$ ,  $p < 0.001$ ), supporting Hypothesis 2.

Hypothesis 3 predicts that the joint influence of two threats in a host country affects the likelihood of having parent-country nationals as subsidiary managers. The coefficients of the interaction between symbolic threats and realistic threats are positive in Models 4 and 7 ( $\beta = 0.050$ ,  $p = 0.048$ ;  $\beta = 0.035$ ,  $p = 0.174$ , respectively), indicating some support for Hypothesis 3. Hypothesis 4 predicts that industry globalization strengthens the positive effects of symbolic threats. The coefficients of the interaction between symbolic threats and industry globalization are positive in Models 5 and 7 ( $\beta = 0.241$ ,  $p = 0.001$ ;  $\beta = 0.213$ ,  $p = 0.004$ , respectively), supporting Hypothesis 4. Hypothesis 5 predicts that industry globalization weakens the negative effects of realistic threats. The coefficients for the interaction between realistic threats and industry globalization are positive in Models 6 and 7 ( $\beta = 0.320$ ,  $p < 0.001$ ;  $\beta = 0.278$ ,  $p = 0.001$ , respectively), providing support for Hypothesis 5.

Considering the nonlinear nature of logit models, it is important to note that the interaction term in a nonlinear model cannot test the moderating hypothesis (Zelner, 2009). To test the robustness of our moderating hypotheses and visually depict the interaction effects, we adopted two methods: the marginal effects technique (Busenbark, Graffin, Campbell, & Lee, 2022) and a simulation-based approach (Zelner, 2009). We used the marginal effects technique to retest our moderating hypotheses and generated three figures based on Model 7 (the full model) of Table 3. Additionally, we conducted the simulation-based logit analyses as part of our additional analyses and reported the findings in Appendix II.

Figure 1 is a plot of the marginal effects of realistic threats on the likelihood of having parent-country nationals as subsidiary managers over the sample values of symbolic threats. The 95% confidence interval bands in this figure are all below zero for the whole value range of symbolic threats. Therefore, the marginal effects of realistic threats on subsidiary executive decisions are negative and statistically different from zero (at the 95% level) for all sample values of symbolic threats (ranging from  $-1.86$  to  $1.74$ ). Moreover, the positive slope indicates the negative effects of realistic threats on the likelihood of using parent-country nationals weaken as the level of symbolic threats increases. Hypothesis 3 is, thus, supported in the figure.

Figure 2 is a plot of the marginal effects of symbolic threats on the likelihood of employing parent-country nationals as subsidiary managers, along with 95% confidence interval bands, over the sample value of the moderating variable of industry globalization. The confidence interval bands in this figure are consistently above zero over the entire range of industry globalization. We thus conclude that the marginal effects of symbolic threats on subsidiary executive decisions are positive and different from zero (at the 95% level) for all sample values of industry globalization (range,  $0$ – $1.68$ ). Further, the positive slope indicates that the marginal effects increase as industry globalization increases. The results presented in Fig. 2 provide strong support for Hypothesis 3.

Figure 3 shows the marginal effects of realistic threats on the likelihood of using parent-country nationals as subsidiary managers over the sample value of industry globalization. In this figure, the 95% confidence interval bands do not cross zero until industry globalization increases beyond  $0.66$  (i.e., mean +  $1.5$  SD). We thus conclude that the marginal effects of realistic threats on the likelihood of using parent-country nationals are negative and different from zero (at the 95% level), but only for a portion of the sample values of industry globalization (range,  $0$ – $0.66$ ). The positive slope suggests that the negative effects of realistic threats decrease as industry globalization increases. The results shown in Fig. 3 provide partial support for Hypothesis 4.

We performed post hoc tests to examine the three-way interaction among symbolic threats, realistic threats, and industry globalization. The results for Model 8 in Table 3 indicate that the coefficient of the three-way interaction term is positive ( $\beta = 0.126$ ,  $p = 0.190$ ). We presented the three-way interaction effects in Fig. 4, which shows that the downward slope is steepest for the low symbolic threat and low industry globalization, suggesting that the negative influence of realistic threats on the likelihood of deploying parent-country nationals is strongest in this situation. Moreover, the slope is flattest (even turning upward) for high symbolic threat and high industry globalization, revealing that the negative influence of realistic threat on the likelihood of



Table 2 Descriptive statistics and correlations

Variables	Mean	Std. Dev.	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
1 Parent-country national	0.814	0.389															
2 Symbolic threats	-0.037	0.651	0.019														
3 Realistic threats	0.066	0.922	-0.039	0.164													
4 Industry globalization	0.212	0.297	-0.018	0.260	0.005												
5 Terrorism	0.051	1.271	0.000	0.000	0.075												
6 Host-country experience	2.574	4.241	0.010	-0.125	-0.081	-0.033											
7 Number of Japanese parents	1.369	0.850	0.000	0.000	0.000	0.000	0.025										
8 Ownership ratio	0.816	0.259	0.013	0.142	-0.043	0.084	-0.012	0.042									
9 Capital investment	0.027	0.092	0.000	0.000	0.000	0.000	0.000	0.000	0.000								
10 Subsidiary age	13.912	10.441	0.347	-0.241	0.021	-0.101	0.032	-0.144	-0.222	0.004							
11 Cultural distance	2.972	0.896	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.174							
12 Administrative distance	4.473	0.353	0.004	0.091	-0.055	0.102	-0.014	0.011	0.007	0.030	0.045						
13 Geographic distance	8.422	0.694	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000					
14 Economic distance	11.889	13.238	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000				
15 Linguistic distance	4.487	0.053	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000			
16 Japanese immigrants	8.917	3.061	-0.018	-0.163	-0.278	-0.038	0.018	-0.170	0.145	-0.092	0.087	0.204	-0.031	-0.470	0.490	0.057	
			0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
			-0.044	0.072	-0.026	0.021	0.124	0.056	0.008	-0.003	0.016	0.082	-0.560	0.429	0.220	-0.879	0.092
			0.000	0.000	0.000	0.000	0.000	0.000	0.001	0.257	0.000	0.000	0.000	0.000	0.000	0.000	0.000

N = 151,877. P values are reported



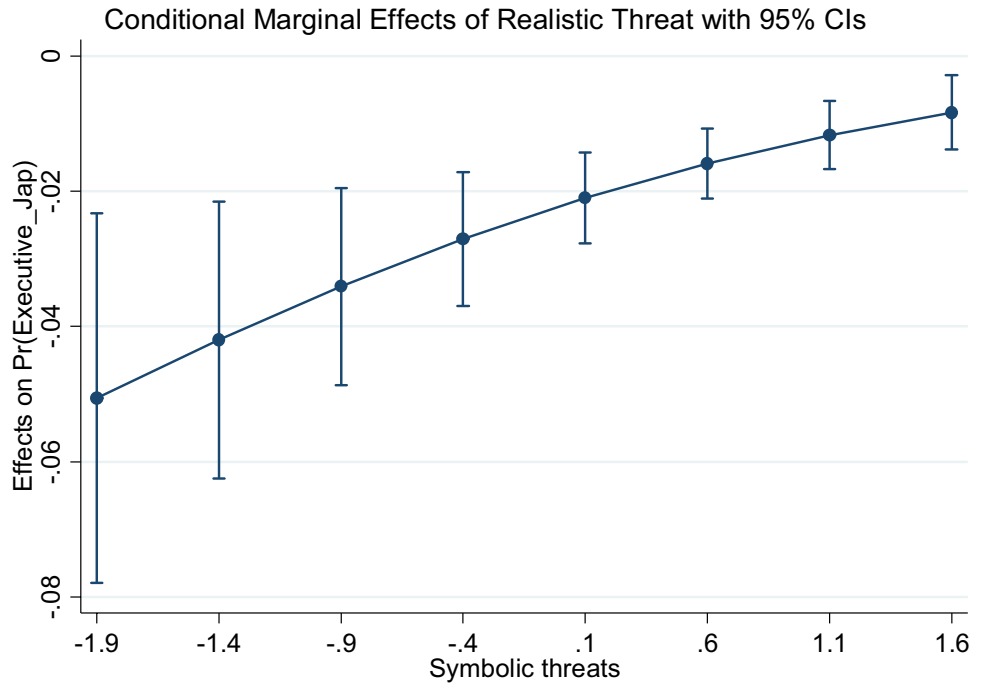
**Table 3** Results of discrete logit regressions on parent-country nationals as subsidiary general managers

	M1	M2	M3	M4	M5	M6	M7	M8
Symbolic threats (H1)		0.404 (0.000)	0.403 (0.000)	0.402 (0.000)	0.358 (0.000)	0.403 (0.000)	0.363 (0.000)	0.365 (0.000)
Realistic threats (H2)		-0.158 (0.000)	-0.156 (0.000)	-0.177 (0.000)	-0.155 (0.000)	-0.225 (0.000)	-0.229 (0.000)	-0.225 (0.000)
Industry globalization			1.008 (0.000)	1.008 (0.000)	0.893 (0.000)	1.021 (0.000)	0.919 (0.000)	0.909 (0.000)
Symbolic threats x Realistic threats (H3)				0.050 (0.048)			0.035 (0.174)	0.014 (0.627)
Symbolic threats x Industry globalization (H4)					0.241 (0.001)		0.213 (0.004)	0.214 (0.004)
Realistic threats x Industry globalization (H5)						0.320 (0.000)	0.278 (0.001)	0.226 (0.012)
Symbolic threats x Realistic threats x Industry globalization (three-way)								0.126 (0.190)
Terrorism	0.018 (0.002)	0.034 (0.000)	0.034 (0.000)	0.032 (0.000)	0.033 (0.000)	0.033 (0.000)	0.031 (0.000)	0.031 (0.000)
Host-country experience	0.016 (0.000)	0.014 (0.002)	0.014 (0.002)	0.013 (0.002)	0.013 (0.002)	0.014 (0.002)	0.013 (0.002)	0.013 (0.002)
Number of Japanese parent firms	0.238 (0.000)	0.215 (0.000)	0.217 (0.000)	0.217 (0.000)	0.218 (0.000)	0.215 (0.000)	0.216 (0.000)	0.216 (0.000)
Ownership ratio	3.645 (0.000)	3.737 (0.000)	3.743 (0.000)	3.742 (0.000)	3.732 (0.000)	3.754 (0.000)	3.741 (0.000)	3.742 (0.000)
Subsidiary capital investment	0.010 (0.952)	-0.076 (0.645)	-0.088 (0.592)	-0.088 (0.590)	-0.116 (0.480)	-0.070 (0.676)	-0.098 (0.557)	-0.095 (0.567)
Subsidiary age	-0.027 (0.000)	-0.023 (0.000)	-0.023 (0.000)	-0.023 (0.000)	-0.023 (0.000)	-0.023 (0.000)	-0.023 (0.000)	-0.023 (0.000)
Cultural distance	-0.081 (0.015)	-0.056 (0.101)	-0.054 (0.109)	-0.059 (0.083)	-0.056 (0.100)	-0.056 (0.098)	-0.060 (0.078)	-0.060 (0.079)
Administrative distance	-0.604 (0.000)	-0.515 (0.000)	-0.513 (0.000)	-0.528 (0.000)	-0.503 (0.000)	-0.523 (0.000)	-0.522 (0.000)	-0.522 (0.000)
Geographic distance	0.384 (0.000)	0.425 (0.000)	0.430 (0.000)	0.426 (0.000)	0.416 (0.000)	0.424 (0.000)	0.409 (0.000)	0.408 (0.000)
Economic distance	0.016 (0.001)	0.020 (0.000)	0.019 (0.000)	0.019 (0.000)	0.020 (0.000)	0.019 (0.000)	0.020 (0.000)	0.020 (0.000)
Linguistic distance	-2.097 (0.000)	-1.995 (0.000)	-1.991 (0.000)	-1.976 (0.000)	-1.823 (0.001)	-1.936 (0.000)	-1.790 (0.001)	-1.780 (0.001)
Japanese immigrants	0.075 (0.000)	0.043 (0.015)	0.042 (0.018)	0.042 (0.016)	0.044 (0.012)	0.042 (0.016)	0.045 (0.011)	0.044 (0.012)
Constant	8.741 (0.000)	7.748 (0.001)	7.718 (0.001)	7.780 (0.001)	7.006 (0.003)	7.572 (0.001)	7.028 (0.003)	6.990 (0.003)
Wald Chi2	3139.03	3184.62	3199.17	3199.27	3206.71	3199.41	3206.16	3208.08
Pseudo $R^2$ (%)	17.39	17.89	17.99	18.00	18.03	18.04	18.07	18.07
Log pseudolikelihood	-60327.6	-59963.3	-59888.5	-59883.3	-59860.7	-59854.7	-59831.4	-59828.8

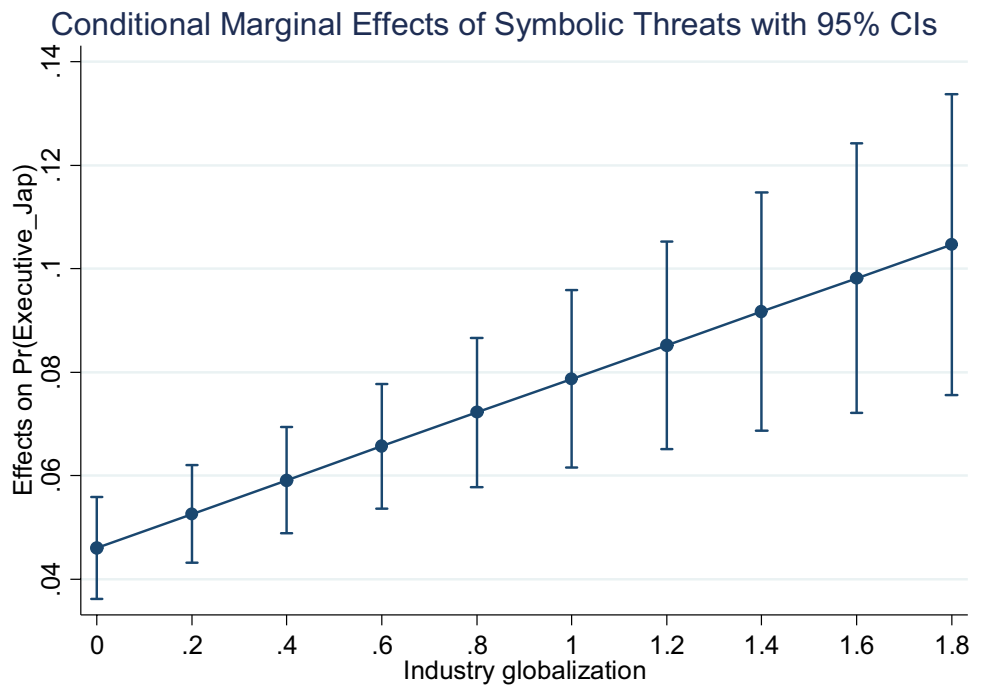
$N = 151,877$ ; unstandardized coefficients are reported;  $p$  values in parentheses



**Fig. 1** Interaction effects between symbolic threats and realistic threats on parent-country nationals as subsidiary general managers



**Fig. 2** Moderating effects of industry globalization on the relationship of symbolic threats and parent-country nationals as subsidiary general managers



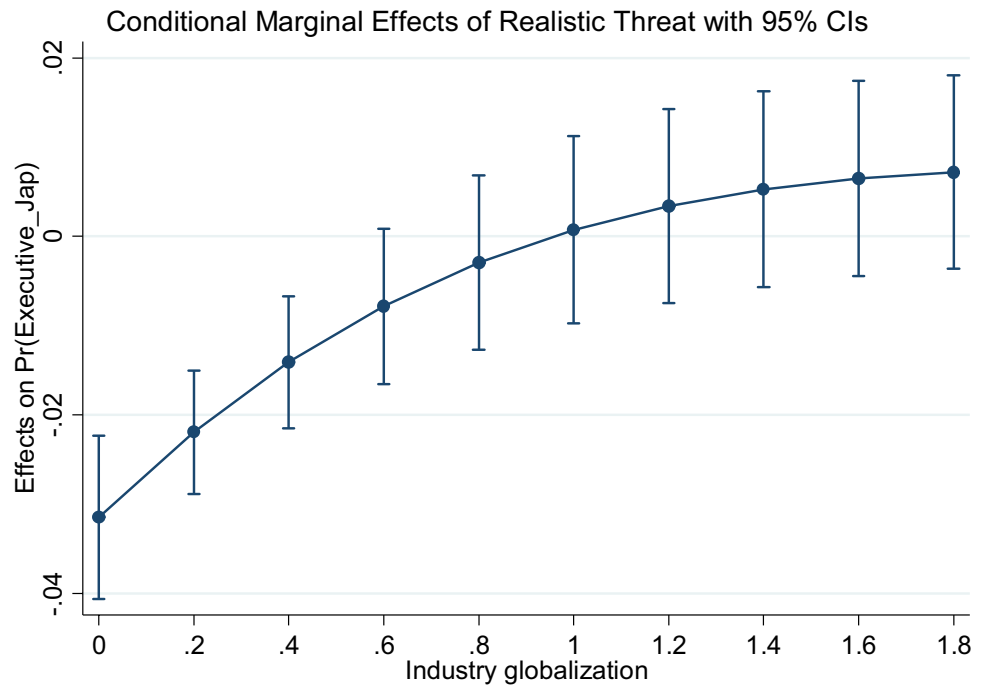
deploying parent-country nationals is weakest in this situation. The patterns of relationships are consistent with our predictions.

We also conducted a series of robustness tests, including simulation-based analyses (Zelner, 2009), alternative

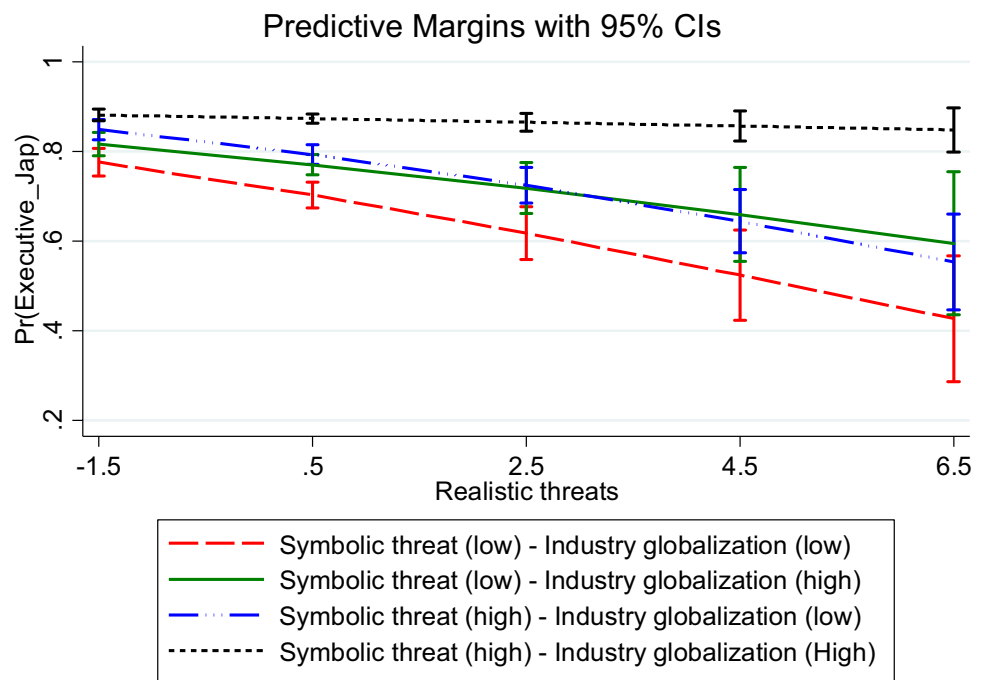
measures of symbolic and realistic threats, and an alternative firm-level moderator of global orientation. We reported the details of these robustness analyses in Appendix II.



**Fig. 3** Moderating effects of industry globalization on the relationship between realistic threats and parent-country nationals as subsidiary general managers



**Fig. 4** Three-way interaction between symbolic threats, realistic threats, and industry globalization



### Supplementary laboratory studies

We conducted supplementary laboratory studies to examine the mechanisms that could not be fully understood via archival data analyses. We presented details of these studies in Appendix I and reported our key findings here. First, in regard to affective mechanisms, we found that symbolic and realistic threats elicited different emotions (Cottrell &

Neuberg, 2005). Study B suggested that participants in the symbolic threat (corruption) condition were likely to experience a higher level of disgust ( $F = 36.182, p = 0.001$ ) and a higher level of shame ( $F = 19.531, p = 0.001$ ) than were those in the realistic threat (economic volatility) condition. Similarly, Study C revealed that participants in the symbolic threat (human rights violation) condition were likely to experience a higher level of disgust ( $F = 7.897, p = 0.001$ )



and a higher level of shame ( $F = 8.230, p = 0.001$ ) than were those in the realistic threat (economic volatility) condition. These heightened levels of disgust and shame could induce a tendency to avoid or reject threatening values (Cottrell & Neuberg, 2005), potentially resulting in defensive behaviors, such as using parent-country nationals in subsidiaries.

Second, for cognitive mechanisms, we found that symbolic and realistic threats influence cognitive flexibility differently. Study B showed that participants in the symbolic threat (corruption) condition were likely to experience a lower level of cognitive flexibility than were those in the realistic threats (economic volatility) condition ( $F = 3.597, p = 0.030$ ). Study C had similar findings: Participants in the symbolic threat (human rights violations) group were likely to experience a lower level of cognitive flexibility than were those in the realistic threats (economic volatility) group ( $F = 5.077, p = 0.010$ ). Cognitive inflexibility and narrow-mindedness increase the likelihood of conservative behaviors (Staw, Sandelands, & Dutton, 1981), which aligns with the tendency to use parent-country nationals as subsidiary managers. In contrast, realistic threats are associated with higher cognitive flexibility (De Dreu & Nijstad, 2008), which enhances the likelihood of adaptive behavioral responses, such as using host-country nationals for better local adaptation.

Consistent with Hypotheses 1 and 2, Study B found that participants in the symbolic threat (corruption) condition were more likely to assign a parent-country national than were those in the realistic threat (economic volatility) condition ( $F = 5.062, p = 0.008$ ). Study C showed that participants in the symbolic threat (human rights violation) condition were more likely to appoint a parent-country national than those in the realistic threat (economic volatility) condition ( $F = 4.075, p = 0.023$ ).

Finally, our laboratory studies addressed an alternative explanation. Research has suggested that the magnitude of potential losses or failure may explain different reactions to threats (Greve, 2011). We examined this possibility by comparing ratings of potential losses between the symbolic and realistic threat conditions. Study B found no difference in perceived potential losses ( $F = 1.86, p = 0.17$ ) between the two conditions. This finding suggests that the divergent responses to realistic and symbolic threats are unlikely to be due to differences in perceived potential losses.

## Discussion

According to Anderson et al., “recruiting, deploying, utilizing, and retaining the ‘right’ people for each location to ensure that they contribute most effectively is a key source of advantage for MNEs” (2019: 2). In this study, we examine how certain threats in a host-country influence MNEs’ likelihood of deploying parent-country nationals as managers of

host-country subsidiaries. In this regard, we extend psychological perspectives on threats (Kinder & Sears, 1981; Sherif & Sherif, 1969) to posit a threat contingency model in which host-country symbolic threats and realistic threats induce divergent decisions in MNEs. We find that, when MNEs operate in a foreign country characterized by a high level of symbolic threats related to ethics and morals, the company is more likely to use talent from the parent-country as executives of foreign subsidiaries. In contrast, when the foreign market is characterized by a high level of realistic threats associated with potential economic losses, MNEs are less likely to have talent from the parent-country serve as executives of the subsidiaries. The two threats also interactively affect MNEs’ decisions. Moreover, industry globalization asymmetrically moderates the influences of the two domains of threats on MNEs’ decisions to use parent-country nationals to manage host-country subsidiaries: Globalization strengthens the effect of symbolic threats but weakens the effect of realistic threats.

## Theoretical contributions

### Contributions to the global mobility and MNE staffing literature

MNEs’ strategies to employ home country nationals in foreign subsidiaries is critical to effectively managing their international network (Andersson et al., 2019; Harzing, 2001) and has enormous implications for the performance of subsidiaries as well as the MNEs (Gong, 2003). The traditional belief is that MNEs tend to transfer parent-country national managers abroad to cope with host-country threats, for example, when the host country has high cultural distance (Gong, 2003) or institutional distance (Gaur et al., 2007) from the parent-country and when weak institutions prevail in the host country (Gaur et al., 2022).

Our study extends the literature and posits that host-country threats are heterogeneous. Our findings show that the nature of threats (i.e., symbolic versus realistic threats) within a host environment leads MNEs to deploy different country nationals as executives in host-country subsidiaries. Our results suggest that, although Japanese MNEs have a reputation for deploying parent-country nationals in overseas subsidiaries, such decisions are influenced by host-country threats, corroborating the notion that organizations respond differently to institutional complexity (Oliver, 1991). Specifically, symbolic threats compromise the meaning systems of MNEs, resulting in more rigid reactions to maintain their ethical identity by appointing parent-country nationals. This finding is similar to Oliver’s (1991) avoidance strategy, whereby organizations loosen their attachment to new environments. In contrast, realistic threats impose no fundamental moral pressure on MNEs, leaving them less compelled



to send parent-country nationals abroad and more actively appoint host-country nationals to cope with the threats. This decision aligns with Oliver's acquiescence strategy, whereby organizations absorb and comply with new elements.

Symbolic threats have implications for MNEs. The world is increasingly witnessing symbolic threats, in addition to realistic threats, that disrupt MNEs. The most recent Russia-Ukraine geopolitical conflict, the anticorruption Arab Spring and the human rights concerns in China all generate substantial threats to international business players. Today, MNEs are not merely for-profit organizations that attend to economic losses; they also strive to be "good global corporate citizens" by acting ethically and morally (Carroll, 2004). Our study enhances understanding of how MNEs respond to these symbolic threats via global mobility. By employing parent-country nationals as subsidiary executives, MNEs are likely to maintain their moral core and sustain global ethical standards.

Moreover, by linking psychological scholarship on symbolic and realistic threats with MNEs' decisions to use parent-country nationals to manage host-country subsidiaries, our study introduces a novel theoretical perspective to understand this important international business concern. The psychological research on threats has noted that threats emerge when people of different backgrounds move across borders (e.g., migrants), stimulating diverse affective and cognitive reactions (Rios et al., 2018; Stephan & Stephan, 2000). Prior studies on staffing managers abroad, however, have primarily focused on control and coordination and the knowledge and learning perspectives (Belderbos & Heijltjes, 2005; Gaur et al., 2007; Gong, 2003) while overlooking the psychological perspective.<sup>9</sup> Our attempt to include a psychological approach to threats and international business responds to the call for international business knowledge to advance through multidisciplinary research (Tung, 2023). Psychological approaches emphasize different domains

<sup>9</sup> The control and coordination perspective suggests that parent-country nationals managing a foreign subsidiary ensure that the activities of the subsidiary are aligned with the objectives and interests of the parent firm and the operation of the firm's global network, which may overcome the agency problems (Gaur et al., 2022; Gong, 2003; Shay & Baack, 2004). The knowledge transfer perspective maintains that parent-country nationals leading foreign subsidiaries allow a firm to train and develop the pool of its parent-country managers and integrate the managers within its global knowledge network so that the parent-country nationals can act as effective agents of transferring and acquiring knowledge across subsidiaries and facilitating learning within the firm (Belderbos & Heijltjes, 2005). Both perspectives stress using parent-country nationals to promote global integration (Kobrin, 1991). On the contrary, the "liability of foreignness" view highlights hiring host-country nationals to confer the subsidiaries with legitimacy and increase local responsiveness (Bartlett & Ghoshal, 1989; Harzing, 2001). Nevertheless, the global mobility and MNE staffing literature has paid scant attention to the psychological perspective on threats.

of threats but rarely attend to behavioral consequences of these threats, whereas international business research focuses on environmental influences on MNEs' decisions to deploy globally mobile employees but do not differentiate domains of threats. Joining the two disciplines promises a more fruitful understanding of MNEs' heterogeneous decisions in moving parent-country nationals into host-country subsidiaries.

### Contribution to the threat literature

The extant research on symbolic and realistic threats is rooted in the psychology of prejudice (Kinder & Sears, 1981; Sherif & Sherif, 1969). As Brewer (2007) noted, individuals conform to and show a preference for in-groups over out-groups. Although psychological theories on the two types of threats have been applied to national, social, and cultural groups in the contexts of intercountry relations or migrants (McLaren, 2003; Uenal, 2016), we are among the first to link the theories to MNEs' decisions to employ parent-country nationals in foreign subsidiaries.

Research has shown that symbolic and realistic threats result in similar yet independent effects on negative attitudes toward out-groups (Riek et al., 2006). Nevertheless, the literature to date does not provide a complete understanding of how the two threats may induce divergent consequences. In one exemplar study, realistic and symbolic threats are found to have different effects on opposition to immigration and the naturalization of immigrants (Pereira et al., 2010). Consistent with the findings of this study, our research shows that organizations are likely to generate adaptive responses to realistic threats and rigid responses to symbolic threats and that symbolic threats, compared to realistic threats, are more likely to generate cognitive inflexibility and evoke negative emotions (e.g., shame, disgust). Our paper thus complements the few studies of why and how organizations react divergently to different threats (Chattopadhyay et al., 2001; Greve, 2011), adding to the literature.

We also manipulated the two threats in our supplementary laboratory studies. Based on Rios et al. (2018), we designed experimental studies to manipulate the two threats in the context of international business, as they are often dynamic and related to each other. More importantly, the laboratory studies provided better evidence of causality (Rios et al., 2018). We believe that our examination of the two threats, using archival data and the experimental studies, enriches our understanding of the complexity of threats in the context of international business.

### Societal impacts

Our study responds to the editorial call to "make JIBS matter for a better world" (Tung, 2023: 1) by examining how MNEs





maintain their ethical core and deal with host-country immorality, human rights violations, and social irresponsibility (i.e., symbolic threats in our research context). Specifically, Tung (2023) stressed the moral obligation of international business research to address grand challenges, as specified by the 17 United Nations' sustainable development goals (SDGs). Grand challenges are ambitious yet attainable goals that transcend national borders, solve global problems, and affect future generations.

Our study specifically relates to SDG 16, which concerns human rights and corruption. We address this grand challenge by linking the global mobility literature to MNEs' decisions regarding subsidiary managers. We find that MNEs respond to this grand challenge by transferring parent-country nationals to host-country subsidiaries, as these globally mobile employees are likely to sustain global ethical standards imposed by worldwide stakeholders. As noted by Buckley, Doh, and Benischke (2017), MNEs are particularly suited to undertake grand challenges due to the multinational nature of these challenges and the mobility of MNE employees, who can carry moral values across borders to influence host countries. Our study responds to the call for more research to examine how global talent management can help MNEs to contribute to SDGs (Caligiuri, Cieri, Minbaeva, Verbeke, & Zimmermann, 2020).

Our findings that industry globalization strengthens the positive relationship between symbolic threats and MNEs' decisions to use parent-country nationals as subsidiary executives emphasize the role of globalization in responding to grand challenges. Due to scrutiny from global stakeholders, globalization places pressure on MNEs to become globally ethical leaders by transferring parent-country nationals as agents of values to host countries. Recently, there has been a backlash against globalization, owing to the U.S.–China trade war. Such deglobalization may raise concerns about global business ethics because it not only disrupts the existing supply chains in the realm of material resources but also creates doubt about existing global morality and ethics. Further, deglobalization may reduce MNEs' pressure to act ethically and become ESG-responsible global players.

### Practical implications

Our study has important practical implications for MNE managers. Realistic and symbolic threats are widespread in international markets. Indeed, MNEs may bear serious consequences if they do not handle these threats appropriately. For example, in 2019, Walmart paid more than \$282 million to settle charges from the U.S. Department of Justice and the Securities and Exchange Commission (SEC) for failing to maintain an adequate anticorruption compliance program in Mexico (SEC, 2019). Furthermore, the COVID-19 pandemic posed threats to MNEs. COVID-19 caused realistic threats

to the physical health of employees of MNEs, as well as symbolic threats due to social alienation, which undermined the values of the organizations and communities (Kachanoff et al., 2021). Despite the environmental threats posed to subsidiary operations, they do not deter foreign firms from entering these countries. Thus, MNEs need to understand how to cope with both realistic and symbolic threats. We suggest that managers adopt different strategies to handle distinct host-country threats. Whether parent-country nationals or host-country nationals are more likely to be executives in foreign subsidiaries is determined by the distinct domains of threats perceived in host countries. Importantly, our findings suggest that symbolic threats generate a more powerful influence when both threats are present in a host country. Specifically, high-level symbolic threats weaken the negative effect of realistic threats on reducing MNEs' likelihood of having parent-country nationals as executives in host-country subsidiaries. Moreover, our results indicate that deglobalization may reduce MNEs' pressure to follow global ethics. Such findings further highlight the importance of globalization in international business, which enhances MNEs' likelihood to behave morally as globally responsible corporate citizens.

### Limitations and directions for future research

Our study's limitations suggest future research directions. First, we measured symbolic threats using several indicators, such as government corruption, human rights abuses, and reverse ESG sustainability performance, and measured realistic threats using volatility in GDP, unemployment, inflation, and the interest rate. We also used experiments to support the findings based on our measures. Future researchers could use other environmental threats to evaluate the relevance of the threat framework developed in this study.

Second, due to data availability, our archival study included only one home country, Japan. Therefore, our study, like others that use the Toyo Keizai Japanese Overseas Investment database (Belderbos & Heijltjes, 2005; Gaur et al., 2007), has generalizability issues. Japanese MNEs have distinct human resource practices, such as lifetime employment (Tung, 1982).<sup>10</sup> Japan also has a collective culture that demands uniformity. It would be interesting to determine whether our findings can be applied to MNEs from home countries with more loose cultures or other human resource practices. Firms from different home countries also perceive threats differently. For example, according

<sup>10</sup> Tung (1982) also revealed that Japanese MNEs had different human resource practices in industrialized and developing countries. Our study aligns with this work, emphasizing the importance of considering host-country heterogeneities in staffing decisions.



to Minbaeva, Rabbiosi, and Stahl (2018), MNEs from countries such as Iran, Morocco, and South Korea may include gender inequality or differences in associated responsibilities as a norm. Such MNEs are thus unlikely to consider gender inequality in the host country a symbolic threat. Although the Toyo Keizai database has comprehensive information on executives in foreign subsidiaries, additional empirical research using samples of MNEs from various home countries is warranted.<sup>11</sup>

Third, we did not assess whether using parent-country nationals will bring any desirable outcomes because of the scope of this research (Gong, 2003). In the presence of symbolic threats within a host country, the likelihood of appointing parent-country nationals as directors of subsidiaries increases, especially for firms that compete in global industries. It is not known, however, whether such decisions lead to superior economic or social performance outcomes. Addressing such questions can further advance the threat framework developed in this study. Further, we focused solely on firms' decisions to hire parent-country nationals. Future research could explore other important MNEs' decisions, such as market entry or divestment, to enrich our understanding of MNEs' divergent strategic reactions to threats.

Fourth, we limited our analysis to the corporate level by examining how MNEs react to threats across host-country environments in their decisions to manage foreign subsidiaries with parent-country nationals. Nonetheless, the distinctive effects of symbolic and realistic threats could be extended to the individual level, such as to expatriates or migrant employees in MNEs. For example, when individuals in MNEs (e.g., expatriates, migrant employees) work in countries different from their home countries characterized by these threats, their experiences and how they handle such threats would be of interest. In keeping with Harrison et al. (2019), we argue for further extensions of symbolic and realistic threats perspectives in international business and management research across levels.

Fifth, our study shares similar limitations with other research that bridges psychology and firm strategies (Powell, Lovallo, & Fox, 2011). We assume that the psychology of an individual has an impact on firms or that many individual decisions turn into a collective strategy. Although studies have demonstrated that individual-level responses can be reliably applied to firms (Chattopadhyay et al., 2001; Staw et al., 1981), more research is warranted to explore the psychological mechanisms by which executives' mental processes related to threats aggregate to affect firm strategies.

Sixth, the stress and coping literature, which has been applied in the expatriate adjustment research (Chen &

Shaffer, 2018), provides further insight into how people may manage stressful or adverse situations, such as threats (Lazarus, 1966). Individuals with high ethnocentrism have poorer interactional adjustment, work adjustment, and contextual performance as well as higher withdrawal cognitions (Shaffer, Harrison, Gregersen, Black, & Ferzandi, 2006). Future research could thus propose additional new boundary conditions. For example, MNEs and global talents that embrace multiculturalism may be less affected by such threats or may handle such threats more successfully. This could be connected to the emerging research on how multicultural individuals are valuable employees in the global context (Hong & Minbaeva, 2022).<sup>12</sup>

Finally, MNEs have gradually shifted to more diverse forms of overseas staffing assignments, such as using migrants (Collings, Scullion, & Morley, 2007). Due to data limitations, however, our archival data do not include biographical information on whether parent-country nationals are expatriates or migrants who live in host countries.<sup>13</sup> Notably, the migrant stock in host countries may affect MNEs' decisions to staff subsidiaries abroad in the presence of symbolic and realistic threats. For example, the immigrant community can provide social resources and facilitate cross-cultural adaptation (Scott & Scott, 2013). This enhances MNEs' ability to cope with host-country threats, reducing MNEs' likelihood to manage threats via parent-country nationals. We thus call for future research to further explore these issues.

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<sup>12</sup> We thank an anonymous reviewer for this insight.

<sup>13</sup> To mitigate this data limitation, we randomly selected 200 parent-country national executives. We manually searched for their biographical information online to examine whether they were expatriates assigned by the parent firm or Japanese immigrants who were living in the host country. We found that they were most likely to be expatriates based on available information. Moreover, we included a control variable of Japanese immigrants to account for potential influences of migrant stock in each host country.

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