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Expatriate CEOs and Local CSR Strategy: Evidence from Foreign Subsidiaries of MNCs in Korea*

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Abstract

Purpose – This study empirically investigates the relationship between expatriate CEOs of multinational corporation (MNC) foreign subsidiaries and local philanthropy. Since corporate social responsibility (CSR) enables MNCs to achieve local legitimacy, this research argues that local philanthropy is a valuable strategic means for expatriate CEOs of foreign subsidiaries to secure local legitimacy.

Design/methodology – To investigate our argument, we use a sample of 5,459 observations from 576 foreign subsidiaries of MNCs in Korea between 2002 and 2016. We conduct a random-effects panel Tobit regression with subsidiary CEO having foreign nationality as the independent variable and local philanthropy as the dependent variable.

Findings – Our main findings are that expatriate CEOs of foreign subsidiaries are more actively engaged in local philanthropy. In addition, the positive relationship between expatriate CEOs and local philanthropy is weaker as their tenure increases.

Originality/value – How expatriate CEOs overcome their weak local legitimacy as foreigners in a host country has remained unclear because existing studies mainly focused on the control and coordination aspects of staffing expatriates in CEO positions of foreign subsidiaries. This study broadens the literature on subsidiary CEO staffing and CSR activities of MNCs by identifying complementary relationships between expatriate CEOs and corporate philanthropy in the host country.

Keywords: Corporate Philanthropy, CSR, Expatriate, Local Legitimacy, Subsidiary CEO
JEL Classifications: F23, M14, M16

1. Introduction

Multinational corporations (MNCs) wishing to conduct successful management activities in overseas markets must manage globally dispersed subsidiaries and coordinate the activities of those subsidiaries and headquarters (Birkinshaw and Hood, 1998). In addition, MNCs often face two opposing pressures: global integration and local responsiveness (Prahalad and Doz, 1987). One strategy MNCs can use to respond to these two pressures is their staffing policy for hiring Chief Executive Officers (CEOs) of foreign subsidiaries (Doz and Prahalad, 1986; Taggart, 1998). The CEO of a subsidiary is in a key position, serving as a conduit between headquarters and the subsidiary (Edström and Galbraith, 1977; Gong, 2003) and

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significantly impacting the subsidiary's strategy and performance (Gaur, Delios, and Singh, 2007; Gong, 2003).

MNCs can appoint expatriates or local personnel as CEOs of overseas subsidiaries; the choice between these two affects the extent to which the MNC responds to global integration and local adaptation (Harzing, 2001; Tan and Mahoney, 2006; Tung, 1982). On the one hand, expatriates internalize the headquarters' values and strategy and offer an advantage in the transfer of the parent company's knowledge to the subsidiary (Boyacigiller, 1990; Gong, 2003). In addition, expatriates can coordinate the headquarters' goal with their overseas subsidiary so the subsidiary can follow the headquarters' strategy (Gong, 2003). Therefore, MNCs prefer to have expatriates as CEOs of foreign subsidiaries to enhance the headquarters' strategic control over and coordination with a subsidiary (Belderbos and Heijltjes, 2005; Gaur et al., 2007). On the other hand, staffing subsidiaries with host country nationals is advantageous in acquiring local knowledge, adapting to the local market, and establishing favorable relationships with local stakeholders (Harzing, 2001; Selmer, 2004; Tan and Mahoney, 2006; Tseng and Liao, 2009). Host country nationals not only internalize the host country's norms and values but are recognized as members of the local society (Tharenou and Harvey, 2006).

It is important for MNCs to secure local legitimacy to survive and conduct sustainable businesses in a host country (Yang and Rivers, 2009), as local stakeholders often lack an understanding of foreign companies and may have a hostile attitude toward them (Kostova and Zaheer, 1999; Luo, Shenkar, and Nyaw, 2002; Zaheer, 2002). MNCs can gain legitimacy in a host country by following the local society's norms and values and establishing friendly relationships with local stakeholders. Our study points out that there are differences between an expatriate and a local CEO of a foreign subsidiary in terms of securing local legitimacy. Local CEOs have legitimacy in the host country (Harzing, 2001; Schotter and Beamish, 2011) since they are familiar with its norms and beliefs (Harzing, 2001) and have relationships with many local stakeholders (Schotter and Beamish, 2011). In contrast, expatriate CEOs are vulnerable when it comes to responding to legitimate pressures from the host country (Tihanyi, Swaminathan, and Soule, 2012).

Previous studies have primarily examined the strategy of staffing expatriates as CEOs in foreign subsidiaries from the perspective of control and coordination (Belderbos and Heijltjes, 2005; Boyacigiller, 1990; Gong, 2003; Tan and Mahoney, 2006). Consequently, the literature has not clearly addressed the local legitimacy problems stemming from staffing foreign subsidiary CEO positions with expatriates. Therefore, the issue of how expatriate CEOs overcome their weak local legitimacy in a host country has remained unexplored. Our study attempts to fill this gap by suggesting that local corporate philanthropy could be used as a complementary means to make up for expatriate CEOs' lack of local legitimacy.

Corporate social responsibility (CSR) can help MNCs secure local legitimacy (Campbell, Eden, and Miller, 2012; Husted and Allen, 2006; Yang and Rivers, 2009). Through CSR, MNCs can cultivate a positive image within the local community (Crilly, Ni, and Jiang, 2016) and be recognized as legitimate businesses (Carroll, 2004; Yang and Rivers, 2009). This legitimacy enables foreign subsidiary businesses to operate with the cooperation and support of local stakeholders (Wang and Qian, 2011). Our study particularly focuses on corporate philanthropy, which has received academic attention as a local CSR activity of MNCs (Brammer, Pavelin, and Porter, 2009; Carroll, 2004; Mithani, 2017; Simon, 1995). Corporate philanthropy is an appropriate indicator in this study for the following reasons. First, it is part of CSR activities centered on the local community or government and is planned and implemented primarily by firm executives (Brammer et al., 2009). Second, local philanthropy helps foreign subsidiaries to build friendly relationships with local stakeholders (Wang and Qian, 2011) and embed themselves in the local community by contributing to the subsidiary's legitimacy (Yang and Rivers, 2009). Therefore, we argue that expatriate CEOs are expected to use local philanthropy more actively to overcome their weak legitimacy problems.

This study makes a theoretical contribution to the literature on MNC staffing policies by empirically identifying complementary relationships between expatriate CEOs and local corporate philanthropy. This study also has managerial implications for MNCs entering foreign countries in the future as well as those currently engaged in businesses in host countries.

2. Theory and Hypotheses

2.1. Theoretical Background

2.1.1. Subsidiary CEO Staffing Strategy of MNCs

Subsidiary CEO staffing is an important research topic in the international business literature (Doz and Prahalad, 1986; Edström and Galbraith, 1977; Harzing, 2001; Herrmann and Datta, 2002; Tseng and Liao, 2009) because it affects both the strategy and performance of the subsidiary (Gong, 2003; Schotter and Beamish, 2011). MNCs entering overseas markets face the opposing pressures of global integration and local responsiveness (Bartlett and Ghoshal, 1989; Prahalad and Doz, 1987). In response to these two pressures, subsidiary CEO staffing is a key strategy for achieving competitive advantage (Doz and Prahalad, 1986). MNCs can assign either an expatriate or a host country national to a subsidiary's CEO position; however, expatriate CEOs and local CEOs perform different functions and roles (Harzing, 2001; Tan and Mahoney, 2003/2006; Tseng and Liao, 2009; Tung, 1982).

In terms of global integration, expatriates are acquainted with the parent company's strategy and resources, so they can facilitate knowledge transfer between the headquarters and its subsidiaries and align the subsidiaries' activities with the parent's strategy (Belderbos and Heijltjes, 2005; Boyacigiller, 1990; Gong, 2003; Tan and Mahoney, 2006). The lower the environmental similarity between the parent and subsidiary, the more difficult it is for the parent to control and coordinate with the subsidiary (Gaur et al., 2007). For example, higher cultural distance causes information asymmetry between the headquarters and its subsidiary (Gong, 2003) or credibility problems with subsidiary information (Harzing, 2001). Moreover, increasing institutional distance makes it difficult to communicate the parent's goals and strategies to its subsidiary (Gaur et al., 2007). The more a headquarters depends on a subsidiary, the greater the need to control the subsidiary (Belderbos and Heijltjes, 2005). Under these circumstances, expatriate staffing could reduce this uncertainty and ensure that the subsidiary's goals and activities are managed such that they are consistent with the parent's interests (Belderbos and Heijltjes, 2005; Gaur et al., 2007; Gong, 2003; Harzing, 2001).

On the other hand, in terms of local responsiveness, host country nationals internalize the unique knowledge and management practices embedded in the local market (Harzing, 2001; Tan and Mahoney, 2003). Local CEOs have an advantage over expatriates in localizing products and services and managing local subsidiary employees (Tan and Mahoney, 2003). By staffing with local CEOs, the subsidiaries acquire local knowledge and adapt more easily to the host country (Harzing, 2001). MNCs could address the risks stemming from unfamiliarity with a host country by hiring a host country national as a foreign subsidiary's CEO and leveraging that individual's local knowledge and access to local resources (Harzing, 2001; Tseng and Liao, 2009).

2.1.2. A Legitimacy Perspective and Corporate Philanthropy of MNCs

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: 574). The legitimacy perspective emphasizes social contracts between companies and members of society. Companies are considered part of a broader social system within these contracts (Johnson and Holub, 2003). To survive, firms should achieve and maintain legitimacy in the institutional and social environment surrounding them (DiMaggio and Powell, 1983; Meyer and Rowan, 1977). To accomplish this, foreign subsidiaries of MNCs need to comply with their host country's social rules and belief systems and build amicable relationships with stakeholders (Kostova and Zaheer, 1999; Yang and Rivers, 2009).

To ensure legitimacy in foreign countries, MNCs should establish cooperative relationships in host countries by interacting with various local stakeholders (Kostova, Roth, and Dacin, 2008) or continuing to provide socially valued services (Johnson and Holub, 2003). In this sense, CSR is considered as an effective strategy MNCs can use to gain legitimacy. Firms can meet local stakeholders' various needs through CSR activities and acquire legitimacy by contributing to socially desirable practices (Reimann et al., 2012). In addition, the CSR activities of local subsidiaries help MNCs demonstrate their goodwill to the local society (Campbell et al., 2012; Kostova and Zaheer, 1999). This enables foreign subsidiaries to enhance the social acceptance by local communities and their acknowledgment as members of the host country (Hah and Freeman, 2014). Previous studies have also shown that CSR can be a means for gaining legitimacy in a local market (Gardberg and Fombrun, 2006; Hah and Freeman, 2014; Yang and Rivers, 2009).

Based on legitimacy theory, our study focuses on a foreign subsidiary's philanthropy as one of the most important CSR activities MNCs engage in to obtain legitimacy in the host country. Carroll (1991) suggests a pyramid of social responsibility as a way for MNCs to meet their economic, legal, ethical, and philanthropic responsibilities and fulfill their social obligations. As globalization has led to MNCs actively entering foreign markets, Carroll (2004) points out that MNCs should focus on CSR for local stakeholders by presenting a global social responsibility pyramid that includes the factors in Carroll's (1991) pyramid. Philanthropic responsibilities refer to a firm's actions as a good corporate citizen in response to the expectations of the society it belongs to, including its financial contributions or participation in welfare programs (Carroll, 1991/2004). In particular, corporate philanthropy in a host country has a significant impact on relationship building by demonstrating the company's social responsibilities to local stakeholders (Brammer et al., 2009). It can also ease local social and cultural barriers faced by MNCs (Mithani, 2017). Moreover, it enables companies to become embedded in local networks so that they can secure and maintain their legitimacy (Haley, 1991; Love and Higgins, 2007).

2.2. Hypotheses Development

2.2.1. Subsidiary CEO Staffing and Corporate Philanthropy

A foreign subsidiary's CEO acts as the MNC's representative in a host country and significantly influences the subsidiary's operations (Edström and Galbraith, 1977; Gong, 2003; Schotter and Beamish, 2011). This suggests that an MNC's staffing strategy for subsidiary CEOs could have a major impact not only on the headquarters' control and coordination mechanisms, but also on how the subsidiary interacts with various local stakeholders to secure legitimacy (Tihanyi et al., 2012). For the subsidiary to secure legitimacy to operate its business, it has to meet the needs of local stakeholders (Park and Ghauri, 2015). These stakeholders give legitimacy to the subsidiary if the firm's operations conform to the host country's norms and values (Tihanyi et al., 2012). However, because stakeholders lack the necessary information to judge the legitimacy of foreign subsidiaries, MNCs should demonstrate that their foreign subsidiaries comply with local norms and values (Chan and Makino, 2007).

Staffing subsidiary CEO positions with host country nationals could be an effective means of securing the subsidiary's legitimacy (Bebenroth and Froese, 2020; Schotter and Beamish, 2011) since nationality, among other important factors, reflects the host society's norms or values (Campbell et al., 2012; Hofstede, 1980). Moreover, local CEOs have a great deal of knowledge about local markets, business practices, and culture (Harzing, 2001; Tan and Mahoney, 2003) and find it easy to build friendly relationships with local stakeholders since they are deeply embedded in local business networks (Bebenroth and Froese, 2020; Toh and DeNisi, 2005). As the proportion of local executives in a foreign subsidiary indicates the level of the MNC's localization (Muellner, Klopf, and Nell, 2017), MNCs can symbolically show their desire to be embedded in the host country's social environment by appointing a local as the subsidiary's CEO.

In contrast to a local CEO who can transfer his/her legitimacy to the foreign subsidiary (Schotter and Beamish, 2011), an expatriate CEO of a subsidiary is more vulnerable in terms of local legitimacy (Tharenou and Harvey, 2006). An expatriate is not familiar with the host country's norms and values and lacks relationships with local stakeholders (Harzing, 2001; Selmer, 2004; Tseng and Liao, 2009). This might increase the need for the expatriate CEO to engage in corporate philanthropy as a strategic means of acquiring local social capital and adapting to the host country. Corporate philanthropy enables MNCs to gain legitimacy as it helps local stakeholders recognize that the MNC's foreign subsidiary is a company that shares the host society's norms and values (Tihanyi et al., 2012; Wang and Qian, 2011). The subsidiary could also build a favorable relationship with local stakeholders and be embedded in local networks by utilizing local philanthropy (Love and Higgins, 2007). Therefore, expatriates are likely to use local corporate philanthropy to solve legitimacy issues. Thus, we propose the following hypothesis:

H1: There is a positive relationship between the expatriate CEOs of foreign subsidiaries and local corporate philanthropy.

2.2.2. Moderating Role of CEO Tenure

Firms' strategic decisions are influenced by decision-makers such as top executives or CEOs (Hambrick and Mason, 1984). CEOs are the most powerful individuals within a firm, and their characteristics can be reflected in their decision-making strategy (Finkelstein and Hambrick, 1990). It seems that the characteristics of foreign subsidiaries' CEOs might also affect their local corporate philanthropy. Our study focuses on CEO tenure, which, along with several other characteristics, could significantly impact a company's strategy (Hambrick and Fukutomi, 1991; Marquis and Lee, 2013).

As an organization's decision-maker, a CEO should learn and develop the knowledge and skills necessary to effectively operate the firm and manage its relationships with various stakeholders (Hambrick and Fukutomi, 1991; Luo, Kanuri, and Andrews, 2014). To this end, a CEO needs to establish supportive internal relationships with employees and learn about various external stakeholders including local markets, customers, and the government (Luo et al., 2014). Early in their tenure, however, CEOs may lack the knowledge, resources, and power to control the organization, making it difficult to cope with the external environment (Simsek, 2007). In other words, CEOs that are early in their tenure will strive to establish their base, prove their qualifications, and secure legitimacy. CEOs should make it clear early in their tenure that their appointment as the lead decision-maker in the organization was justified. As part of these efforts, newly appointed CEOs are so profoundly aware of the need to learn about their surrounding environment, including management knowledge and stakeholders, that they should focus on securing social capital (Hambrick and Fukutomi, 1991; Miller and Shamsie, 2001). However, as CEOs extend their tenure, they become more accustomed to the environment and accumulate more knowledge and skills. In addition, as the relationships between CEOs and key stakeholders grow as their tenure lengthens (Simsek, 2007), they could gain social capital (Lin, 1999).

The tenure of a subsidiary's CEO could affect their decisions about local philanthropy, especially philanthropy to achieve the expatriate CEO's local legitimacy. A subsidiary CEO should secure legitimacy by becoming embedded in the network and familiar with the host country's environment. In this regard, it is expected that the incentive to utilize local corporate philanthropy will be highest at the beginning of their appointment, considering the vulnerability of expatriate CEOs' local legitimacy. However, as tenure progresses, expatriate CEOs become familiar with local norms and values by learning from and adapting to the local environment, and their relationships with local stakeholders also strengthen with time. Therefore, an expatriate CEO's motivation for local corporate philanthropy to overcome weak legitimacy is expected to gradually decrease over time, that is, as the tenure becomes longer. We establish the following hypothesis based upon these arguments:

H2: CEO tenure weakens the positive relationship between expatriate subsidiary CEOs and local corporate philanthropy.

3. Methodology

3.1. Sample and Data

Our sample consists of wholly-owned subsidiaries (WOS) of MNCs in Korea. We obtained the list of foreign subsidiaries from the KIS-VALUE database of the National Information and Credit Evaluation (NICE) in 2016. From these firms, we selected subsidiaries that were externally audited. We define a foreign subsidiary as a WOS if its parent firm owns 90% or more of the subsidiary's equity. We excluded subsidiaries with less than ten employees because they simply function as liaison offices. Data for the analysis were drawn from an online electronic disclosure system—the Data Analysis, Retrieval, and Transfer System (DART)—provided by the Financial Supervisory Service (FSS) in South Korea. This system includes comprehensive information about subsidiaries, such as the firm's financial statements, industry, CEO name, and number of employees. In addition, we excluded subsidiaries from the sample if the parent's country of origin is believed to act as a tax haven, such as the Bahamas and the Cayman Islands. We also omitted subsidiaries that had both expatriate and host country national CEOs. Last, we winsorized all variables at the top and bottom 1% to avoid the risk of outliers. Our final sample is an unbalanced panel of 5,459 observations for 576 foreign subsidiaries from 2002 to 2016.

3.2. Dependent Variable

We used the subsidiary's donation expenditures, which is a representative CSR activity in Korea (Kang, Huh, and Lim, 2019), from their audit reports to measure local philanthropy. Based on prior research (Brown, Helland, and Smith, 2006; Li, Song, and Wu, 2015), we measured philanthropy in four ways to ensure that our result is not specific to measurement techniques, thus reinforcing the robustness and consistency of the analysis: the total amount of corporate philanthropy; corporate philanthropy (sales), measured as the amount donated divided by the subsidiary's total sales; corporate philanthropy (assets), measured as the amount donated divided by the subsidiary's total assets; and corporate philanthropy per employee, measured as the amount donated divided by the number of subsidiary employees.

3.3. Independent and Moderating Variables

Following prior literature (Belderbos and Heijltjes, 2005; Gong, 2003; Harzing, 2001), we used subsidiary CEO names to determine whether they were expatriates or host country nationals. In particular, the names of Koreans and foreigners are clearly distinguished (Park, Rhee, and Cho, 2018). We coded our independent variable indicating an expatriate as 1 and a host country national as 0. To reduce measurement error, we verified the CEO's nationality through the KIS-LINE database provided by the NICE Information Service, which provides information about CEOs, such as their place of birth, work experience, and educational background.

CEO tenure, the moderating variable in this study, was measured by counting the number of years an individual had served as the CEO of the foreign subsidiary (Marquis and Lee, 2013). We obtained CEO tenure by subtracting the year a CEO was first assigned to the CEO position from the observation year.

3.4. Control Variables

We controlled for factors that might affect corporate philanthropy, which is our dependent variable. We included subsidiary-level controls, such as the subsidiary's age, size, profitability, debt ratio, research and development (R&D) intensity, and advertising intensity. The subsidiary CEO's age was also included to control for individual level effects. Finally, industry, year, and parent country were included.

We controlled for subsidiary age, calculated as the log form of years since its foundation in the host country (Muellner et al., 2017). Subsidiary size was measured as the log of the number of subsidiary employees (Delios and Bjorkman, 2000). We also controlled for subsidiary profitability using the firm's return on sales (Ge and Micelotta, 2019). A high debt ratio may affect corporate philanthropy because it can limit a firm's cash flow (Brown et al., 2006). Therefore, we controlled for the debt ratio, which was measured using the debt-to-equity ratio. Subsidiary R&D intensity and advertising intensity were also included in our control variables since a firm's R&D activities could affect CSR activities, such as developing eco-friendly products and advertising to create a positive image of the firm's commitment to the host society (Brown et al., 2006). A subsidiary's R&D intensity was measured by the proportion of R&D expenditure to total sales and advertising intensity was measured by the proportion of advertising expenditure to total sales. We also controlled for subsidiary CEO age since there may be a potential cohort effect on corporate philanthropy (Marquis and Lee, 2013). To control for industry effects, we dummy-coded an industry variable based on the Korean Standard Industrial Classification codes. We also included a year dummy to control for period effects. Finally, a parent firm country dummy was included in the model.

3.5. Model Specification

The dependent variables in this study were the amount of corporate philanthropy and corporate philanthropy compared to assets, sales, and number of employees. However, some subsidiaries in the sample practice local philanthropy and others do not. Approximately 49%—2,664 out of 5,459 observations—of the subsidiaries in our sample did not make charitable donations. We believe Tobit analysis is appropriate to effectively analyze a distribution in which the independent variable is still observed when the dependent variable is zero, representing left-censored data (Brammer and Millington, 2004). As our sample took the form of a panel, we preferentially performed the likelihood ratio test (LR test) to identify whether the pooled or panel model was the better analysis method. The results of the LR test supported the use of a panel model over a pooled model. The panel Tobit regression model we applied to test our hypotheses is given by the following equations:

$$y_{it}^* = \alpha_{it} + x_{it}'\beta + \varepsilon_{it},$$
$$y_{it} = \begin{cases} y_{it}^*, y_{it}^* > 0 \\ 0, y_{it}^* \le 0 \end{cases} \tag{1}$$

where

i: the subsidiary
t: the year
y_i^* : latent variable
y_i : observed variable
x_{it}: the explained variable at time t
ε_{it}: normally distributed residuals.

We performed a random-effects Tobit model for panel data instead of a fixed-effects model for two reasons. First, the fixed-effects panel Tobit model produces inconsistent estimators stemming from the incidental parameter problem (Wooldridge, 2010). Second, the time-invariant variables were removed in the fixed-effects model (Greene, 2002).

4. Results

4.1. Descriptive Statistics

Table 1 presents the descriptions of the foreign subsidiaries in Korea by industry. The most common industries that foreign subsidiaries operate in are wholesale and retail trade (42.48%) and manufacturing (41.77%).

Table 1. Classification of foreign subsidiaries by industry

Sector	Freq.	%
Agriculture, forestry, and fishing	34	0.62
Manufacturing	2,280	41.77
Sewerage, waste management, materials recovery and remediation activities	12	0.22
Construction	42	0.77
Wholesale and retail trade	2,319	42.48
Transportation	224	4.10
Accommodation and food service activities	41	0.75
Information and communication	251	4.60
Financial and insurance activities	49	0.90
Real estate activities and renting and leasing	54	0.99
Professional, scientific and technical activities	110	2.02
Business facilities management and business support services	27	0.49
Arts, sports and recreation related services	6	0.11
Membership organization, repair, and other personal services	10	0.18
Total	5,459	100

Table 2 reports the descriptive statistics and correlation analysis of all the variables used in the study. Foreign subsidiaries in Korea spent about 49.3 million KRW (approximately 41,000 USD) on corporate philanthropy, which equals about 0.05% of annual sales, 0.06% of total assets, and 270,000 KRW (approximately 219 USD) per employee. In the sample, 48% of the foreign subsidiaries in Korea had expatriate CEOs. The mean values of CEO age and tenure were about 52.67 years and 5.58 years, respectively, while the average subsidiary age and size were 12.42 years and 107 employees, respectively. The table shows that the mean value of the subsidiaries' debt ratio was 53%, and the average return on sales (ROS) was 4%. Last, the mean values of R&D intensity and advertising intensity were about 0.42% and 1.14%, respectively.

In addition, as shown in Table 2, the correlations between variables did not exceed 0.5, and the average variance inflation factor (VIF) was 1.8, ranging from 1.08 to 6.35. Therefore, the likelihood of multicollinearity problems was not high since the cutoff threshold of the VIF value is below ten (Cohen et al., 2003).

Table 2. Descriptive Statistics and Correlation Matrix

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Subsidiary							
(1) Philanthropy (amount)	1						
(2) Philanthropy (sales)	0.66*	1					
(3) Philanthropy (assets)	0.72*	0.94*	1				
(4) Philanthropy (employee)	0.76*	0.88*	0.87*	1			
(5) Age (ln)	0.13*	0.07*	0.07*	0.08*	1		
(6) Size (ln)	0.00	0.02	0.03*	0.03*	-0.18*	1	
(7) ROS	0.23*	0.03*	0.06*	0.02	0.24*	-0.05*	1
(8) Debt ratio	0.01	-0.01	0.01	0.01	0.10*	-0.22*	0.03*
(9) R&D intensity	0.03*	0.06*	0.06*	0.05*	-0.10*	-0.02	0.04*
(10) Advertising intensity	0.10*	0.08*	0.12*	0.13*	-0.00	0.11*	-0.05*
(11) CEO age	0.01	-0.05*	-0.04*	-0.04*	0.22*	-0.21*	0.11*
(12) CEO tenure	-0.02	-0.04*	-0.05*	-0.04*	0.19*	-0.14*	-0.03*
(13) Expatriate CEO	-0.01	0.01	0.02	-0.01	-0.12*	0.01	-0.15*
Mean	4.93	0.47	0.63	2.70	2.52	4.67	0.04
SD	19.21	1.78	2.12	9.62	0.64	1.06	0.298
	(8)	**(9)**	**(10)**	**(11)**	**(12)**	**(13)**	
(8) Debt ratio	1						
(9) R&D intensity	-0.17*	1					
(10) Advertising intensity	-0.04*	-0.01	1				
(11) CEO age	0.04*	-0.04*	-0.15*	1			
(12) CEO tenure	0.04*	0.00	-0.09*	0.41*	1		
(13) Expatriate CEO	0.00	-0.07*	0.05*	-0.09*	-0.22*	1	
Mean	0.53	0.42	1.14	52.67	5.58	0.48	
SD	0.30	1.80	2.68	7.27	5.08	0.50	

*$p<.05$

4.2. Panel Tobit Regression

Table 3 reports the results of our testing of Hypotheses 1 and 2. Models 1, 4, 7, and 10 of Table 3 include only the control variables. R&D intensity was significantly positive in Models 4 (p<.05), 7 (p<.01), and 10 (p<.01). Subsidiary age was positive and significant except in Model 1 (Model 4: p<.01; 7: p<.01; and 10: p<.05). ROS was significantly negative in Model 4 (p<.10) but significantly positive in Models 7 (p<.05) and 10 (p<.10). CEO age shows positive and significant effect on local philanthropy only when the philanthropy was measured by the amount of donation (Model 1: p<.10). The results also show that debt ratio and advertising investment were not significant in all models.

Models 2, 5, 8, and 11 of Table 3 present the results of testing Hypothesis 1 after considering all control variables. Hypothesis 1 states that there is a positive relationship between a subsidiary with an expatriate CEO and local corporate philanthropy. In Models 2, 5, 8, and 11, the coefficient of an expatriate subsidiary CEO was highly positive and significant (Model 2: p<.05; Model 5: p<.01; Model 8: p<.01; Model 11: p<.05), and this provides support for Hypothesis 1. This implies that foreign subsidiaries' local corporate philanthropy may vary depending on the MNC's staffing strategy for subsidiary CEOs. Host country national CEOs have relatively high legitimacy compared to that of expatriate CEOs, as they are able to become highly embedded in local networks and relationships with local stakeholders. In other words, foreign subsidiaries can achieve legitimacy by appointing host country nationals as CEOs. Having a local as a CEO can reduce the need to use local corporate philanthropy to gain legitimacy since a local already possesses legitimacy. Conversely, it can be said that expatriate CEOs have higher awareness of achieving legitimacy than host country nationals and are more active in local corporate philanthropy, turning to philanthropy with the intent of quickly securing legitimacy.

Hypothesis 2 proposes that as CEO tenure increases, the positive relationship predicted in Hypothesis 1 will become weaker. Models 3, 6, 9, and 12 show a negative and significant coefficient of the interaction term (Model 3: p<.05; Model 6: p<.10; Model 9: p<.10; Model 12: p<.05). Fig. 1 displays how the relationship between subsidiary CEOs and local philanthropy over total sales changed as CEO tenure increased. As described in the figure, expatriate CEOs practice more corporate philanthropy than local CEOs early in their tenure. However, they tend to reduce local philanthropy as their tenure extends. Therefore, Hypothesis 2—the positive influence of an expatriate CEO on subsidiary corporate philanthropy weakens as their tenure extends—was supported.

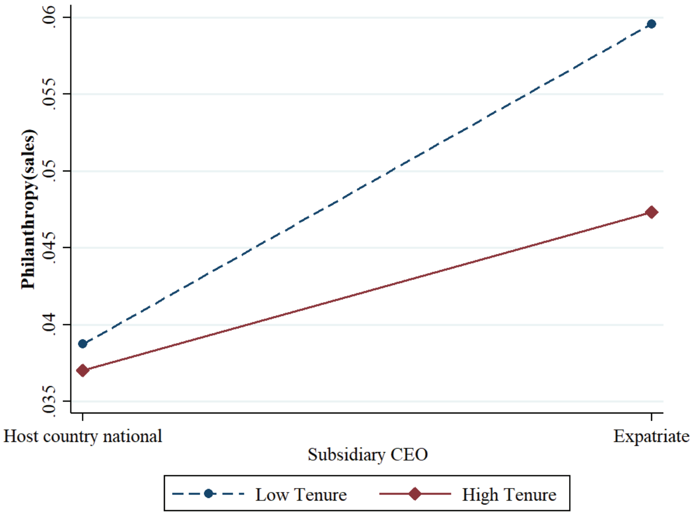
Early in their tenure, subsidiary CEOs work to become embedded in their firm's internal and external networks to build a track record, gain ground, and achieve legitimacy (Hambrick and Fukutomi, 1991; Miller and Shamsie, 2001). Expatriate CEOs seek to gain legitimacy through local corporate philanthropy since they have a low level of embeddedness in the local networks. However, they accumulate information about the host environment and secure legitimacy from the community as their tenure extends. Therefore, the need for corporate philanthropy as a means of acquiring legitimacy decreases as the tenure of the subsidiary's expatriate CEO increases.

Table 3. Panel Tobit Regression

Variables	Philanthropy (amount)			Philanthropy (sales)			Philanthropy (assets)			Philanthropy (employee)		
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8	Model 9	Model 10	Model 11	Model 12
Subsidiary												
Age (ln)	0.60	0.65	0.69	0.28***	0.29***	0.29***	0.41***	0.42***	0.42***	0.71**	0.74**	0.76**
	(0.68)	(0.68)	(0.68)	(0.06)	(0.06)	(0.06)	(0.07)	(0.07)	(0.07)	(0.34)	(0.34)	(0.34)
Size (ln)	3.47***	3.55***	3.53***	-0.03	-0.01	-0.01	0.04	0.05	0.05	0.08	0.12	0.11
	(0.41)	(0.41)	(0.41)	(0.04)	(0.04)	(0.04)	(0.05)	(0.05)	(0.05)	(0.21)	(0.21)	(0.21)
ROS	0.44	0.46	0.45	-0.09*	-0.09	-0.09	0.15**	0.15**	0.15**	0.54*	0.55*	0.55*
	(0.63)	(0.63)	(0.63)	(0.06)	(0.05)	(0.05)	(0.06)	(0.06)	(0.06)	(0.30)	(0.30)	(0.30)
Debt ratio	1.19	1.31	1.31	0.06	0.08	0.08	0.12	0.14	0.14	-0.01	0.06	0.06
	(0.93)	(0.93)	(0.93)	(0.08)	(0.08)	(0.08)	(0.10)	(0.10)	(0.10)	(0.46)	(0.46)	(0.46)
R&D intensity	0.25	0.25	0.25	0.03**	0.03**	0.03**	0.07***	0.07***	0.07***	0.30***	0.30***	0.30***
	(0.17)	(0.17)	(0.17)	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)	(0.08)	(0.08)	(0.08)
Advertising intensity	0.22	0.22	0.23	-0.02	-0.02	-0.02	0.01	0.01	0.01	0.00	0.01	0.01
	(0.14)	(0.14)	(0.14)	(0.01)	(0.01)	(0.01)	(0.02)	(0.02)	(0.02)	(0.07)	(0.07)	(0.07)
CEO age	0.07*	0.08*	0.08**	0.00	0.00	0.00	0.00	0.00	0.00	0.02	0.02	0.02
	(0.04)	(0.04)	(0.04)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.02)	(0.02)	(0.02)
CEO tenure	0.07	0.07	0.15**	-0.00	-0.01	-0.00	-0.00	-0.00	0.00	0.00	0.00	0.04
	(0.05)	(0.05)	(0.06)	(0.00)	(0.00)	(0.01)	(0.01)	(0.01)	(0.01)	(0.03)	(0.03)	(0.03)
Expatriate CEO		1.22**	2.16**		0.18***	0.24***		0.19***	0.26***		0.65**	1.05**
		(0.53)	(0.67)		(0.05)	(0.06)		(0.06)	(0.07)		(0.26)	(0.32)
Expatriate CEO x CEO tenure			-0.23**			-0.01*			-0.02*			-0.10**
			(0.10)			(0.01)			(0.01)			(0.05)
Constant	-22.19**	-23.62**	-24.62**	-0.58	-0.80	-0.86	-1.55	-1.77*	-1.85*	-5.12	-5.89	-6.32
	(8.65)	(8.67)	(8.67)	(.90)	(.90)	(.90)	(1.05)	(1.06)	(1.06)	(4.70)	(4.71)	(4.71)
Observations	5,459	5,459	5,459	5,459	5,459	5,459	5,459	5,459	5,459	5,459	5,459	5,459
Log-likelihood	-21578.74	-21576.05	-21573.45	-8334.45	-8326.85	-8325.50	-9231.97	-9226.03	-9224.53	-17650.02	-17646.85	-17644.76
N	576	576	576	576	576	576	576	576	576	576	576	576
Wald-chi2	203.61***	209.24***	214.72***	174.32***	189.79***	192.67***	207.61***	219.80***	223.01***	126.96***	133.32***	137.66***

Notes: *Standard error* in parentheses; Dummy variables for industry, year, and parent country are included but not presented in the table.
* p<.1, ** p<.05, *** p<.01.

Fig. 1. The moderating role of CEO tenure on the relationship between subsidiary CEO and local philanthropy.



4.3. Additional Analysis

It is important to recognize that our empirical results may not be uniformly applied to all industries since regression analysis aims to estimate a conditional expectation or conditional mean (Wooldridge, 2010); therefore, the resulting value only represents an overall trend. For this reason, we split the sample by industry sector into manufacturing and wholesale and retail trade, as these constitute a large proportion of our sample, and reexamine our hypotheses with the split sample. The results are reported in Table 4. The results show an insignificant relationship between an expatriate CEO in a foreign subsidiary and local philanthropy in the manufacturing sector. The moderating effect of CEO tenure on the relationship is also insignificant. In contrast, there are significant relationships in the wholesale and retail trade sector, supporting Hypotheses 1 and 2. These results could be due to greater legitimacy pressures in the wholesale and retail trade sector. For example, retailers sell products in small quantities directly to consumers, which exposes them more to the public society than firms engaged in other industries. Since consumers function as the main actors of corporate evaluations that affect the firm's reputation (Brunk, 2010; Odriozola and Baraibar-Diez, 2017; Shapiro, 1982), retailers have to deal with a higher level of legitimacy pressure since they are more exposed to the general public and media (Cavazos and Rutherford, 2011; Dyck, Volchkova, and Zingales, 2008). Furthermore, these results might imply that much of the pressure for local legitimacy stems from consumers, indicating that subsidiaries targeting end-users (i.e., consumers) face more pressure for local legitimacy. In this regard, the results suggest that expatriate CEOs of foreign subsidiaries engaged in the wholesale and retail trade sector recognize local philanthropy as an effective means of enhancing their firm's corporate image and utilize it to achieve local legitimacy.

Table 4. Panel Tobit Regression Comparing the Two Industries

Variables	Manufacturing sector								Wholesale and retail trade sector							
	Philanthropy (amount)		Philanthropy (sales)		Philanthropy (assets)		Philanthropy (employee)		Philanthropy (amount)		Philanthropy (sales)		Philanthropy (assets)		Philanthropy (employee)	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
Subsidiary																
Age (ln)	0.25	0.25	0.17***	0.17	0.20***	0.20***	0.42	0.41	1.08	1.19	0.50***	0.51***	0.79***	0.80***	1.44*	1.50*
	(0.65)	(0.65)	(0.05)	(0.05)	(0.06)	(0.06)	(0.27)	(0.27)	(1.50)	(1.50)	(0.14)	(0.14)	(0.16)	(0.16)	(0.79)	(0.79)
Size (ln)	1.37***	1.37***	-0.08*	-0.08*	-0.06	-0.06	-0.48*	-0.48*	6.68***	6.70***	0.10	0.10	0.21*	0.21*	0.67	0.68
	(0.44)	(0.44)	(0.03)	(0.03)	(0.04)	(0.04)	(0.19)	(0.19)	(0.90)	(0.90)	(0.08)	(0.08)	(0.10)	(0.10)	(0.48)	(0.47)
ROS	0.36	0.36	-0.14***	-0.14	0.08	0.08	0.34	0.35	4.18*	4.07*	0.59***	0.59***	0.92***	0.91***	3.78***	3.73***
	(0.63)	(0.63)	(0.05)	(0.05)	(0.06)	(0.06)	(0.23)	(0.23)	(2.44)	(2.44)	(0.22)	(0.22)	(0.26)	(0.26)	(1.26)	(1.26)
Debt ratio	1.24	1.24	-0.05	-0.05	0.08	0.08	0.11	0.11	3.28*	3.28*	0.45*	0.45*	0.49*	0.49*	0.91	0.91
	(1.09)	(1.09)	(0.08)	(0.08)	(0.10)	(0.10)	(0.41)	(0.41)	(1.96)	(1.96)	(0.18)	(0.18)	(0.21)	(0.21)	(1.02)	(1.02)
R&D intensity	0.14	0.14	-0.01	-0.01	0.02	0.02	0.15*	0.15*	0.87*	0.84*	0.15*	0.15***	0.20***	0.19***	0.87***	0.86***
	(0.17)	(0.17)	(0.01)	(0.01)	(0.02)	(0.02)	(0.07)	(0.07)	(0.41)	(0.40)	(0.04)	(0.04)	(0.04)	(0.04)	(0.21)	(0.21)
Advertising	-0.67*	-0.67*	-0.00	-0.00	0.05*	0.05*	-0.39***	-0.39***	0.37	0.37	-0.02	-0.02	0.01	0.01	0.08	0.08
intensity	(0.30)	(0.30)	(0.02)	(0.02)	(0.03)	(0.03)	(0.12)	(0.12)	(0.23)	(0.23)	(0.02)	(0.02)	(0.02)	(0.02)	(0.12)	(0.12)
CEO age	0.09*	0.09*	0.00	-0.00	0.00	0.00	0.02	0.02	0.10	0.09	0.01	0.01	0.01	0.01	0.03	0.03
	(0.04)	(0.04)	(0.00)	(0.00)	(0.00)	(0.00)	(0.02)	(0.02)	(0.09)	(0.09)	(0.01)	(0.01)	(0.01)	(0.01)	(0.04)	(0.04)
CEO tenure	-0.05	-0.05	-0.00	-0.00	-0.00	-0.00	-0.01	-0.02	0.17	0.39***	-0.02*	-0.01	-0.02*	0.00	-0.02	0.08
	(0.05)	(0.06)	(0.00)	(0.00)	(0.00)	(0.01)	(0.02)	(0.02)	(0.12)	(0.15)	(0.01)	(0.01)	(0.01)	(0.02)	(0.06)	(0.08)
Expatriate CEO	-1.14*	-1.13	-0.04	-0.05	-0.05	-0.08	-0.26	-0.32	3.07***	5.20***	0.52***	0.67***	0.55***	.76***	1.74***	2.70***
	(0.60)	(0.75)	(0.04)	(0.06)	(0.05)	(0.07)	(0.22)	(0.28)	(1.05)	(1.36)	(0.09)	(0.12)	(0.11)	(0.14)	(0.55)	(0.70)
Expatriate CEO		-0.00		0.00		0.01		0.01		-0.54*		-0.04*		-0.05*		-0.25*
x CEO tenure		(0.10)		(0.01)		(0.01)		(0.04)		(0.22)		(0.02)		(0.02)		(0.11)
Constant	3.15	3.14	0.42	0.44	0.40	0.44	5.22*	5.33*	-33.62***	-34.18***	-2.17***	-2.22***	-3.02***	-3.08***	-3.12	-3.38
	(6.40)	(6.44)	(0.51)	(0.52)	(0.63)	(0.63)	(3.13)	(3.14)	(7.96)	(7.94)	(0.78)	(0.78)	(0.92)	(0.92)	(4.29)	(4.28)
Observations	2,280	2,280	2,280	2,280	2,280	2,280	2,280	2,280	2,319	2,319	2,319	2,319	2,319	2,319	2,319	2,319
Log-likelihood	-8178.58	-8178.58	-2273.70	-2273.63	-2660.43	-2660.25	-5904.51	-5904.44	-9833.34	-9830.28	-4241.73	-4239.59	-4620.77	-4618.05	-8305.24	-8302.85
N	226	226	226	226	226	226	226	226	251	251	251	251	251	251	251	251
Wald-chi2	182.28***	182.28***	172.25***	172.37***	182.27***	182.56***	140.03***	140.15***	168.88***	175.59***	210.44***	215.22***	217.47***	223.51***	107.35***	112.40***

Notes: *Standard error* in parentheses; Dummy variables for industry, year, and parent country are included but not presented in the table.
* p<.1, ** p<.05, *** p<.01.

5. Discussion and Conclusion

MNCs strive to gain legitimacy to survive and operate business in foreign countries where they operate (Reimann et al., 2012; Yang and Rivers, 2009). Prior literature has argued that philanthropy helps MNCs to gain and maintain legitimacy in a host country (Campbell et al., 2012; Husted and Allen, 2006; Yang and Rivers, 2009). However, there are differences in foreign subsidiaries in the host country in terms of the level of conducting local philanthropy. Considering that CEOs are the most powerful decision-makers and infleuence the firms' strategic behaviors, our study investigates the different effect of subsidiary CEO staffing on philanthropy and specifically how foreign subsidiaries with expatriate CEOs as foreigners can seek to overcome their low legitimacy.

We explored the relationship between the staffing of foreign subsidiary CEOs and local corporate philanthropy using 576 wholly owned subsidiaries of MNCs in Korea from 2002 to 2016. Our empirical results can be summarized as follows. First, expatriate CEOs had a significantly positive effect on local philanthropy, suggesting that expatriate CEOs are more likely to invest in corporate philanthropy than local CEOs. This can be attributed to differences in local embeddedness between expatriates and host country nationals (Bebenroth and Froese, 2020). Unlike expatriates, local CEOs are believed to share the cultures and values of the local society because they are of the same nationality (Toh and DeNisi, 2005); this increases the need for expatriates to exert efforts to be accepted as members of the host society through local contributions. Since it takes substantial time and effort for expatriates to share the host country's norms and beliefs, tools for gaining legitimacy, such as local philanthropy, are important. Moreover, philanthropy helps expatriate CEOs establish amicable relationships with local stakeholders.

Second, we found that CEO tenure weakens the positive relationship between expatriate CEOs and local philanthropy, indicating that expatriate CEOs' utilization of local philanthropy decreases as their tenure increases. This implies that the CEOs can accumulate more local knowledge and social capital in the host country as their tenure increases. In the early years of their tenure, expatriate CEOs focus on securing social capital to gain legitimacy through local philanthropy. However, CEOs establish amicable relationships with local stakeholders over the years as they become more familiar with the host society's norms and values (Reimann et al., 2012), so the strategic need for local philanthropy to gain legitimacy is reduced.

Third, our additional analysis comparing the manufacturing sector and wholesale and retail trade sector showed that the pressure of local legitimacy on subsidiaries could differ by the industries in which they are engaged. Our tests of the hypotheses are insignificant in the manufacturing sector but are significant in the wholesale and retail trade sector. The results indicate that expatriate CEOs of foreign subsidiaries in the wholesale and retail trade sector are more likely to engage in local corporate philanthropy than subsidiaries in the manufacturing sector. These findings might be due to the fact that firms in the wholesale and retail trade sector are more likely to be in contact with customers than those in the manufacturing sector, implying that businesses that are involved with end-users are more sensitive to local legitimacy pressures than other businesses.

Based on these findings, contributions of our study as follows. First, this study theoretically contributes to the literature on CEO staffing at subsidiaries and the CSR activities of MNCs by identifying complementary relationships between expatriate CEOs as foreigners and local corporate philanthropy. Prior literature has investigated the staffing of foreign subsidiary CEOs in terms of control by and coordination with MNCs (Belderbos and Heijltjes, 2005; Boyacigiller, 1990; Gong, 2003; Tan and Mahoney, 2006), overlooking discussions about vulnerable local legitimacy issues that could arise when an expatriate is appointed as CEO of a foreign subsidiary (Tihanyi et al., 2012). Considering philanthropy as a strategic means to secure legitimacy in the host country, this study empirically shows that expatriate CEOs can use local philanthropy to make up for their vulnerability in local legitimacy.

Second, the study also examined how CEO tenure moderates the relationship between subsidiary CEO staffing and local philanthropy. Previous research has investigated the direct relationship between CEO tenure and CSR activities at the domestic or headquarter level. Our study extends this literature by conducting research on CEO tenure at the subsidiary level.

From the managerial standpoint, our study may have practical implications for CEO staffing at MNC subsidiaries. Subsidiary CEOs need to strike a balance between global integration and local responsiveness pressures (Prahalad and Doz, 1987; Taggart, 1998). This study suggests that expatriate subsidiary CEOs, who have advantages in controlling and coordinating HQ-subsidiary relationships, could overcome local adaptation problems and address local responsiveness pressure by building social capital and acquiring legitimacy through local philanthropy. We hope our findings will help MNCs entering foreign countries balance the pressure of global integration with the demand for local responsiveness.

Furthermore, based on our findings, the properties of the industry that foreign subsidiaries operate in are important because end-users such as customers have a significant impact on the local legitimacy of subsidiaries. This implies that subsidiary commitment to local philanthropy may increase as the industries in which they are engaged get closer to end-users. Therefore, for expatriate CEOs of foreign subsidiaries in industries that require close communication and interaction between firms and customers (Odriozola and Baraibar-Diez, 2017), a commitment to local CSR to achieve local legitimacy may be an effective means of maintaining corporate sustainability.

Lastly, to catalyze the effectiveness of local philanthropy, a training program for expatriate CEOs to strengthen their multicultural mindset and interpersonal skills might be helpful for developing an amicable relationship with local stakeholders.

The present study has several limitations for future study. First, as this study only investigates subsidiaries of MNCs in Korea, it is questionable whether the results are generalizable. Future studies could address this shortcoming by including subsidiaries of MNCs from other countries. Second, due to data limitations, we did not consider other CEO characteristics that could influence corporate philanthropy. Previous studies proposed that firm CSR activities are influenced by CEO characteristics such as moral values (Ormiston and Wong, 2013; Waldman, Siegel, and Javidan, 2006), leadership style (Waldman et al., 2006), education level (Campbell, 2007), and gender (Huang, 2013; Marquis and Lee, 2013). In this respect, comparing how CSR activities, including corporate philanthropy, vary across different types of CEO characteristics would be informative. Last, since this study is limited to wholly-owned subsidiaries, it would be interesting to investigate how the nationality of CEOs of international joint ventures established between an MNC and a local partner impact local philanthropy.

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