Determinants of Succession Planning in MNCs Operating in Denmark

Determinering af Efterfølgerplanlægning i Multinationale Selskaber i Danmark

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Abstract

Succession planning can be an important strategic tool within the sphere of strategic international human resource management (SIHRM) and can impact a firm's performance and valuation, as well as its corporate culture and turnover in personnel. This paper examines multinational corporations (MNCs) operating in Denmark and their use of succession plans. The approach builds on previous research in order to determine a holistic model that classifies firms as engaging in succession planning or not based on firm characteristics, internationalization strategy and management development. Firm characteristics such as size or country of origin have been found to affect the use of different HRM practices across the organization. Internationalization strategy is defined to reflect the difference in centralization or fragmentation of the organization, both in terms of the product market and the internal HRM practices. Meanwhile, management development measures different techniques utilized to develop a cadre of trained high potentials within the organization. These different drivers of succession planning are brought together in a holistic model that challenges some aspects of previous studies.

A large sample consisting of more than one fourth of the MNC population in Denmark is analyzed through the use of a logistic regression model in order to determine the model. Roughly half of the firms in the sample reported engaging in succession planning. The study finds that high-performing firms are more likely to engage in succession planning than firms with a relatively poor performance. Similarly, MNCs with over 30,000 employees worldwide are more likely to engage in succession planning than smaller firms. Support is found for a firm age effect, although the magnitude of the effect is limited, and somewhat surprisingly older firms are found to be less likely to engage in succession planning, contradicting extant theory. Using a Varieties of Capitalism (VoC) approach, the study does not find support for a significant country of origin effect. Looking at internationalization strategy, the study finds support for the hypothesis that product standardization, either globally or regionally, is significantly correlated with a higher likelihood of engaging in succession planning, but fails to find support for an effect attributed to the existence of global policy bodies. Among the most important findings of this study is that management development captures an effect that has been attributed to the existence of a global policy body in many studies. This study shows that when an index of the use of management development techniques is included in the analysis, the variable measuring the existence of a global policy body ceases to be significant. This has implications for the interpretation of HRM centralization and global control in previous studies, which have only measured the existence of a global policy body, but not included management development. Instead, this paper suggests that the existence of a global policy body is driven by the utilization of management development techniques.

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Abbrevations

MNC	Multinational Corporation
CEO	Chief Executive Officer
GTM	Global Talent Management
GPB	Global Policy Body
HRM	Human Resource Management
HRD	Human Resource Development
IHRM	International Human Resource Management
SIHRM	Strategic International Human Resource Management
OCM	Organizational Career Management
SP	Succession Planning
SPSS	Statistical Package for the Social Sciences, IBM
RBV	Resource Based View
VoC	Varieties of Capitalism

1. Introduction

Succession planning is an important tool within the sphere of strategic human resource management (SHRM) that can be used to leverage the human resources available within a firm and that can help soften the transitional problems that follow many succession events. Yet studies have shown that many firms neglect this important aspect of leadership. This can negatively affect the organization when the time for succession comes, and also lead to a reduction of shareholder wealth through lower market capitalization. It is in other words a topic that should capture the attention of both senior management and shareholders. This paper will examine succession planning in multinational corporations (MNCs), studying the firm characteristics and strategic choices that frame the succession plan.

The importance of leadership has been studied extensively in the organizational theory literature – it is perhaps one of the most studied – and it is broadly agreed to be of high importance (see for instance: Stroh & Caligiuri, 1998). While the actions and strategic orientation of managers can have a tremendous impact on the firm, and have been studied extensively, sooner or later every manager must step down, and a successor takes over the post. This transition has received far less attention than it deserves, for the characteristics of leadership successions are multifaceted. The successor may be recruited externally or internally, and the process may have been planned in advance or it is implemented when the manager decides to leave the organization. Such a change of top management is termed a *succession event,* and it can have important effects on the organization. As an example, let us take the case of a poorly performing successor. The lack of performance could be due to a lack of ability, training, motivation, or for other reasons, but regardless, the organization suffers. The challenge then, is to select the candidate that will best further the organization's goals, and to have a system in place that ensures that this happens. This is the reason for why a succession plan is often beneficial for an organization.

The Chief Executive Officer (CEO) of a firm is usually the most influential individual in an organization, and influences the firm at the strategic, operative and organizational level. He or she serves both as a bridge between the board of directors and the firm, and as an agent driving change within the organization. However, just below the CEO is an important group of leaders, namely the top echelon of managers in the organization, reporting directly to the CEO and in some cases directly to the board of directors. This group is responsible for a large share of the important strategic decisions in the management of the firm, as well as the execution of those decisions, and a high level of performance on their part could be seen as an antecedent to the firm's success. However, although the performance of these individuals has been studies extensively, a fundamental question has in part been left unanswered: what characterizes a firm that engages in succession planning? Are firms from some countries or economic systems more likely to utilize succession plans than others? Or is it a result of a decentralized and fragmented organizational structure? Are firms that emphasize

the personal development of its managers more likely to put in place a formal succession plan? These are some of the questions that this thesis will attempt to answer. While some researchers have examined empirical evidence and correlations between the propensity to engage in succession planning and variables such as firm size or performance, much of this research has lacked a firm theoretical framework and suffered from omitted variables, as will be shown in the literature review. This study will try to address such shortcomings through an analysis of the characteristics of MNCs operating in Denmark and their approach, or lack of one, to succession planning, using a holistic model based on previous findings.

Past research (with variation between studies) has found that only approximately every second firm engages in succession planning, despite the positive effects it can have on the organization's performance and valuation. Efforts have been made to determine which firms engage in succession planning, and what characterizes these firms. However, many of these studies fail to include important, significant variables found in the stream of research, meaning that there are several parallel streams of research on the topic, and no fully comprehensive model exists to model and explain inter-firm variation in the adoption of succession plans. This paper will examine the characteristics of firms that choose to engage or not engage in succession planning, and present an expanded, deterministic model based on the one set forth by McDonnell *et al.* (2010). In particular, the question that this paper seeks to answer is: *what determines the likelihood of an MNC engaging in succession planning?*

This question will be answered through the use of dichotomous regression analysis on a sample of 119 MNCs operating in Denmark, with independent variables measuring firm characteristics, the firm's internationalization strategy, and the use of management development techniques. In the model, a broad range of firm characteristics is included as compared to previous studies, and the inclusion of an index measuring the use management development techniques for high potentials within the organization is one area in which this study adds to the stream of research. Another theoretical contribution is the application of a different categorization of *country of origin* compared to previous studies, in which an expanded *variety of capitalism* approach set forth by Amable (2003) is utilized. Empirically, the study adds to the somewhat limited findings on the correlations between firm characteristics, strategy and succession planning, while offering some insights that may be useful to top management in assessing factors inhibiting the use of succession plans within their organization. One such insight is the importance of developing the high potentials within the MNC. Another is how the analysis shows that firm performance can help decide whether or not it is advisable for the MNC to engage in succession planning. We will return to the implications for managers in the conclusion.

In the following, the previous research on succession planning will be presented, in particular the research on predictors of succession planning. Section 2 will examine previous

research on succession planning in detail, providing the reader with an overview of what has been found on succession planning in MNCs up until today. A comprehensive model, inspired by McDonnell *et al.* (2010), is presented at the end of the section. Section 3 presents the population and sample in question, as well as the methodology employed in the analysis. The section begins by offering descriptive statistics of the sample. Next, the model presented in section 2 is operationalized, and measures for each variable are clearly defined. The model is then revised based on univariable and restricted regression analyses, in order to exclude variables that lack explanatory power. Lastly, a final model is determined and diagnostics on both the model-level and item-level are examined carefully. Section 4 discusses the findings of the analysis in detail, and also includes a discussion of the limitations of the study. Lastly, section 5 summarizes the conclusions, presents the implications for management, and sets forth topics for future research.

2. Literature Review

This section will take the reader through the research conducted so far on the topic of succession planning. We begin by defining succession planning, after which we present the benefits of having a succession plan in place. Next, the research question is set forth in detail. This is followed by a comprehensive overview of past research in the field. Following this journey through past research, we examine each determinant of succession planning more closely. Lastly, a holistic model is developed with which we can attempt to answer the research question.

2.1 What is succession planning?

Before proceeding, it is worthwhile to clearly define succession planning. The academic literature holds no unanimous understanding of the term; some studies look only at CEO succession (Friedman & Olk, 1995; Helmich, 1974), a definition this author finds to be too narrow. Meanwhile, other studies determined that the planning of succession for several of the top levels of the organization was a fitting definition (Friedman, 1986). While this can be an appropriate definition for very large firms with a tall hierarchy, it is not suitable for many of the smaller MNCs that characterize Nordic countries such as Denmark. Indeed, many firms that are considered large in Denmark would only qualify as mid-sized in larger economies such as the US or Germany. Meanwhile, some studies do not even present a clear definition of succession planning (e.g., Hall, 1989). For the purposes of this paper, succession planning will be defined as *the planning for succession of managers reporting directly to the CEO*. This definition should be fitting given the Danish context and the sizes of the firms to be examined. Excluding the CEO from the definition allows us to disregard factors such as agency problems between shareholders, the board of directors and the CEO, and the explicit role of the board of directors in choosing a CEO, instead focusing on the intra-organizational ownership of the succession processes taking place at the top levels of the organization. Moreover, this author feels that a broader definition (such as one looking at multiple layers of management) would lead us into the field of Global Talent Management (GTM), a topic that, while encompassing succession planning, is ultimately a much broader field of research (for a review of GTM, see: Tarique & Schuler, 2010).

2.2 Why is succession planning important?

Prudent leaders prepare for all risks to the organization that they are leading. This includes preparing for their own exit from the organization, whether by their own request or for extraneous reasons. In light of this, the board of directors' fiduciary duty towards shareholders can be seen to encompass preparing for the eventuality of replacing the

incumbent leadership, and as such they should prepare plans for the succession events of the future or require that senior management draws up such plans. In a study of market reactions to executive succession in 2003, Shen and Cannella found that identifying an heir apparent to the CEO could serve as a hedge to entrenchment by the incumbent CEO, providing the board of directors with alternative leadership in case of conflict. Similarly, a study by Brady, Fulmer & Helmich (1982) found that the enactment of a formalized succession plan reduced CEOs' *expected* tenure at the start of their reign, although one must be careful in interpreting causation. These studies imply that succession may be a way for the board of directors to limit entrenchment, and it might help to reduce agency problems by clearly defining an alternative to the incumbent leadership.

Shen & Cannella (2003) also found that there is little or no investor reaction to the appointment of an heir apparent, while there is a negative market reaction to an exit from the organization by the heir apparent, and a positive reaction to an heir promotion. In contrast, unplanned inside succession (termed "non-relay succession") received a negative market reception, implying that succession planning may reduce the harm caused by an unanticipated succession event. They also found that the appointment of an outside CEO had a positive effect on the stock price, although less positive than that of a successful planned ("relay") succession, and that outside succession was significantly more likely to occur in relatively worse performing firms. Thus the best effect, when examining the stock price, was from a planned insider succession. In other words, firms with a succession plan obtained the most favourable results. Beatty and Zajac (1987) obtained similar findings in their longitudinal and cross-sectional study of 209 US firms, where they conclude that "in light of the fact that the majority of public announcements are silent or ambigous (sic) regarding the reason for the CEO change, one might conjecture that firms generally may be made better off by not only planning for a smooth and orderly transition of top management, but also making such efforts clear in ultimately announcing the succession event" (p. 316). Examining the findings from both of these studies through the lens of finance, we can see that (under the assumption that the stock market is efficient) succession planning is thought to be beneficial for the net present value of a firm (the present value of all future free cash flows), especially for a firm with high performance. Even if we relax the assumption that the stock market is efficient, shareholders still gain from the increase in stock price following a planned inside succession, and it is thus in their best interest see that such a succession takes place.

Looking at the frequency of successions, Farquhar (1995) found that the expected tenure of top managers was falling, and the frequency of successions was on the rise as a result. Moreover, because the average tenure of each manager has been falling, new top executives have less time to get up to speed (in what has been referred to as the *honeymoon period* of new executives) before they are expected to deliver results. Managers recruited

from inside the organization would normally have an advantage in this regard, because they already know the organizational structure and culture, and they have an established intra-organizational network which can ease decision-making and implementation. As a result, the increased frequency of successions might mean that succession planning is becoming more critical to firms' long-term success.

Sonnenfeld (1986) argues that the organizations that have stood the test of time are those that have successfully managed the succession of leaders between generations and have thus been able to adapt to changing internal and external pressures. Each new leader brings a new vision that helps shape the course of events going onwards, while retaining path dependency through links to the previous leadership. Choosing the right candidate for succession then, is paramount for the success of the firm in the long run.

Based on these studies, there are clear implications that succession planning can at best improve firm performance and valuation, and at worst mitigate harm to these aspects. Yet even so, the research also shows that succession planning can be more beneficial to some firms than others. What then, determines whether a firm engages in succession planning?

2.3 Research question

What determines the likelihood of an MNC engaging in succession planning?

This question came to mind when reading the analysis of Minbaeva & Navrbjerg (2011), which looked at the employment practices of MNCs in Denmark, and is the question that this paper will seek to answer. The study by Minbaeva & Navrbjerg (2011) shows that only 43% of Danish-based MNCs engage in succession planning in any of their operations, while foreign-based MNCS with subsidiaries in Denmark stand slightly higher, at 50%. In other words, the numbers suggest that at least half of the MNCs with operations in Denmark have no systematic approach to succession planning. These numbers are supported by McDonnell *et al.* (2010) who found that only 65% of the firms in their sample, consisting of 260 MNCs with operations in Ireland, had an active approach to succession planning or talent management. Brady *et al.* (1982) provided similar empirical findings after a survey of 1484 firms, among which less than one fourth engaged in active, formalized succession planning. While the proportion of firms that engage in succession planning differ between these studies (25%-65%), this is likely due to different geographical contexts, points in time and

different operationalizations of the dependent variable (engagement in succession planning). Nevertheless, these studies strongly suggest that succession planning is something that only approximately every second firm engages in. See figure 2.1 for an overview of the findings of different studies. Given the importance attributed to leadership (and by extension the succession event), and especially the top cadre of managers, it is surprising to find that so few firms actively plan for the succession event. It is even more surprising when we consider the favorable effect succession planning can have on the market capitalization of the firm during a succession event, as noted above.

Figure 2-1: Prevalence of succession planning according to different studies

Authors/study	Location	Sample	Prevalence of succession planning
Brady *et al.* (1982)	USA	1484	25% [1]
McDonnell *et al.* (2010)	Ireland	260	65%
Minbaeva & Navrbjerg (2011)	Denmark	119	48%
Baruch & Peiperl (2000)	UK	190	51% [2]

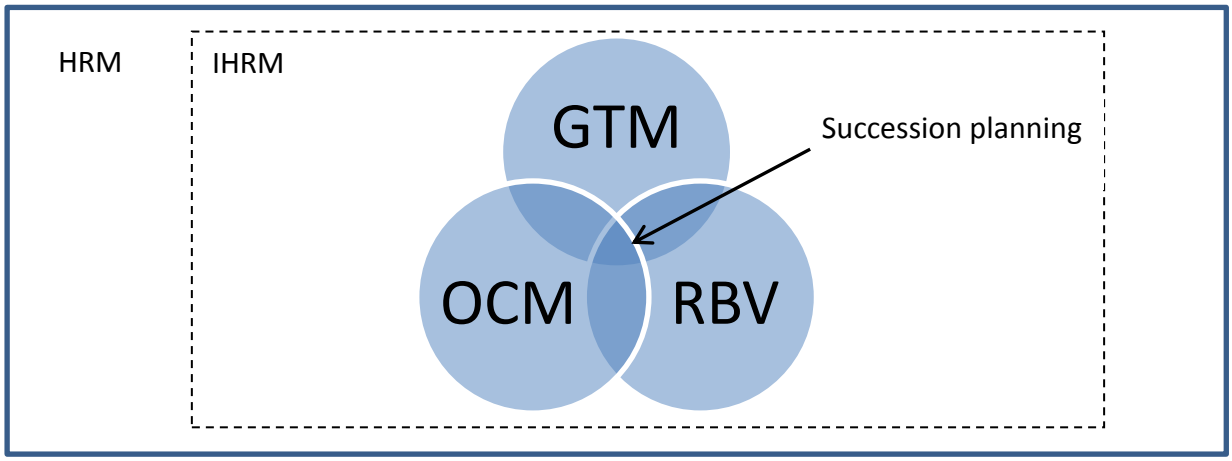
[1] Brady *et al.* differentiated between timeframes and reasons for succession; the number given is for succession upon incapacitation.
[2] A likert scale of 1 to 7 was used, where 1 meant "not used at all", and 7 meant "used extensively". The mean obtained was 3.6. Numbers were fairly evenly distributed between the 7 different answer options.

2.4 Theoretical boundaries

Within the field of Human Resource Management (HRM) exist the narrower, more specific fields of International Human Resource Management (IHRM) which focuses on the complex HRM decisions that have to be made by multinational companies (MNCs), and Strategic Human Resource Management (SHRM) which focuses on the long-term, strategic nature of HRM as opposed to operational activities. Some researchers also group these together under the label Strategic International Human Resource Management (SIHRM). However, there is a striking lack in the literature of a clear definition of what defines each of these terms (Martell & Carroll, 1995), and they can often be hard to differentiate. In the following, the term IHRM will be used with the understanding that it also holds a strategic, long-term nature. IHRM diverges from HRM in its explicit focus on international linkages and the effects of multinational operations employing a multicultural workforce across borders. For a comprehensive overview of research in the field of IHRM, see Stahl and Björkman (2006). Within IHRM, succession planning must be seen as an integrated part of the research on executive succession, and closely related to the study of leadership and management, in particular those of Global Talent Management (GTM) and Organizational Career Management (OCM). GTM focuses on the efforts of MNCs in retaining and developing their talented managers, with a focus on meeting the needs of the firm. Thus the development activities are focused on the skills and capabilities required by the organization (Tarique &

Schuler, 2010). Meanwhile, OCM is rooted in the potential of the candidate, and in maximizing this potential to the benefit of the organization (Baruch & Peiperl, 2000). The two approaches can be seen as compliments to each other, rather than mutually exclusive, and an overlap exists between the two. On the other hand, succession planning might be seen through the lens of the resource-based view (RBV) of the firm, since it deals with the appropriation and retention of scarce resources (talented managers) in order to gain a competitive advantage (Stahl & Björkman, 2006). This approach can be argued to be more static, because the firm is seen as endowed with a pool of resources that does not change over time. This pool of resources must be put to best possible use; the most qualified candidate must be placed in the right position. However, the RBV is strikingly similar to both GTM and OCM in that the approach is founded on the current resources (talent) of the firm and how to put them to best use. The following analysis draws from all three theoretical foundations, as illustrated in figure 2.2.

Figure 2-2: Theoretical Boundaries of Succession Planning



Inherent in the understanding of IHRM is that the activities employed must help the organization reach its long-term, strategic goals. For most privately owned firms, and MNCs in particular, this includes generating revenue, minimizing costs and increasing profitability (Martell & Carroll, 1995).

The topic of succession planning in and of itself is one that has received relatively little attention in the academic world – especially when seen in comparison to the thousands upon thousands of pages devoted to other aspects of leadership – and the academic focus on executive succession has mainly been directed towards succession as an event (and the antecedents and consequences related to it) rather than on planning. While this paper will focus on succession planning from the viewpoint of the firm, it is worth noting that it is also possible to view succession planning from the perspective of the individual candidate. In

doing so, one would venture into the domain of career planning. A study by Dries & Pepermans (2007) which interviewed high-potentials in MNCs, as well as representatives of the organization, noted that "establishing stimulating career tracks for key experts – and a better succession planning ensuring timely transfer of expertise – emerged […] as one of the crucial challenges facing organisations today" (p. 18). In other words, succession planning also holds importance outside of the theoretical boundaries imposed upon this study.

For the purposes of this study, a two-step process of approaching the literature on the subject was followed, as outlined by Creswell (2009). The first step involved identifying key journals focused on HRM related topics, and searching for the keyword: *succession*. Journals were chosen based on academic excellence and quality; peer-reviews were defined as a requirement, and the list of journals was compiled in collaboration with an expert in the field (Prof. Dana Minbaeva, Copenhagen Business School). Each journal was accessed separately and a broad search of the keyword was conducted. The abstract of each article was examined, and all articles that related to the research question were saved for further study. In the second stage, each collected article was studied, and the references of each article of interest were examined for relevance in a similar process to that followed in the first step. Figure 2.3 lists the examined journals, the number of initially collected articles and the number of relevant articles, for each of the two steps, so that the reader may be informed as to the path taken in collecting information and sources. Note that methodological articles are not included in figure 2-3.

Figure 2-3 – Literature review

STAGE 1

Journal	**Number of articles with relevant abstract**	**Number of articles relevant for study**
Journal of International Business Studies	7	1
Human Resource Management	18	12
HRM Journal	2	1
HRM Review	1	0
International Business Review	1	0
Journal of World Business	5	4
Personnel Review	5	0
Employee Relations	3	0

STAGE 2

Journal	Number of articles with relevant abstract	Number of articles relevant for study
Personnel psychology	1	0
Journal of International Business Studies	3	0
Human Resource Management	12	8
Human Resource Management Journal	7	5
Journal of management development	2	2
Strategic management journal	3	3
Journal of management	1	1
Journal of World Business	2	1
Advances in developing human resources	1	0
Management of personnel quarterly	2	0
The academy of management journal	3	3
British Journal of Political Science	1	1
Human Resource Planning	1	1

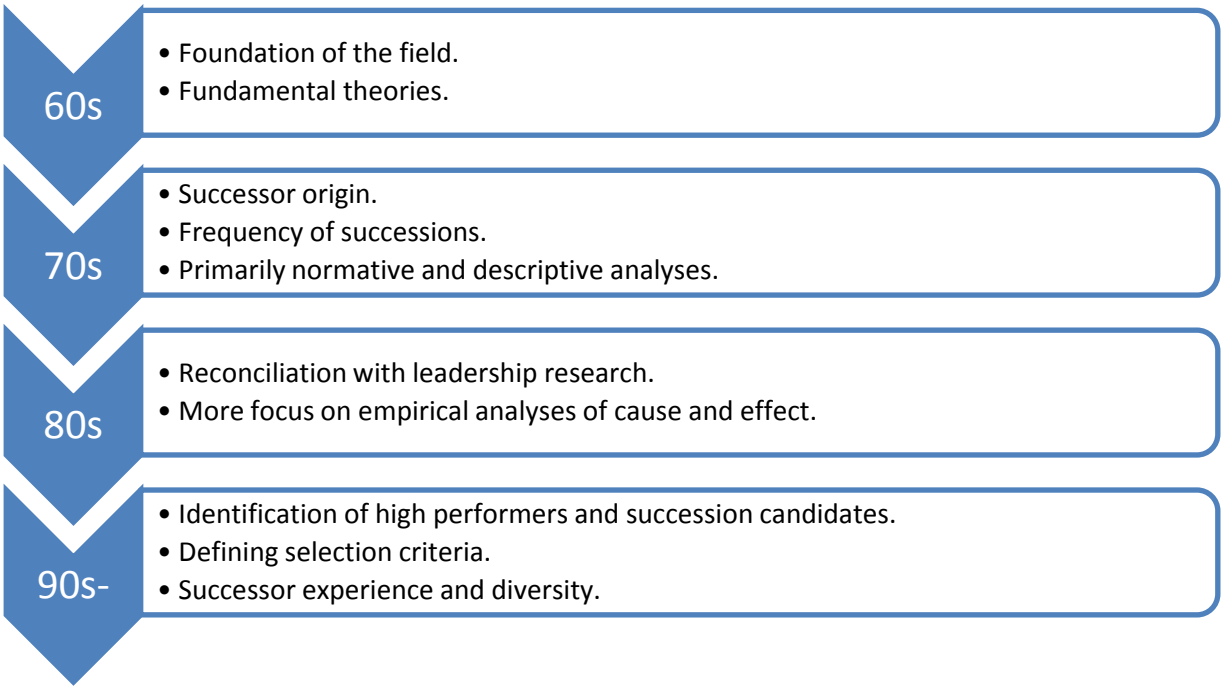
2.5 Past research

Before proceeding to a closer examination of the research question, it is worth gaining an overview of the previous research into succession planning. In a 1994 review of the research on executive succession, Kesner and Sebora offer a comprehensive overview of the field. They attribute the foundation of the field of succession studies to Oscar Grusky in the 1960s. He began by analyzing the differences between insider and outsider successors, based on their affiliation with the firm, and his research was followed by other scholars. A weakness in the early research was that much of its focus was on specific organizational forms, such as schools, and it was thus hard to generalize to other organizational contexts. Moreover, much of the early research was conducted using a wide range of methodologies, making synthesis and direct comparisons between studies difficult. The early research particularly focused on the effect that succession had on performance. This gave rise to three fundamental theories regarding succession: 1) The common sense perspective holds that a change in CEO will increase performance, since the new CEO has been handpicked for the job; 2) The vicious cycle theory states that a succession process is disruptive, and thus can damage firm performance. 3) The ritual scapegoat theory holds that a CEO has relatively little impact on the firm, but is "sacrificed" as a form of statement when firm performance is poor. It is interesting to note that the first and second view contradict each other somewhat in terms of effect on firm performance, while the third contradicts much of what has since been written on the effects of leadership (see for instance: Stroh & Caligiuri, 1998). While these

approaches regarded CEO succession, some of the thinking may be applicable to succession at other levels of the organization.

Kesner & Sebora (1994) note that during the 1970s more focus was given to successor origin (insider versus outsider) and the frequency of successions. As such, it refined the research that began in the previous decade. More variables were accounted for, such as the role of the board of directors, type of exit and the leader's personal traits and abilities. With the 1980s came a push towards a stricter methodological approach, with more empirical analyses and less normative or prescriptive texts. An effort was made to reconcile the field with that of leadership research, but this effort was hampered by a wealth of contradictory results, partly a result of non-comparable methodologies. During the 1990s and 2000s, the study of succession planning has become more integrated with the broader field of talent management, and much focus has been given to the identification and development of future managers (Groves, 2007; Baruch & Peiperl, 2000; Lombardo, 2000; Mäkelä *et al.,* 2010; Allen, 1997). These studies focus on the criteria employed in finding the right candidate or the tools to be used to develop the future leaders. Other streams of research have looked at the impact of the successor's background, for instance gender and cultural diversity (Greer & Virick, 2008; Kilian *et al.,* 2005) or the impact of international experience through expatriation or stretch assignments (Oddou *et al.,* 2000; McCauley *et al.,* 1995).

Figure 2-4 - Research flow



What becomes clear from this historical overview of the research in the field is that little emphasis has been given to the factors determining *whether* succession planning is conducted or what *characterizes* firms that choose to (or choose not to) direct resources towards such activities. The focus has instead been directed towards how it should be conducted (Friedman, 1986; Groves, 2007), the candidates to be selected (Lombardo, 2000; Mäkelä *et al.,* 2010; Mellahi & Collings, 2010), its effects on variables such as stock price (Beatty & Zajac, 1987) or the timing of the succession event (Sonnenfeld, 1986). It is this author's belief that more research is required into the determinants of why firms choose to engage in succession planning and, conversely, why so many firms choose *not* to engage in succession planning. In order to proceed, however, we require a firm theoretical framework on which to base the analysis.

2.6 Determinants of succession planning

Despite the literature review outlined above, this author has not been able to find any widely accepted model describing or determining a firm's likelihood of engaging in succession planning based on its characteristics or adopted HRM strategy. McDonnell *et al.* (2010) laid a strong foundation with a model considering a number of firm characteristics, but neglected to include performance as an independent variable, although it has been shown to have a significant effect (see figure 2-5). Moreover, their independent variables were largely characteristics of the firm, such as firm size or sector, and did not include variables measuring the strategic orientation of the firm, except for product standardization and the use of global HR policy bodies. Other studies have only focused on one or two independent variables (Shen & Cannella, 2003; Helmich, 1974), increasing the risk that important variables are omitted from the analysis. Moreover, as shown in figure 2-5 below, different studies have found a range of different significant explanatory variables, lending support to the notion that a broader framework is required when thinking about the determinants of succession planning. Distinctive for most of the studies is that they either focus on a limited range of explanatory variables, or that they merely describe the characteristics of the firm and neglect to include measures of strategic orientation or the focus placed on human capital development. In an attempt to provide a framework for researchers examining succession planning in the future, this study sets forth a model based in large part upon McDonnell *et al.* (2010) and tests it through a logistic regression analysis on a comprehensive database of MNCs with operations in Denmark. The presented model might also be useful for managers in identifying which aspects of their organization might be inhibiting their use of succession planning, and could help them to leverage this opportunity and could ultimately provide a competitive advantage over competitors.

Figure 2-5 summarizes six empirical studies that have examined one or several facets of succession planning, and shows the findings based on seven variables: performance, firm size, country of origin, the existence of a global HR policy, sector, product standardization and firm age. Among these, McDonnell *et al.* (2010) examined five, but neglected to include performance, which has been shown to have an effect in previous studies (Shen & Cannella, 2003; Helmich, 1974). Their analysis might therefore be biased due to the omitted variable. Firm size is likely to be partially correlated to performance (firms that perform well will often reinvest in growth), and thus some of the effect attributed to firm size may be overstated in their study, and should rather be examined as a separate, independent variable. When looking at the studies by Minbaeva & Navrbjerg, Shen & Cannella, and Helmich, they all suffer from the lack of a comprehensive model based on theory and empirical evidence, and end up examining the data without establishing a theoretical framework to explain causality. Moreover, they are not including explanatory variables found to be significant in previous studies. Indeed, Tarique & Schuler (2010) recently noted that the field of GTM had a "[…] strong need for theory building, for micro and cross-level IHRM topics, for understanding the complexities surrounding the formation of GTM systems […]" (p. 10). An attempt must be made to reconcile the significant or contradictory findings of previous studies in a holistic model, and test this model using empirical data. In the following, the determinants of succession planning will be divided into three main parts: firm characteristics, internationalization strategy and management development. Looking at the first group of drivers, firm characteristics, we see that *performance* and *firm size* have had significant effects in one or more studies, and these will be included in the model. Moreover, *country of origin* has failed to prove significant in the studies presented below, which examined succession planning directly, but it has been found to be significant in relation to other HRM practices and HR development. *Sector* will be included in the model because findings have been somewhat contradictory and further research is required. *Firm age* was only found to be included in one quantitative study, in which it failed to prove significant, but there is not enough evidence to discount its effects. It is included for the sake of completeness. The second group of drivers, the firm's internationalization strategy, is likely to impact whether or not the firm engages in succession planning, based on the distinction between centralization and subsidiary autonomy. As mentioned, this division has largely been neglected in past research directed at succession planning, but it has received more attention in broader studies of HRM practices in general. The third group of drivers is termed management development, and deals with the extent to which the firm engages in developmental activities for its potential talents, such as expatriation, formal training, benchmarking or qualifications programs.

2.6.1 Firm characteristics

Performance

Friedman & Olk (1995) suggested a framework for thinking about firms' approaches to succession planning, in which firms had four options: Crown Heir, Horse Race, Coup d'Etat and Comprehensive Search. Of these, only the first two involves succession planning, because they are situations where the incumbent leadership is in charge of the process. The difference between the crown heir and horse race approaches is primarily in the number of candidates considered for a succession position (a distinction that is not of relevance for this paper). The argument made by Friedman and Olk (*ibid*) is that in a situation of strong performance, we would expect to see inside succession because a non-disruptive (i.e. inside) succession process is seen as the best way to secure continuing success for the business. Conversely, in a situation of poor performance, the board of directors is unlikely to put much faith in plans made by the incumbent leadership and will seek a disruptive succession process in which they recruit outside successors. This is a way to change the strategic course of the business, because the new (outsider) leadership will not be bound by the strategic course defined by the previous leadership in the same way that insider successors might be. A similar argument is made in a paper by Helmich (1974), where he defines an insider-to-insider succession event as a non-adaptive succession. The succession is termed "non-adaptive" because an insider has much stronger ties to the organization and is to a higher degree bound by political patterns and traditions when compared to an outsider, and thus the paths open for a change of strategic direction are more limited than for an externally recruited successor. Dalton & Kesner (1983) state that "[i]t generally has been concluded that replacement of a CEO from within an organization represents a maintenance strategy. Outside successions, on the other hand, are associated with changes in existing patterns of administrative and resource allocations" (p. 736). While they were primarily focusing on CEO succession, a similar argument may be made for senior executives. Shen & Cannella (2003) also found that firms were more likely to choose outside successors in times of poor performance, as measured by return on assets (ROA). Further support is given by Guthrie & Datta (1998) who found a significant relationship between firm performance as measured by ROA and insider/outsider succession patterns, with the data showing that outside successors tended to be related to an increase in performance post-succession.

Figure 2-5							
Study	**Performance**	**Firm size**	**Country of origin**	**HR Global Policy**	**Sector**	**Product standardization**	**Firm age**
McDonnell et al. (2010). Empirical study. *Journal of World Business.*		Significant effect. (.01). Larger firms more likely to engage in SP.	No significant effect.	Significant effect (.01). Firms with centralized HR policy bodies more likely to engage in SP.	Some sectors weakly significant (.10 level). High-tech sectors less likely to engage in SP.	Significant effect (.05). Firms with standardized products more likely to engage in SP.	
Minbaeva & Navrbjerg (2011). Empirical study. *Research paper (CBS).*			No significant effect.	Significant effect (.05). Firms bringing managers together more likely to engage in SP.			
Shen & Cannella (2003). Empirical study. *Strategic Management Journal.*	Significant effect. Outside succession more common in firms with poor performance.						
Helmich (1974). Empirical study. *Academy of Management Journal.*	Significant effect. Insider successors correlated to lower M&A activity.					Non-significant effect of inside succession's relation to diversification (standardization).	
Guthrie & Datta (1998), Empirical Study. *Human Resource Management.*	Significant effect on both insider/outsider succession and CEO tenure.	Significant effect on both insider/outsider succession and CEO tenure.				Non-significant effect of diversification on insider/outsider succession or CEO tenure.	No significant effect.
Dalton & Kesner (1983), Empirical Study. *Academy of Management Journal.*		Significant effect on insider/outsider succession, measured both by employees and revenue.					

Firm size

McDonnell *et al.* (2010) found that larger MNCs are more likely to engage in GTM or succession planning practices than smaller MNCs. McDonnell *et al.* (*ibid*) failed to give a coherent theoretical explanation of *why* firm size matters, while concluding that there is a significant correlation between succession planning and firm size. The findings of McDonnell *et al.* (*ibid*) are supported by a study by Guthrie & Datta (1998) who found that firm size had a significant effect on both the choice of successor (insider or outsider) and the tenure of the successor. Guthrie & Datta applied firm size as a control variable rather than as an explanatory variable, and did not provide an extensive argument for the effect of firm size. Fortunately, Dalton & Kesner (1983) may provide a theoretical foundation for this effect. They argue that larger organizations "have greater opportunities to train and develop top management. Competent managers can be moved easily between line and staff, from division to division, and to positions of greater responsibility. This alone suggests that when succession becomes necessary, the larger organization may have more qualified, experienced candidates in place" (p. 2). Furthermore, Dalton & Kesner argue that larger organizations provide more opportunities for promotion, and thus find it easier to enact inside succession, since high potentials will not have to suffer the long wait for a senior manager to retire or otherwise exit the organization. Indeed, they found a significant correlation between firm size measured by either employees or turnover and inside/outside succession, with smaller firms significantly more likely to experience outside succession than larger firms (32.2% versus 14.3%). While the dichotomous definition of inside versus outside succession employed by Guthrie & Datta and Dalton & Kesner is not equivalent to the definition of succession planning employed by McDonnell *et al.* (*ibid*), the studies suggest that larger firms are indeed more likely to engage in succession planning.

Firm age

Looking at the age of subsidiaries, Smale (2008) found that integration of HRM practices across subsidiaries increased over time as the firm "aged" , and that "[g]lobal HR policies were described to increase over time and were easier to implement in wholly-owned as opposed to joint-venture operations" (p. 13). Meanwhile, Guthrie and Datta (1998) found no significant effect of firm age upon succession planning.

One reason for why firm age could matter for succession planning is that as the firm ages, a succession event becomes more and more likely. The incumbent management ages along with the firm, and sooner or later they will retire or venture into other business opportunities. As this point in time draws closer, the succession event becomes more apparent to the organization, and this might cause an increased focus on succession planning. Similarly, an organization that has already been through succession events might be more inclined to engage in succession planning.

Country of origin

A recurring theme within the field of IHRM is the study of country of origin effects, as well as the interaction between MNCs and host countries; it is one that has been studied extensively over the years and is one of the central themes within IHRM (e.g. Ferner, 1997; Yeung & Ready, 1995; Morris *et al.,* 2009; Tregaskis, Heraty & Morley, 2001; Kopp, 1994; Simonin & Özsomer, 2009; Farndale & Pauwe, 2007; Belizon, Gunnigle & Morley, 2013; Ferner & Varul, 2000; Almond, 2011). This stream of research examines different facets of the meeting between the MNCs culture, often strongly affected by the norms and laws of the home-country, with the culture of the host country. Ferner (1997) reviewed past research into country of origin effects on HRM practices, and presented a range of findings "pointing to systematic differences in the ways in which MNCs of different nationalities manage their human resources" (p. 2). Summarizing findings from a score of studies conducted in the 1970s to 1990s, he generalized that US-owned MNCs followed a more formalized and centralized approach to HRM than other MNCs. This could indicate that US-owned firms would be more likely to engage in succession planning. Meanwhile, Japanese MNCs were found to be less formalized and more adaptive in their approach to HRM, while still retaining a degree of centralization. This could indicate a more fragmented approach to succession planning or an approach in which only national managers or expatriates are considered for senior management positions. Kopp (1994) found significant differences between Japanese and Western (European and American) firms in terms of ethnocentric staffing practices, with Japanese firms approaching management staffing through the use of expatriates, and having a homogenous senior management group. Moreover, she found that the less ethnocentric the staffing practices were, the fewer HRM problems arose. In regards to European firms, Ferner (1997) criticizes the stream of research for often aggregating these together and thus neglecting national differences within Europe. Moreover, he states that much of the research has been general in its approach, focusing on broad topics such as centralization or formalization in general rather than on specific HR practices. An important question raised by Ferner (*ibid*) is whether country of origin is "an explanatory variable in its own right, or is it a proxy for other more immediate causal factors" (p. 5). Looking at succession planning, it might very well be the case that country of origin merely works as a proxy for more tangible explanatory variables such as centralization of HR activities, corporate structure or standardization of operations. Indeed, when discussing management development and succession planning in relation to country of origin, Ferner (*ibid*) notes that "at present, there appears to be little systematic inquiry in such areas" (p. 11). However, Evans, Lank and Farquhar (1989) found different national approaches to management development, with Japanese and French firms relying on elite recruitment, Germanic firms focusing on formal apprenticeship and rotation, while Anglo-Saxon, Dutch and Scandinavian firms had a more generalist approach. Given that these findings are quite dated, they might no longer hold. Similarly, Yeung and Ready (1995) found significant differences between countries in terms of which leadership capabilities they valued highly, supporting the notion

that different countries follow different models of leadership. However, McDonnell *et al.* (2010) found no significant country of origin effects in relation to succession planning.

Morris *et al.* (2009) note that firms which are able to replicate their HR practices across subsidiaries are more likely to enjoy a competitive advantage over their competitors, but that such efforts are often hindered by differences in culture and failure in coordination. They state that "many HR subsidiaries adapt well to their local environments but find it difficult to adapt useful human resource management practices to other parts of the firm" (p. 975) with the understanding that local laws, norms and the culture of the country the subsidiary is located in can hamper implementation of proven HRM practices.

Tregaskis, Heraty and Morley (2001) examined whether MNCs generally develop their HR practices with a global approach or adapt them to local practices. The findings were mixed, with MNCs in Ireland and the UK adopting different approaches to internal career management as compared to indigenous firms. Meanwhile, on a more strategic level, HR practices were very similar between countries. The findings suggest that MNCs adapt HRD on an operative level, but not on a strategic level. Smaller firms were found to be "more reliant on external labour markets to fulfil their skill needs, as they have fewer resources and promotion opportunities to support the use of an internal career model" (p. 12). Similarly, Farndale and Pauwe (2007) advocate understanding the formulation of an MNC's HRM strategy as being impacted by two contexts: the international (global) context which is characterized by a low degree of norms and laws and that allows for a high level of freedom in strategic choice, and a local context (host-country context) which is characterized by a high degree of norms and laws and that limits the strategic choices available to the MNC. Because succession planning is a highly strategic HRM tool which does not directly impact wage or working conditions, it is likely to be closer to the global context and allow the MNC a degree of freedom in implementation across subsidiaries. This can be contrasted by HRM practices such as performance pay or employee involvement which are to a higher degree affected by local norms and laws and thus allows the MNC less strategic freedom.

Measuring country of origin usually requires countries to be grouped into some meaningful structure due to the number of different countries that MNCs originate from. Otherwise a very large cross-country sample would be required for the analysis in order to have enough items to make meaningful inferences. A range of different approaches have been taken by researchers in the past. The most prominent approaches are the use of geographical groupings such as North America, Europe, Japan and the rest of the world (e.g. Evans, Lank and Farquhar, 1989; McDonnell *et al.*, 2010; Tregaskis, Heraty and Morley, 2001) and the more recent Varieties of Capitalism (VoC) approach set forth by Hall and Soskice (2001), as well as variations of the VoC approach, such as the extended VoC approach by Amable (2003). This paper will limit its analysis to testing the last approach, namely the extended VoC approach developed by Amable (*ibid*), because this accounts for differences in the

institutional context of the labor market as well as differences in market structure, a distinction that is sensible in the context of HRM. Amable (*ibid*) criticized the simplicity of the original VoC approach because it only accounted for product market structure, and presented an expanded model in which the additional dimensions of wage-labor nexus, financial sector, social protection, and education system are included. Going from the liberal market economies (LMEs) and coordinated market economies (CMEs) dichotomy, he created (through factor analysis) five groups that represented different approaches to market structure and industrial relations. Amable (*ibid*) developed the typology through cluster analysis based on principal component analysis, analyzing 21 OECD countries (*ibid*, p. 16). This resulted in a model that merges the geographic and VoC approach in a meaningful way and attempts to bridge the gap between the geographic model and the traditional VoC model. A summary of the typologies presented by Amable (*ibid*) is given in figure 2-6.

Figure 2-6 – VoC typologies

Typology	**Key features**
Market-based	Weak employment regulation Flexible labor market Wage flexibility, decentralization of wage bargaining Unions in defensive position
Continental European	High employment protection Conflicting IR Fairly strong unions Coordination of wage bargaining
Social Democratic	Moderate employment protection Strong union and high rate of union membership but co-cooperation Coordinate or centralised wage bargaining
Asian	Limited labour flexibility. Employment protection in large companies Duality Seniority-based wage policy Strong unions but permissive IR system
South European / Mediterranean	High level of regulation High duality (temporary versus permanent work) Very conflicting IR Centralisation of wage bargaining

IR = Industrial Relations.

Source: Amable (2003), as cited in Belizon, Gunnigle and Morley (2013), p. 3.

The study by Belizon, Gunnigle and Morley (2013) utilized the adapted version of the Varieties of Capitalism (VoC) approach set forth by Amable (2003) and found it to be useful in examining subsidiary autonomy within MNCs. They ordered the different economic systems based on the flexibility of the labour market, from the most flexible to the least flexible, and found a significant effect in which MNCs whose country of origin was characterized by a flexible labour system had a more centralized approach to HRM practices.

In sum, while there is evidence that country of origin affects firm centralization and formalization, and some HR policy approaches, its effect upon succession planning is unclear and findings are to some extent contradictory. Whether the effect upon HRM practices is due to country of origin itself, or if the country of origin should rather be seen as a proxy for underlying constructs, is also up for debate. Moreover, there are alternative approaches to how firms should be grouped if one compares countries, with different groupings being employed (e.g. US/EU/Japan/Other, or liberal market economies vs. coordinated market economies). This paper will apply the extended VoC approach set forth by Amable (2003), and measure both country of origin and specific practices in an attempt to distinguish the country of origin effect from the effects of home-country practices.

Sector

McDonnell *et al.* (2010) found some evidence at the .10-level of sector having an impact on succession planning, in particular when examining high-tech manufacturing. Such firms were found to be less likely to engage in succession planning. This finding is contrary to theory presented by other authors and somewhat surprising; Tregaskis, Heraty and Morley (2001) found little difference in human resource development (HRD) activities across sectors (services versus manufacturing), although in terms of training evaluation the sectors exhibited some significant difference. Beyond this, little attention seems to have been given to sector and its implications for HRM in the academic research stream. The articles already mentioned failed to provide any comprehensive explanation for the causality of sector's impact on HRM, and it is unclear through which mechanisms it affects firms' willingness to engage in succession planning. The Economist (2006) argue that especially knowledge-intensive industries will be inclined to value talent highly and be prepared to invest in its development and retention, yet the findings by McDonnell *et al.* (2010) show the opposite.

2.6.2 Internationalization strategy

A firm's internationalization strategy can be divided into three main typologies, defined by Bonache and Cerviño (1997) as domestic, multi-domestic and global, which are further described in the following way "The domestic firm expands its market to include other

countries, but retains production facilities within domestic borders. The multidomestic firm has operations in many countries, each serving its own market; its ability resides in responding to local market needs. The global firm operates on a global scale in order to achieve economies of scale and to spread development costs over a larger area" (p. 1, *ibid*). Such a definition focuses more on production than on HRM, but an analogous definition can be used in which firms adapt their HRM approach on a local, regional or global level. The argument here is that a firm with a global HRM approach will be more likely to engage in succession planning, because succession planning in itself is a highly strategic tool that gives the highest rewards when employed across the whole organization. In the following, the two main HRM measures of internationalization, subsidiary autonomy and product standardization, are discussed in detail.

Centralization and subsidiary autonomy

While the factors that have so far been discussed have been tested empirically for correlations with succession planning to a lesser or greater degree, most studies on the topic of succession planning fail to account for the international strategic approach of the firm in terms of centralization and subsidiary autonomy. This is problematic for several reasons. A firm with power highly centralized at the corporate headquarters would be expected to have a greater interest in succession planning because of the value placed on senior executives in such an organization, as compared to a decentralized and diversified firm that adapts its products or services in each market. Moreover, in order for succession planning to fully effective, a uniform approach is required across the organization. This line of thinking relates closely to the discussion on national responsiveness and centralization, examined by a range of researchers (e.g. Doz & Prahalad, 1984; Barlett & Beamish, 2011). McDonnell *et al.* (2010) partly accounted for this by employing product standardization as an explanatory variable (found to be positively correlated with succession planning at the .05-level), but this only accounts for standardization of production, not HRM practices. They took this into account through the use of the independent variable *existence of a global policy body*, although this only accounts for one approach to centralization. In order to study the impact of country of origin upon the degree of central control and subsidiary autonomy in an MNC, Belizon, Gunnigle and Morley (2013) examined the distinction between central control of HRM in the headquarters and subsidiary autonomy in defining HRM policy. They argue that this should be seen as a continuous scale, ranging from an organization in which the headquarters defines every HRM practice (that subsidiaries merely implement) to an organization in which each subsidiary defines and implements its own HRM practices. More commonly, subsidiaries will be given control of some aspects of HRM, while others are controlled from the headquarters, depending on the strategic impact they might have and the potential synergies across subsidiaries. Or subsidiaries may be given more freedom in implementation,

provided that they keep in line with certain criteria set forth by the headquarters. This distinction between central control and subsidiary autonomy can spawn conflicts within the organization, and might be seen as a continual power-struggle. Indeed, Belizon, Gunnigle and Morley (2013) found a significant correlation between MNCs having centralized HRM control (as operationalized by the existence of a global policy body and/or shared global services) and subsidiary autonomy, with MNCs utilizing such central planning tools offering their subsidiaries a lower degree of autonomy in terms of HRM practices. They found that subsidiaries enjoyed different degrees of autonomy in regards to different HRM practices, with succession planning being at the center of the scale. Subsidiaries were given some freedom of implementation within a framework that was centrally defined.

Because succession planning deals with the top levels of management, a centralized approach is required in order for it to be effective. One approach to such centralization in an MNC is by having a global HR policy body responsible for global policies such as succession planning. Both the study by McDonnell *et al.* (2010) and Minbaeva & Navrbjerg (2011) found a significant correlation between the existence of such an HR policy body and engaging in succession planning. Indeed, it seems likely that having a central, coordinated approach to identifying talented managers eligible for participation in the succession plan would be more effective than a range of diverse approaches across subsidiaries. Moreover, because the senior management is usually located at the international headquarters, a centralized approach would be beneficial in gaining an overview and analyzing the range of applicable candidates, rather than having to access a range of different criteria for each subsidiary.

Hypothesis 1a: MNCs with a centralized HRM approach will be more likely to engage in succession planning than MNCs with a high degree of subsidiary autonomy.

Product Standardization

Among the previously tested explanatory variables included in this model, product standardization is among the most inconsistent, with two empirical studies finding no significant correlation to succession planning (Guthrie & Datta, 1998; Helmich, 1974) and one finding a significant correlation (McDonnell *et al.*, 2010). The latter found that firms with a more standardized product portfolio were more likely to engage in succession planning. The theoretical foundation of how product standardization would affect succession planning is somewhat lacking; the argument put forth by McDonnell *et al.* (2010) is that firms with standardized products or services might be more likely to also have standardized approaches to HR functions, but the argument does not explain this linkage, and the effect might be better explained by other, more direct variables such as subsidiary autonomy. Nevertheless, due to the significance of some previous findings, the variable will be included for the sake of completeness. Guthrie & Datta (1998) provide a more comprehensive theoretical

foundation, arguing that the level of diversification of a firm is a central element of its strategic focus and thus the choice of managers should reflect the chosen strategic course. Managers of a diversified firm could be thought to require a broader set of skills, enabling them to face diverse markets, production techniques and cultural contexts, whereas a standardized firm may require more specialized managers, which might be found within the organization. In other words, Guthrie & Datta (1998) argue, the succession plan should seek to find managers that hold skills matching the strategic plan of the organization. Upon testing this relationship on a sample of 221 US firms, they failed to find a significant correlation between diversification and whether the firm recruited internally or externally. However, it is worth noting that their study focused solely on CEOs, and their distinction was between outsider and insider succession, rather than succession planning. Their argument may still hold in the somewhat different context of succession planning, and is worth examining further. Helmich (1974) found a mild correlation between the degree of product standardization and inside (outside) succession, where less diversified firms tended to experience more inside succession, although this finding was not significant. The study suffered from the same limitations as Guthrie & Datta's study, in terms of a somewhat different independent variable as well as a focus limited to CEO succession. In summary, the evidence of the effect of product standardization in the literature is inconclusive, and should be examined further.

Hypothesis 1b: An MNC with a standardized product portfolio will be more likely to engage in succession planning than an MNC with a diversified product portfolio.

2.6.3 Management development

The use of management development techniques and approaches to individual learning have been much discussed topics within the field of IHRM for many years (e.g. Baruch & Peiperl, 2000; Conner, 2000; McDonnell *et al.,* 2010; Tarique & Schuler, 2010; Mellahi & Collings, 2010), yet the studies do not link these practices directly to succession planning. Some studies (e.g. McDonnell *et al.,* 2010) treat it as a separate independent variable, similar to succession planning, but fail to include its interaction effects directly on succession planning. This author feels that such an approach is incomplete, insofar as the development of human capital, especially high potentials, can be seen to signal an organization that places an emphasis on internal advancement rather than external recruitment. Thus it should also be more likely to have a succession plan in place. In this way, the management development philosophy of the firm reflects its broader HRM strategy. In fact, Hall (1986) held that the most advanced succession planning approaches should focus not only on identifying talent, but also on developing it. This can be compared to the view set forth by Ostrowski (1968), where he argued that by involving the total managerial workforce in the management succession effort, two important benefits could be gained: managerial potential that is not

immediately evident is not overlooked on the basis of a preliminary evaluation, and an effort is made to realize the potential of every manager, thereby improving the future effectiveness of the company's entire management. Groves (2007) makes a similar argument in his study of 30 key executives within the U.S. health sector.

In terms of how to practically proceed with management development, there are several established methods with which an MNC can develop its talented managers. This paper will focus on the four of them that have been given the most emphasis in the literature: expatriation, formal training, assessment/benchmarking and qualifications programmes. *Expatriation* means sending talented managers from the home-country for a short or long period to a subsidiary in order to gain experience and work as a link to the home-country. Seibert, Hall and Kram (1995) examined the development of senior executives through two case studies of firms seen as leading in management development, and noted the use of long-term expatriation as one of the most powerful tools for developing managers. In his sample of 20 Finnish MNCs operating in China, Smale (2008) found that all but one had expatriates in place at the subsidiary, and that this was seen as an important tool for integration. *Formal training* includes the use of workshops and seminars in order to spread knowledge internally. *Assessment or benchmarking* is the use of measuring managers and comparing them to global benchmarks of performance, in order to help facilitate learning through the identification of strengths and weaknesses for each candidate. *Qualifications programmes* includes the use of external training of a more professional or academic nature, such as MBA programmes or targeted certification courses.

Hypothesis 2: MNCs that utilize management development techniques with its high-potentials will be more likely to engage in succession planning.

2.7 Succession planning model

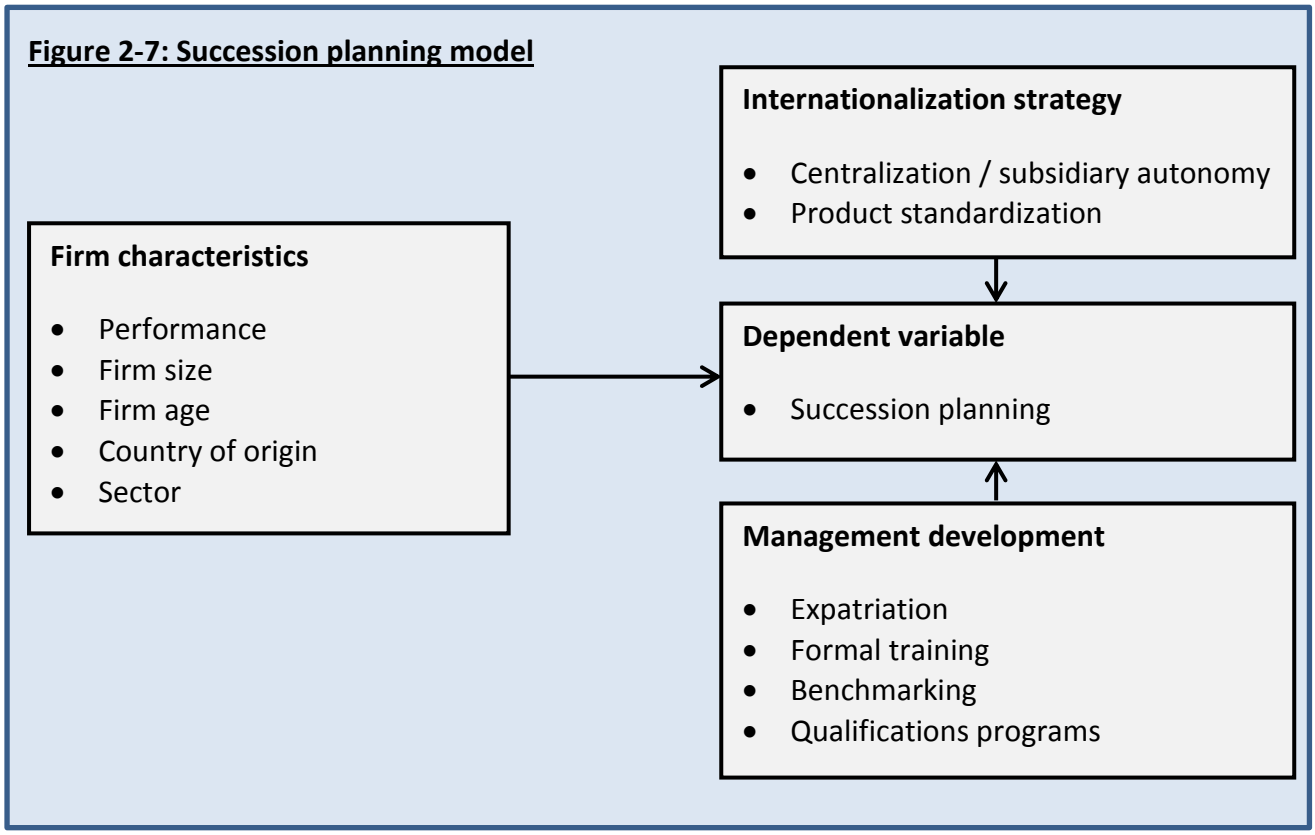
Figure 2-7 illustrates the given hypotheses, and is loosely based on the GTM and succession planning framework set forth by McDonnell *et al.* (2010). The main differences include the model's simplification to deal with only the dichotomous variable of succession planning, the inclusion of performance and firm age as firm characteristics, and the use of internationalization strategy and management development as explanatory variables. It is this author's belief that the model presented below gives a more complete overview of the factors influencing a firm in choosing whether or not to engage in succession planning, and that it thus offers a more holistic approach to research. The line between the independent variable groupings and succession planning represents their effects on the likelihood of engaging in succession planning. Firm characteristics are taken as static or slowly changing variables outside the sphere of IHRM, whereas internationalization strategy and

management development are both conscious choices made by the MNC in its approach to HRM, and more specifically, succession planning.

It is important to note that this model does not account for some external drivers of succession planning, such as shifting demographics and globalization. These drivers have been excluded for two reasons: the model must be simple enough to be accessible and provide some predictive power, and due to the increasingly transnational nature of MNCs a suitable dataset would be exceedingly hard to compile and process. Beyond this limitation, the model does not account for different approaches to succession planning, such as the crown heir and horse race approaches (Friedman & Olk, 1995). It might well be that firms operating in different sectors exhibit a different approach to succession planning, or that the size of the talent pool affects the approach taken. Such questions are beyond the scope of this study.

In the next section, the methodology applied and the operationalization of the variables are presented in detail.

Figure 2-7: Succession planning model



3. Method

In analyzing succession planning, many researchers have utilized case studies. As Creswell (2009) notes, case studies are useful for understanding *how* or *why* people or businesses behave the way that they do. In this way, many of the studies mentioned in the literature review have shed light upon questions such as how firms implement succession plans (Friedman & Olk, 1995), how they ensure diversity of candidates (Greer & Virick, 2008) or how they establish their talent pools (Mäkelä, Björkman & Ehrnrooth, 2009). However, as Creswell (2009) states, the use of qualitative case studies in analyzing other research problems, such as *what* questions, may be of limited use, and a quantitative approach is generally a better approach for these types of questions. This study seeks to answer the question "what determines the likelihood of an MNC engaging in succession planning?" Such a research problem is usually best approached with a positivistic, quantitative approach, in which hypotheses are formulated (see section 2) and subsequently tested in a stringent analytic manner. This is in line with the approaches taken by other researchers examining similar research questions (McDonnell et al, 2010; Friedman, 1986). In contrast, qualitative research, by its very nature, does not offer the same methods of ascertaining the validity and reliability of findings in an enumerative manner. A limitation to the approach taken in this study is that we are unlikely to be able to answer *why* MNCs choose or choose not to engage in succession planning. However, it is this author's belief that the question of *why* must come after a thorough empirical analysis presenting the quantitative facts. Subsequent qualitative studies may then draw upon the quantitative findings in order to be more likely to answer the *why* questions. The research approach taken in this paper is therefore a quantitative, positivistic analysis utilizing logistic regression analysis. The logistic regression analysis is chosen because the independent variable is considered to be a binary one, in which a firm either engages in succession planning or it does not. This is a simplification of the truth, because there can be differences in the extent of implementation of succession plans, but in lack of a solid continuous or ordinal measurement scale of succession planning, the dichotomous approach of the logistic regression analysis was chosen. This has the benefit of giving relatively clear answers, at the cost of presenting nuances.

The study uses a sample of 119 MNCs operating in Denmark, collected by researchers at Copenhagen Business School and the University of Copenhagen in 2009. The use of such non-primary data in the analysis represents a potential source of bias which must be noted. Because the survey was originally designed to explore a much broader set of topics (Minbaeva & Navrbjerg, 2011), the questions were not specifically targeted at succession planning. Moreover, because participants were promised anonymity, this author was unable to collect additional data through the use of follow-up surveys, which in some cases means that proxy variables must be employed instead of the theoretically grounded variables. Nevertheless, the use of the dataset also provides a number of advantages; it is one of the

broadest surveys of MNCs operating in Denmark ever conducted, and holds a large amount of information (a copy of the questionnaire is available to the reader in appendix A4) on a substantial proportion of the population, something that would have been exceedingly hard to collect as part of a Master's thesis. A study based on primary data would most likely not be able to offer a similar width in responses, and would be populated by responses taken from lower levels of the organization. Moreover, the international nature of the survey and the collaboration of researchers with an expertise in the field increase the likelihood of key constructs having been framed correctly and without bias, and that the data was rigorously compiled. This author therefore believes that the benefits provided by working with the dataset – the large sample size and stringent data collection – outweigh the potential sources of bias, although care must be taken in interpreting the data and drawing inferences.

In order to overcome these problems in working with secondary data, the questions posed to respondents were compared to those asked in direct studies of succession planning, with little or no difference found for the majority of the variables. Some variables, such as firm performance, were measured through subjective responses rather than financial data in the current dataset, which could be misleading. However, Lähteenmäki, Storey and Vanhala (1998) note that self-reported measures are both commonly used in strategy research and have been shown to correlate closely with objective measures such as financial data. Moreover, some variables such as performance and management development were combined into composite variables for which the internal consistency was measured through the use of Cronbach's alpha, which helps guard against respondent-induced bias. Lastly, the fact that this study includes all of the variables found to be significant in previous studies helps safeguard against the omission of important variables.

3.1 Sample and population

The quantitative data was collected by researchers at Copenhagen Business School and Copenhagen University as part of the international study program "*Employment Practices of Multinational Companies in Organizational Context",* and the researchers have graciously given the author access to the collected data. The data was collected in 2009. Descriptive data based on the survey was first published in 2011 (Minbaeva & Navrbjerg). The population that formed the basis of the study was home- and foreign-owned firms with at least 500 employees worldwide and at least 100 employees in Denmark. These were defined as multinational corporations (MNCs) for the purposes of the study. Consequently, this paper follows the same definition of MNCs. The firms were contacted via e-mail and the person responsible for HR in Denmark was asked to fill out a web-based questionnaire. In most cases, this person was either the HR director (or equivalent position) or the CEO. The

questionnaire was structured around eight core areas of interest, each containing a range of questions. Follow-up was conducted via phone calls in order to ensure that a response was given. Data on both population and response rates for home- and foreign-owned MNCs are given in figure 3-1 below.

Figure 3-1 – Survey response rates

Type	Foreign-owned	Home-owned	Total
Population	304	113	417
Responses	88	31	119
Response rate	28.9%	27.4%	28.5%

Source: Minbaeva & Navrbjerg, 2011.

As can be seen, there was no significant response bias between foreign-owned and home-owned MNCs (headquarters versus subsidiaries). We also see that the sample consists of close to one-third of the total population of MNCs operating in Denmark.

3.2 Measures

In order to operationalize the variables of the model presented in figure 2-7, the survey questionnaire used to collect the dataset was examined thoroughly, and the variables fitting the core constructs most closely were selected. These are marked in appendix A4 for the reader's convenience. Some questions measured the variable of interest directly (e.g. firm size), while in other cases, a proxy variable had to be used (e.g. performance). For each variable, a review of other studies examining the same variable of interest was conducted. This increases the comparability of findings between studies and is also a way to decrease the possibility of researcher-induced bias in the analysis that can occur through data-fitting or data-mining.

The independent variable *succession planning* is measured as a categorical variable, in which a firm is either engaged in succession planning or not. Because firms may engage in succession planning at the subsidiary or division level, or on a global level, a clear cut-off is made in terms of what defines if a firm is engaged in succession planning. Firms that stated that they engage in succession planning in Denmark, either independently or as part of a global approach, are defined as engaged in succession planning, while firms that reported not engaging in succession planning in Denmark are defined as not being engaged in succession planning. Firms that responded that they are uncertain of their approach were excluded from the analysis. This working definition is similar but not identical to that used by

McDonnell *et al.* (2010). They phrased their question somewhat differently by including "global succession planning system" in the question, while the questionnaire that forms the basis for this sample split the question into two parts: "thinking of the company in Denmark is there a formal system of succession planning for senior managers?" and "is this system also used in other parts of the worldwide company?". Unfortunately, a notable portion of the firms that reported engaging in succession planning in Denmark were uncertain in terms of the latter question, and could not be classified in terms of having a global or local approach to succession planning. It is for this reason that this paper analyzes the extent of succession planning in Denmark and not globally. McDonnell *et al.* (*ibid*) reported that only 6% of their sample engaged in succession planning limited to the local level, while for this Danish sample, the corresponding figure is 5,04%. It is thus to be expected that findings should be mostly comparable with those of McDonnell *et al.* (*ibid*) even though the scope of the definition differs.

Performance has previously been measured either through return on equity (Friedman & Singh, 1989) or return on assets (Shen & Cannella, 2003), but because these financial ratios are not available for a number of firms in the dataset (approximately 40% of the sample firms are not publicly listed and financial numbers for a large proportion is not available), this study uses self-reported ratings. The answer to the question "how would you compare performance of the firm in Denmark over the past three years with that of other competitors in your sector" is used as a proxy. Firms gave answers on a scale ranging from 1 (poor) to 5 (outstanding) for a range of aspects, such as employee relations or turnover. Because the goal is to find a proxy for financial performance, the responses where respondents were asked about profit generation, turnover and market share are employed. These are the question that most closely measures the same construct as supernormal return on assets; the construct being the firm's ability to generate long-term profit relative to its competitors. The performance we are referring to is a relative measure within each firm's industry, meaning that two firms in different sectors with significantly different profit margins and capital intensity might both be considered to perform relatively well. This is in line with the logic used in measuring performance by either ROE or ROA. Lähteenmäki, Storey and Vanhala (1998) note that self-reported measures, as employed in this study, are both commonly used in strategy research and have been shown to correlate closely with objective measures. The responses for profit generation, turnover and market share were aggregated into a single Likert-scale ranging from 1 to 5 through the calculation of the arithmetic mean (one MNC only reported findings on two out of three measures, and the adjusted arithmetic mean for the two reported items were included in the analysis). Measuring internal consistency, Cronbach's alpha was found to be .850, which is above the accepted threshold of .7. The inter-item correlations, means and standard deviations were also examined, without cause for concern. For the sake of completeness, the diagnostics are included in appendix A1. The index is included in the logistic regression analysis as a continuous variable

in order to avoid too many explanatory variables, which could be an issue with the relatively small sample size. Lubke and Muthen (2004) argue that this is an acceptable approach for true likert scales with 5 or more levels.

Firm size is measured by seven ordinal categories in the questionnaire, but in order to increase comparability and reduce the number of independent variables used, the data is converted into four ordinal categories, identical to the groupings employed by McDonnell *et al.* (2010). The transformed categories range from "100-4999 employees" up to "60.000+ employees". The answers were given by the survey-respondents, and as such it would not be possible to implement a continuous scale, although some authors suggest using the log of such a continuous scale rather than ordinal groups (Friedman & Singh, 1989; Guthrie & Datta, 1998).

Firm age is measured as the number of years since the MNC commenced operations in Denmark, and is measured as a continuous variable. For Danish-owned firms, the response to the question "when was the worldwide company first established?" was used, and for foreign-owned firms the response to the question "what year did the worldwide company first establish in Denmark?" was used. For non-respondents, the incorporation date according to Dansk Statistik (Danish Statistics) was used. The age was then calculated as the number of years between the date of incorporation and 2009. This measurement is in line with the approach taken by other researchers (Guthrie & Datta, 1998; Smale, 2008).

Country of origin can be measured in several ways, as described in the literature review. This paper utilizes the VoC approach with the five typologies set forth by Amable (2003), presented in section 2.6.1 of this paper. Each MNC's country of origin, measured as the response to the question "in which country is the operational headquarters of your ultimate controlling company located", is translated into one of the five typologies according to figure 3-2. The reference category is the marked-based economies. The typologies are sorted from the most flexible labor market to the least flexible, in the same way as Belizon, Gunnigle and Morley (2013): market-based capitalism, social democratic capitalism, Asian capitalism, Continental European capitalism and Mediterranean capitalism.

Sector is measured dichotomously as either manufacturing (n=54) or services (n=65). The classification was acquired from Danish Statistics (Dansk Statistik) for all sample items except one (which was classified by the author based on the MNC's primary business operations) and thus the classification is for the Danish subsidiary rather than the MNC in its entirety. The reference category is manufacturing.

Figure 3-2 – Typologies and countries

Typology	Country (n)	Typology	Country (n)
Market-based	Australia (1)	*Continental European*	Austria (0)
	Canada (0)		Belgium (1)
	United Kingdom (7)		France (5)
	USA (19)		Germany (12)
Asian	Japan (2)		Ireland (0)
	Korea (0)		The Netherlands (2)
Social Democratic	Denmark (31)		Norway (6)
	Finland (2)		Switzerland (8)
	Sweden (15)		
Mediterranean	Italy (1)	*Non-classified*	Iceland (2)
	Greece (0)		India (1)
	Portugal (0)		South Africa (1)
	Spain (1)		Israel (1)
			Missing (1)

Source: Amable (2003), p. 173. Numbers in parenthesis are the number of data entries per country in this sample.

In measuring the *internationalization strategy* of each firm, we utilize two separate measures: the existence of a global HR policy body, and product standardization. The existence or non-existence of a global HR policy body is measured as a categorical variable based upon the reply to the question "is there a body within the worldwide company, such as a committee of senior managers, that develops HR policies that apply across countries?" This approach is identical to that followed by McDonnell *et al.* (2010). Product standardization is also measured as a categorical variable, where the distinction is whether the firm's most important product or service is adapted at the national level, or standardized at a regional or global level. The question posed to respondents was "is the worldwide company's most important product, service or brand (or group of products, services or brands)?" with the following answer categories [Adapted significantly to national markets] [Adapted to different regions of the world but standardized within them] [Standardized globally] [Don't know]". The categories are reduced to a binary variable, in which a firm either standardizes its products on a regional or global scale, or does not (local adaptation). This definition is in line with that used by McDonnell *et al.* (*ibid*).

Management development is measured as a composite variable combining the answers given by respondents in regards to the use of the four management development methods presented in section 2.6.3: long and short term expatriation, formal training, benchmarking and qualifications programmes. Respondents were asked to rank how widely these techniques were used within their organization in the development of "high potentials" on a

scale from 1 to 5, with 1 meaning the technique was not used at all, and 5 meant it was used very extensively. Expatriation was divided into long-term assignments (>12 months) and short-term assignments (<12 months). The scores over the five categories were arithmetically averaged into a *Likert scale* ranging from 1 to 5. Some firms did not utilize certain development techniques, and these were included with an adapted arithmetic mean as long as they responded for three or more techniques, otherwise they were excluded from the analysis. The internal consistency was measured through the use of Cronbach's Alpha, with a score of .848 which is above the generally acceptable threshold of .7. The item statistics and inter-item correlation matrix were also examined without issue. They are included in appendix A1 for the sake of completeness. The measure is included in the logistic regression analysis as a continuous variable in order to avoid too many explanatory variables, which could be an issue with the relatively small sample size. As mentioned above, Lubke and Muthen (2004) argue that this is an acceptable approach for true likert scales with 5 or more levels. The operationalization of variables is summarized in figure 3.3.

Figure 3.3: Operationalization of variables

Variables	**Operationalization [answer alternatives]**
Succession planning	Is there a formal system of succession planning for senior managers in Denmark, that is also in use in other parts of the worldwide company? [0 No / 1 Yes]
Performance	Likert-scale variable (1-5) combined from the responses to the question "How would you compare the performance of the firm in Denmark over the past three years with that of other competitors in your sector?"
Firm size	What is the total number of employees worldwide including Denmark by headcount? [100-4,999 / 5,000-29,999 / 30,000-59,999 / 60,000+]
Firm age	Number of years since the worldwide company first established a subsidiary in Denmark.
Country of origin	Home country of MNC headquarters grouped according to VoC. [Market based] [Asian] [Social Democratic] [Continental European] [Mediterranean]
Sector	[Manufacturing] [Services]
Internationalization strategy: HR global policy	Is there a body within the worldwide company, such as a committee of senior managers, that develops HR policies that apply across countries? [0 No / 1 Yes]
Internationalization Strategy: Product standardization	Is the worldwide company's most important product, service or brand adapted to local markets or standardized at a regional or global level? [0 Adapted / 1 Standardized]
Management development	Likert-scale variable (1-5) combined from responses to the question "How extensively are each of the following techniques used for the development of high potentials in Denmark?" [Short term international assignments] [Long term international assignments] [Formal global management training] [Assessment of performance against a set of global management competencies] [Qualifications programmes]

3.3 Descriptives

Out of the sample's 119 firms, 58 firms reported not engaging in succession planning in Denmark at all. Furthermore, five respondents were unsure about whether their firm engaged in succession planning in Denmark, and two respondents failed to reply. The remaining 54 firms engaged in succession planning either across all operations in Demark, or in some of them.

Figure 3-4: Is the firm engaged in succession planning in Denmark?

Succession planning	n	%
Yes	54	45.4%
No	58	48.7%
Missing data / unknown	7	5.9%
Total	119	100%

The index for performance included 116 valid items, with a mean of 3.60 and a standard deviation of .91. Examining the frequency table, the index was found to be somewhat skewed towards above-average performance, with the mid-point of the scale accounting for a cumulative percentage of 31% of the firms in the sample. Another 42% of the firms were found in the interval between 3 and 4 on the scale, and the remaining 27% were in the interval between 4 and 5 on the scale. While one might think that this skewness towards strong performance suggests a bias in the survey respondents mind to favor one's own firm, it is this author's belief that MNCs perform better than the average firm in their industry, as a result of economies of scope and scale. It is for this very reason they have managed to attract investment and grown to become MNCs.

In terms of firm size, we see that the pattern resembles that found in the study McDonnell *et al.* (2010), with the majority of the firms being relatively small. Moreover, in both samples, the firms with employment between 30,000-59,999 employees constitute the smallest group of firms, with more firms totaling over 60,000 employees worldwide. Only one firm in the sample had below 499 employees.

Figure 3-5 – Firm size; number of worldwide employees

Firm size	n	%
100-4,999 employees worldwide	45	37.8%
5,000-29,999 employees worldwide	33	27.7%
30,000-59,999 employees worldwide	16	13.4%
60,000+ employees worldwide	25	21.0%
Total	119	100%

Looking at firm age, the oldest firm the sample had been in business in Denmark for 140 years, and the youngest for only one year. The mean age was 39 years, with a standard deviation of 35 years. There is in other words a relatively dispersed distribution in terms of age.

The VoC classification resulted in only two firms fitting the Asian VoC and two firms fitting the Mediterranean VoC. The remaning firms were all classified as either market-based, social democratic or continental European, with the social democratic group being the largest. This is likely a result of the sample being collected in Denmark, with Danish firms being classified as part of the social democratic capitalism category. Six firms were excluded from classification due to missing responses or having a home-country that was not classified by Amable (2004).

Figure 3-6 – Varieties of capitalism

VoC	n	%
Market based capitalism	27	22.7%
Social democratic capitalism	48	40.3%
Asian capitalism	2	1.7%
Continental European capitalism	34	28.6%
Mediterranean capitalism	2	1.7%
Missing / non-categorized	6	5.0%
Total	119	100%

Note: See table 3-2 for the classification of countries.

Roughly 45% (n=54) of the sample firms were classified as being primarily involved in manufacturing, while the remaining 55% (n=65) were classified as being primarily involved in delivering services. This distribution is somewhat different than that of the Danish economy as a whole, where firms with a primary focus on services account for roughly 71% of the total (DST, 2010).

Turning to internationalization strategy, we examine MNC's use of global policy bodies and product standardization. About two-thirds of the firms reported that their MNC's international human resources management included the existence of a global HR policy body. The proportion of firms is slightly higher than that in the sample of McDonnell *et al.* (2010), but is comparable. In both samples we see that MNCs seem to apply a global approach to at least parts of their HR management.

Figure 3-7 – The existence or non-existence of a global HR policy body

Global HR policy body	n	%
No	38	31.9%
Yes	78	65.5%
Missing data / unknown	3	2.5%
Total	119	100%

When it comes to product standardization, seven in ten respondents declared that they standardized their most important product or service at a regional or global level. This finding is hardly surprising, because Denmark constitutes a small market and regional standardization is often required in order to reap economies of scale. Only two in ten firms report adapting their product to the local market.

Figure 3-8 – Firms' approaches to product standardization

Product standardization or local adaptation	n	%
Local adaptation	25	21.0%
Regional or global standardization	84	70.6%
Missing data / unknown	10	8.4%
Total	119	100%

Lastly, the index constructed to measure management development shows that firms are, in general, not very engaged in developing their high potentials. For the 111 applicable respondents, the scale exhibits a mean of 2.56, below the mid-point of the scale, with a standard deviation of 1.03.

Before proceeding, it is worthwhile to examine the correlation matrix between all the variables included in the theoretical model, presented in table 3-10. The matrix shows that in accordance with expectations performance, firm size, the existence of a global policy body, product standardization and the use of management development techniques all correlated positively with the use of succession planning. Interestingly, firm age (in Denmark) is negatively correlated with the use of succession planning. Sector exhibits a relationship in which *services* are correlated with more frequent use of succession planning. Out of the different independent variables, management development shows the strongest correlation with succession planning, closely followed by the variables representing internationalization strategy: the existence of a global policy body and product standardization. In examining the inter-correlations between the independent variables, there is no cause to expect a strong presence of multicollinearity, with the strongest inter-

correlation being .482 between management development and the existence of a global policy body.

Figure 3-9 – Correlation matrix

	SP	Perf.	Size	Age	VoC	Sector	GPB	P. Stand.	Man. Dev.
SP	1,000								
Perf.	,183	1,000							
Size	,200	-,220	1,000						
Age	-,067	,267	-,145	1,000					
VoC	,059	,093	,085	-,039	1,000				
Sector	,097	-,080	,196	-,273	,086	1,000			
GPB	,233	,042	,253	,045	,014	,063	1,000		
P. Stand.	,247	,147	,087	,228	,068	,007	-,151	1,000	
Man. Dev.	,351	,197	,268	,303	-,057	-,054	,482	,206	1,000

3.4 Analysis

The data is analyzed through binary logistic regression analysis in SPSS 20. The sample was thoroughly examined for outliers and missing data. Out of the 119 firms in the dataset, 28 were removed from the regression analysis because they were missing entries, leaving us with a working sample of 91 firms. Agresti (2007) suggests a sample size corresponding to at least 10 observations per independent variable in order to have a sufficiently large sample. In this case, the sample consisted of 91 observations after the removal of observations with missing data and 9 independent variables. If one considers the use of dummy variables for the measurement of ordinal variables (e.g. firm size and VoC) the sample could be considered too small. Extra analyses excluding non-significant variables will be conducted to ensure that this limitation does not bias the findings.

In order to check for perfect or quasi-perfect separation between the independent variables and the dependent variable, cross-tabulations between each categorical independent variable and the dependent variable were performed in order to check for empty cells or small cell counts. The cross-tabulations are included in appendix A2. Except for two groups within the VoC classification, no cause for concern was found. The VoC classifications *Asian* and *Mediterranean capitalism* do, however, have such small cell counts that no meaningful inferences can be made in regard to them.

3.4.1 Model determination

Hosmer *et al.* (2013) suggest beginning the quantitative analysis with conducting univariable analyses between each independent variable and the dependent variable, in order to more closely examine their correlations and significance. The results of these analyses are given in figure 3-10.

Figure 3-10 – Univariable analyses; independent variables regressed on succession plan

Variable	B	S.E.	P-value	Odds Ratio
Performance	.316	.215	.143	1.371
Firm size				
5,000-29,999	.728	.489	.137	2.071
30,000-59,999	1.645 **	.675	.015	5.179
60,000+	1.134 **	.522	.030	3.107
Firm age	-.003	.006	.610	.997
VoC				
Social democ.	-.056	.508	.912	.945
Asian	.167	1.472	.910	1.182
Continental E.	.285	.535	.594	1.330
Mediterranean	N/A	N/A	N/A	N/A
Sector (services)	.383	.383	.318	1.467
Internationalization s.				
GPB	.934 **	.423	.027	2.545
Prod. Stand.	1.065 **	.503	.034	2.901
Management Dev.	.706 ***	.212	.001	2.025

***** Significant at the .10-level ** Significant at the .05-level *** Significant at the .01-level

Performance, firm age, VoC and sector all fail to show a significant correlation with succession planning in the univariable analyses. Interestingly, the univariable analysis of firm size shows that only firms with more than 30,000 employees seem to be significantly correlated to succession planning. Both variables measuring internationalization strategy show a significant relationship with succession planning at the .05-level, and the index for management development is highly correlated with succession planning at the .01-level. All odds ratios exhibit the expected positive correlation except for firm age, which shows a non-significant odds ratio just below unity. Looking at the VoC classifications, we find no significant correlation for any of the classifications, and both the Asian and Mediterranean VoC exhibit large standard errors, a result of the previously mentioned low cell counts. The Mediterranean VoC exhibited a p-value of unity, and a very large magnitude. It will be impossible to provide meaningful inferences with regards to these two classifications.

In light of the very high p-values for firm-age and VoCs, and to a certain extent sector, the full model is compared to 8 restricted models in which these variables are gradually removed. This must be seen in light of the inconclusive evidence of the effect of these variables in the literature, as discussed in section 2.6. The change in magnitude of the other variables are examined for changes in excess of 20% in accordance with the suggestion made by Hosmer *et al.* (2013, pp. 90-93). The resulting magnitudes and p-values (based on the Wald statistic) are given in figure 3-11. The valid working sample of 91 observations is held constant for the model estimations. Once the final model is determined, any extra valid observations will be included.

Figure 3-11 – A full model and restricted models

	1		2		3		4	
Variable	**B**	**P-val**	**B**	**P-val**	**B**	**P-val**	**B**	**P-val**
Performance	.668	.037	.496	.088	.490	.096	.668	.037
Firm size								
5,000-29,999	.249	.720	.215	.734	.164	.805	.249	.720
30,000-59,999	1.715	.116	.955	.274	1.667	.110	1.716	.111
60,000+	1.313	.164	.432	.533	1.151	.195	1.314	.161
Internationalization s.								
GPB	.762	.233	.629	.308	.649	.288	.763	.232
Prod. Stand.	1.211	.063	1.380	.032	.907	.136	1.211	.062
Management Dev.	.665	.034	.642	.034	.453	.115	.665	.034
Sector (services)	.004	.994	.129	.803	.316	.538		
Firm age	-.020	.030	-.018	.044			-.020	.025
VoC								
Social democ.	1.322	.185			.848	.348	1.323	.182
Asian	N/A	N/A			N/A	N/A	N/A	N/A
Continental E.	.502	.537			.351	.648	.502	.535
Mediterranean	N/A	N/A			N/A	N/A	N/A	N/A

1 – Full model

2 – Restricted model; excl. VoC

3 – Restricted model; excl. firm age

4 – Restricted model; excl. sector

Figure 3-11 - Continued

	5		6		7		8	
Variable	**B**	**P-val**	**B**	**P-val**	**B**	**P-val**	**B**	**P-val**
Performance	.382	.167	.498	.086	.485	.097	.379	.167
Firm size								
5,000-29,999	.208	.735	.215	.734	.126	.848	.188	.758
30,000-59,999	1.225	.154	.978	.259	1.758	.088	1.317	.120
60,000+	.584	.389	.454	.509	1.212	.166	.667	.316
Internationalization s.								
GPB	.548	.359	.638	.300	.679	.263	.580	.328
Prod. Stand.	1.063	.075	1.397	.029	.925	.127	1.086	.067
Management Dev.	.443	.115	.639	.035	.430	.129	.411	.137
Sector (services)	.388	.433						
Firm age			-.018	.034				
VoC								
Social democ.					.862	.334		
Asian					N/A	N/A		
Continental E.					.381	.618		
Mediterranean					N/A	N/A		

5 – Restricted model; excl. VoC and firm age

6 – Restricted model; excl. VoC and sector

7 – Restricted model; excl. firm age and sector

8 – Restricted model; excl. VoC, firm age and sector

As can be seen in figure 3-11, the exclusion of firm age and VoC affects the magnitude of other coefficients by more than 20%, and in accordance with the methodology set forth by Hosmer *et al.* (2013) they should not be excluded from the model, even though they are not found to be significant. The removal of VoC as an independent variable affected in particular the magnitude of performance and firm size, while the removal of firm age as an independent variable affected in particular sector and VoC. Interestingly, firm age proves to be significant in the full model, while it was not so in the univariable analysis, suggesting that firm age has an important modifying effect in the full model. Nevertheless, the magnitude very close to 0 (meaning an odds ratio of unity) that its practical impact in the analysis will be limited. Looking at the variables measuring internationalization strategy and management development, we see that the magnitudes change only to a small degree across the different models. This suggests that internationalization and management development are correlated more closely with the dependent variable than firm age, sector and VoC.

The removal of sector as an independent variable barely causes any change in magnitude for the other independent variables. The restricted model 3-11 (4) was compared to the full model 3-11 (1) in terms of log likelihood ratio, where the former had a likelihood test

statistic of 94.832 with 12 degrees of freedom whereas the latter had a likelihood test statistic of 94.832 with 13 degrees of freedom. Seeing as there is no difference in the test statistic, but we utilize fewer variables, and there is no marked impact on the magnitudes of the other covariates, the choice was made to go with model 3-11 (4) as the full model.

Another interesting observation that becomes clear when comparing model (1) in figure 3-11 with the univariable analyses in figure 3-10 is that firm size is not significant in the full model, although it is significant in the univariable analysis. This is likely because the univariable analysis captures the effect of other independent variables such as VoC. However, in order to further examine the effect of firm size, a separate model was run with the two smallest and the two largest firm size groupings collapsed, giving only two, dichotomous groupings: 100-29,999 and 30,000+ employees. The two largest groups were collapsed because the univariable analysis strongly suggests that the firm size effect becomes significant only for firms with more than 30,000 employees, and because the full model presented in figure 3-11 failed to give any significant findings in terms of firm size. In order to try to improve the predictive ability of the model, the groups were collapsed. The analysis with the collapsed firm sizes is presented in figure 3-12, where firm size represents firms with more than 30,000 employees worldwide. The working sample is held identical to that used in figure 3-11, and sector was excluded as an independent variable, so the model compares to model 4 in figure 3-11.

Figure 3-12 – Final model (firm size collapsed and sector removed)

Variable	**B**	**S.E.**	**P-val**	**Odds ratio**
Performance	.653 **	.310	.035	1.922
Firm size (30,000+)	1.229 *	.764	.089	3.665
Internationalization s.				
GPB	.838	.624	.179	2.311
Prod. Stand.	1.222 *	.644	.058	3.392
Management Dev.	.659 **	.314	.036	1.932
Firm age	-.020 **	.009	.024	.980
VoC				
Social democ.	1.285	.977	.189	3.614
Asian	N/A	N/A	N/A	N/A
Continental E.	.533	.799	.505	1.705
Mediterranean	N/A	N/A	N/A	N/A
Constant	-5.943***	1.708	.001	.003

*** Significant at .01-level ** Significant at .05-level * Significant at .10-level

The firm size effect becomes significant with this adjustment, although care must be taken in drawing inferences with regard to the magnitude, because both the univariable analysis and the full model exhibit signs that the effect is not equal across firm sizes. We note that there are no changes in magnitude for the other variables above the 20% threshold set earlier.

In order to further examine the effect of firm age, a model identical to the one presented in figure 3-12 was ran with firm age replaced by the natural logarithm of firm age. The coefficient remained negative and significant, but because of the difficulty in interpreting a logarithmic scale in regards to firm age, the final model will retain the original measurement scale of firm age.

In the following, the model presented in figure 3-12 will be employed as the final model. The next sections will examine overall tests of parameters, interpretability and significance of each independent variable, goodness-of-fit statistics and diagnostics. The full logistic regression output from SPSS for model 3-12 is given in appendix A3.

3.4.2 Overall model evaluation

Seen through the widest possible lens, a regression model can only be said to fit the data if it describes the data better than a model including only the intercept. This can be tested through the use of different tests such as the log-likelihood test, Wald test or Score test (Hosmer *et al.,* 2013). In terms of inferential ability, the omnibus test of model coefficients given by SPSS was utilized, which tests the probability of the included independent variables not being correlated to the dependent variable in a form of log-likelihood test, using a chi-square distribution. This is the test recommended by Hosmer *et al.* (*ibid*). The test statistic calculated was 35.119 with 10 degrees of freedom, giving a p-value of .000. We can thus reject the null hypothesis that the independent variables hold no predictive power over the dependent variable.

3.4.3 Goodness of fit

When it comes to goodness of fit, it can be hard to determine for logistic regression models, and the different popular test statistics have caveats of different sorts. Hosmer et al. (2013) and Mittlböck & Schemper (1996) recommend the use of the Hosmer-Lemeshow statistics, to be complemented by a classification table. Hosmer *et al.* (*ibid*) show that even a perfectly specified model can score significantly below 100% in a classification table (p. 170), and argue that this value should only be seen as a compliment to other goodness of fit measures. They do not recommend the use of pseudo-R^2 measures in general, and notes that "low R^2 values in logistic regression are the norm and this presents a problem when reporting their values to an audience accustomed to seeing linear regression values" (p. 185). Mittlböck &

Schemper (1996) studied 12 different pseudo-R^2 measures and only found two to be satisfactory: the squared Pearson correlation coefficient and a regular, linear-like sum of squares R^2. This analysis follows the advice of Hosmer *et al.* and Mittlböck and Schemper, and bases the judgment of goodness-of-fit primarily on the Hosmer-Lemeshow test statistic. The Hosmer-Lemeshow test (10 groups) statistic of 4.105 with 8 degrees of freedom (p=.848) indicates that the model seems to have a reasonably good fit, as compared to a saturated model. The Hosmer-Lemeshow classification table is presented in figure 3-13. The Nagelkerke R^2 value of .384 is reported in order to allow the reader to draw his or her own conclusions, and is in line with similar studies on succession planning (McDonnel *et al.,* 2010). Meanwhile, the 2x2 classification table, shown in figure 3-14, exhibits a correct percentage of 71.4%, as compared to 51.6% for the restricted model consisting of only a constant. The classification table utilized a cut-off point of 0.5 probability in determining the predicted outcome.

Figure 3-13 – Hosmer-Lemeshow classification table

Contingency Table for Hosmer and Lemeshow Test

	Succession planning = No		Succession planning = Yes		Total
	Observed	Expected	Observed	Expected	
1	9	8,370	0	,630	9
2	7	7,282	2	1,718	9
3	7	6,373	2	2,627	9
4	5	5,486	4	3,514	9
5	3	4,738	6	4,262	9
6	5	3,770	4	5,230	9
7	3	3,199	6	5,801	9
8	3	2,698	6	6,302	9
9	1	1,621	8	7,379	9
10	1	,463	9	9,537	10

Figure 3-14 – Classification table for the final model

		Predicted Succession planning		
		No	Yes	Overall
Observed Succession planning	No	31	13	70.5%
	Yes	13	34	72.3%
	Overall			71.4%

3.4.4 Diagnostics

In order to examine potential outliers in the data or influential observations that fit the model particularly poorly, the standardized residuals, deviance residuals and leverage values were plotted against the predicted values. Index plots are also provided for the sake of completeness. These can all be seen in figure 3-15 through 3-20. Four observations had standardized residuals in excess of 2 (in absolute terms), and one of those exceeded 3. In examining the observations, we see that the observation with a residual in excess of 3 is one that does not follow the established pattern: it does not engage in succession planning, even though it has relatively strong performance, is a relatively large and young firm, has a global policy body and standardizes its products, and uses management development techniques to a large degree. It belongs to the market-based VoC. Thus it is an outlier in terms of its classification, because it holds characteristics that are typical for firms engaging in succession planning. There is, however, no evidence of measurement error or data entry error.

Figure 3-15 – Standardized residuals and predicted values

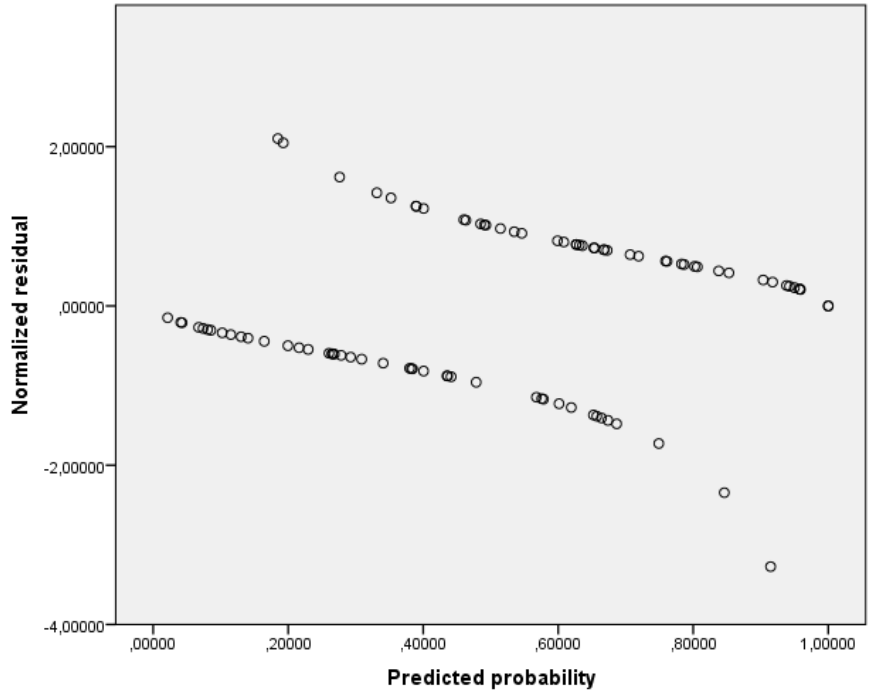


Figure 3-16 – Standardized residuals, index plot

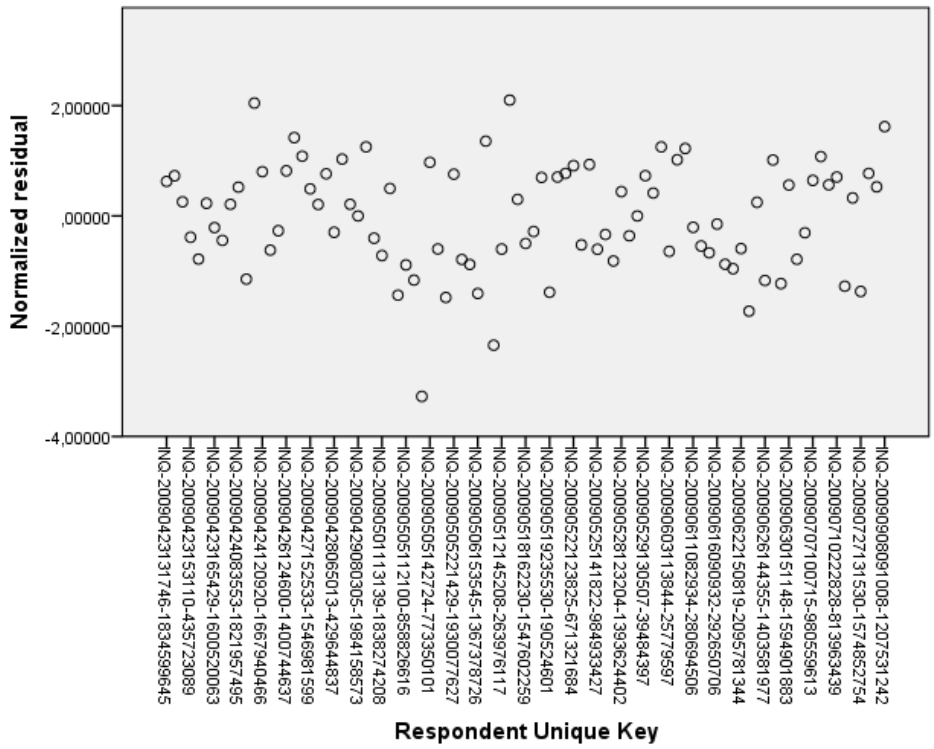


Figure 3-17 – Deviance residuals and predicted values

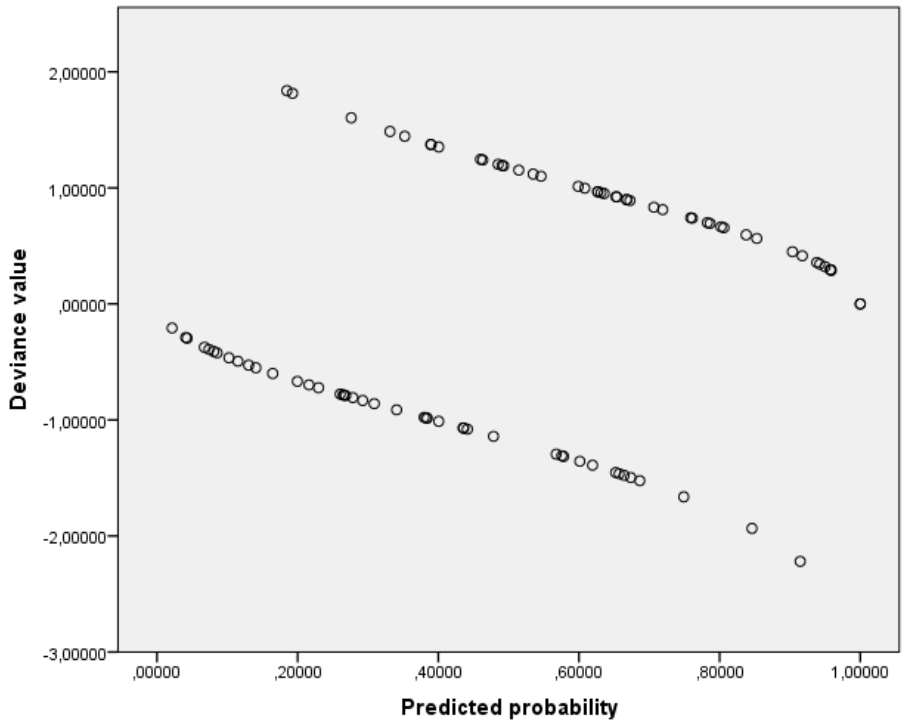


Figure 3-18 – Deviance residuals, index plot

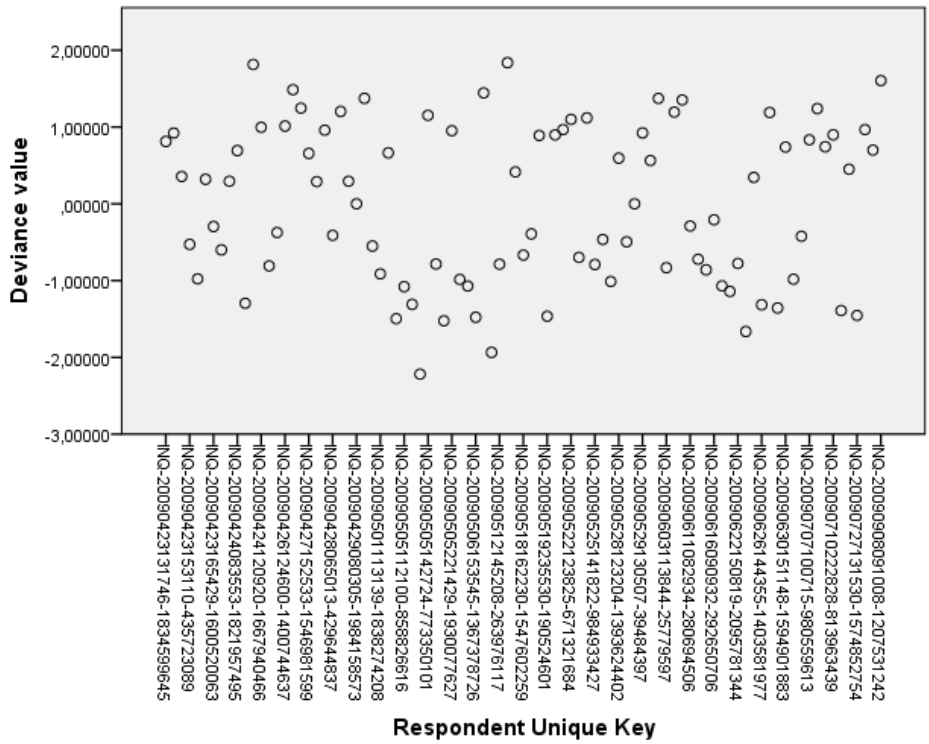


Figure 3-19 – Leverage values and predicted values

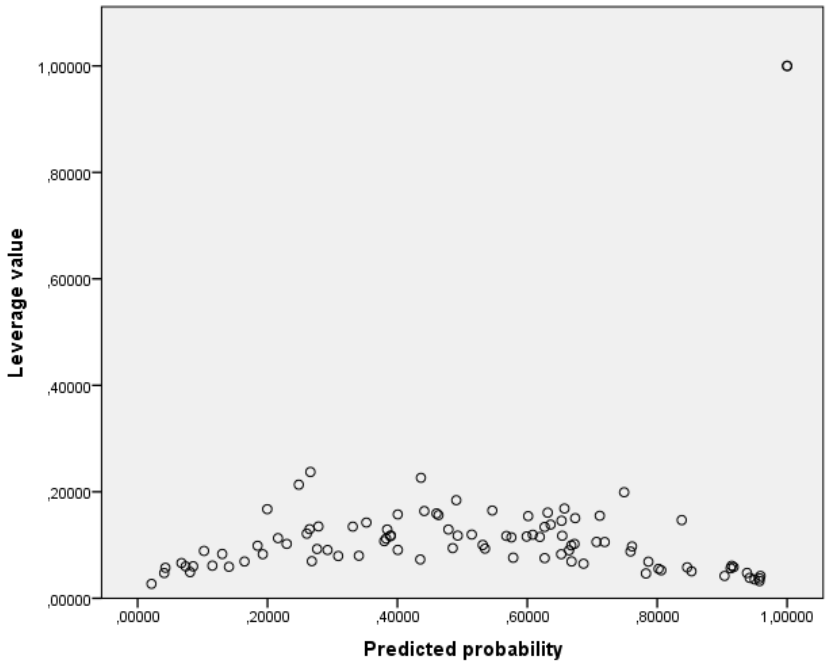
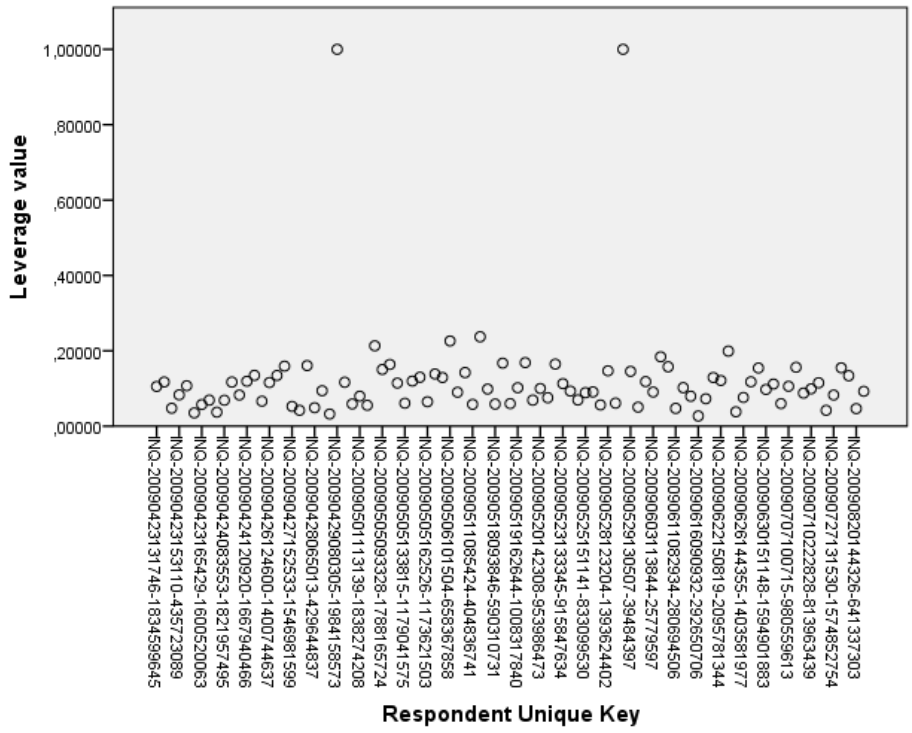


Figure 3-20 – Leverage values, index plot



Looking at the other 3 observations with standardized errors in excess of 2 (absolute value), we see that they are only marginally beyond 2 in value. They are also examples of firms that do not follow the general pattern. Based on the above examination of the most extreme values, there is no reason to exclude the observations simply because they do not fit the pattern. There will always be exceptions to any pattern, and using this as an excuse to exclude items would mean engaging in data-fitting and cause bias. Examining the deviance residuals, the most extreme values belong to the exact same observations that we just examined, and are a result of the observations not fitting the general pattern.

Next, the leverage plots show two observations with extreme leverages. These belong to the Asian and the Mediterranean VoC, and are very high as a result of the large coefficients and standard errors attributed to these two classifications due to the low cell counts. We have already stated that we cannot classify firms belonging to these two VoCs due to the limited number of observations in the working sample. In order to examine whether these two cases could bias the other estimated coefficients, a regression analysis was run excluding these two observations (and the two VoCs), which caused no changes in the other coefficients or standard errors beyond the third decimal level. We therefore conclude that there is no cause for concern, provided we do not make inferences for firms belonging to the Asian or Mediterranean VoCs.

It is worth noting that because all but two of the independent variables included in the analysis were either dichotomous or ordinal in terms of scaling, the problem of potential outliers becomes less pressing than in an analysis employing many continuous scales.

In an approach taken to identify numerical problems such as multicollinearity or quasi-perfect or perfect separation between the independent variables, the standard errors (S.E.) of each independent variable were examined, as well as its estimated coefficient. Excluding the VoCs Asian and Mediterranean, the highest standard error was that of the independent variable *VoC*, with the category *social democratic capitalism* having a standard error of .977. Hosmer *et al.* (2013) suggest that the best indicator of multicollinearity problems are to look for extreme values in either the coefficients or the standard errors, and to compare the size of the standard errors to those of the point estimates. In this case, no indication of multicollinearity or separation was found in the final model presented in figure 3-12.

Finally, the constant in the model must be considered. It is both high in absolute magnitude (highly negative) and highly significant. This suggests that firms that do not have a strong performance, belong to the smallest firm size grouping, are newly started, belong to the market based form of capitalism, do not have in existence a global policy body, locally adapts their products and do not utilize management development techniques will be expected to *not* engage in succession planning. This is in line with the purposes of this study, which aims to identify the drivers of succession planning, and as such our baseline scenario would be an MNC that does not engage in succession planning.

3.4.5 Step-wise analysis

Having determined the full model both theoretically and statistically, the next step is to seek further information on the relationship between the different variables and how they jointly impact the dependent variable. In particular, the way in which the coefficients for firm characteristics change upon the introduction of *internationalization strategy* and *management development* is of interest. This is accomplished through two step-wise binary logistic regression analyses performed in SPSS 20. In the first step, firm characteristics are all included. Then two separate analyses are conducted, in which either internationalization strategy or management development is included. Finally the full model is presented. Figure 3-21 presents the step-wise analyses along with the 2LL statistic for each step. Note that the working samples for the two analyses are somewhat different, due to a different number of missing entries for the different variables.

Figure 3-21 – Step-wise analyses

	Firm characteristrics; int. strategy				Firm characteristics; man. dev.			
	1		2		1		2	
Variable	**B**	**P-val**	**B**	**P-val**	**B**	**P-val**	**B**	**P-val**
Performance	.642	.018	.598	.038	.581	.022	.569	0.36
Firm size (60,000+)	1.672	.007	1.432	.028	1.420	.017	1.039	.108
Firm age	-.007	.320	-.012	.105	-.008	.241	-.017	.032
VoC								
Social democ.	.871	.246	.944	.237	1.065	.150	1.134	.159
Asian	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Continental E.	.314	.635	.346	.692	.609	.337	.703	.297
Mediterranean	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Internationalization s.								
GPB			1.161	.031				
Prod. Stand.			1.279	.032				
Management Dev.							.843	.002
Constant	-3.164	.008	-4.522	.001	-2.983	.009	-4.631	.001
Δ2LL *	15.536	.030	23.766	.005	14.139	.049	25.193	.001
Hosmer-Lemeshow	8.085	.425	14.541	.069	4.559	.804	3.204	.921
Nagelkerke R^2	.201		.295		.179		.302	

* Change as compared to a model with only the intercept.

There are some clear changes in both magnitude and significance for the firm characteristics when either internationalization strategy or management development are introduced as independent variables. These effects will be discussed in-depth in section 4 below.

To sum up the analysis, the full binary logistic regression analysis is reported in figure 3-22, along with the log likelihood test statistic as compared to a model with only the intercept, the Hosmer-Lemeshow test statistic and the Nagelkerke R^2.

Figure 3-22 – Final model

Variable	B	S.E.	P-val	Odds ratio	T.S.	P-val
Performance	.653*	.310	.035	1.922		
Firm size (60,000+)	1.299*	.764	.089	3.665		
Firm age	-.020**	.009	.024	.980		
VoC						
Social democ.	1.285	.977	.189	3.614		
Asian	N/A	N/A	N/A	N/A		
Continental E.	.533	.799	.505	1.705		
Mediterranean	N/A	N/A	N/A	N/A		
Internationalization s.						
GPB	.838	.624	.179	2.311		
Prod. Stand.	1.222*	.644	.058	3.392		
Management Dev.	.659**	.314	.036	1.932		
Constant	-5.943***	1.708	.001	.003		
Δ2LL					30.899 (10 d.f.)	.001
Hosmer-Lemeshow					4.105 (8 d.f.)	.848
Nagelkerke R^2					.384	

*** Significant at the .01-level

** Significant at the .05-level

* Significant at the .10-level

4. Discussion

The final model presented in figure 3-22 shows that the firm characteristics variables performance, firm size and firm age are significantly correlated with whether or not a firm engages in succession planning, while there is no evidence of a country of origin effect. Sector was omitted earlier, having not been found to add anything to the analysis. In terms of internationalization strategy, some evidence is found of an effect through product standardization, but not for the existence of a global policy body. Lastly, management development has a significant effect on whether or not an MNC operating in Denmark engages in succession planning or not. These findings will be discussed in detail below, beginning with the firm characteristics and following with internationalization strategy and management development.

4.1 Firm characteristics

Performance is found to be a significant predictor, at the .05 alpha-level, of whether or not a firm engages in succession planning. This is in accordance with previous studies in the field (Shen & Cannella, 2003; Helmich, 1974; Guthrie & Datta, 1998), although the unit of measurement was different in this study. We see that firms that have a strong performance in terms of turnover, market share and profit generation relative to their competitors are more likely to engage in succession planning. The odds ratio of 1.92 is harder to interpret, showing that for each unit-increase in the performance-scale, the MNC becomes almost twice as likely to engage in succession planning. The magnitude of the odds ratio should be interpreted with caution, because the effect at different levels of the scale might be different, and because the scale may suffer from respondent-induced bias. Looking at the correlation matrix (figure 3-9), we see that performance is in particular correlated (albeit rather weakly) with firm size, firm age and management development. This could be interpreted in the sense that larger and older firms tend to have stronger performance, and that firms with a strong performance invest in management development. However, the interactions could also work in the other directions, with strong performance leading to growth and longevity, or management development being an antecedent to strong performance. These interactions are, however, beyond the scope of this study. More interestingly in regards to succession planning is that performance holds a significant effect in the final model, but not in the univariable analysis; this leads us to believe that omitting performance from any analysis examining succession planning is a serious source of omitted variable bias, and could help future researchers in correctly specifying their models. In particular, neglecting to include performance could overstate the effects of firm age and firm size.

Firms with a strong performance would be expected to be relatively more focused on maintaining their momentum, including minimizing risks through time-consuming and disruptive succession events. One way to minimize such risks is through the use of succession planning, creating a strategic plan for the eventuality of incapacitation or exit in the senior management group. This might be the main driver for the positive correlation between performance and succession planning.

Firm size, measured dichotomously at the cut-off point of firm sizes below or above 30,000 employees, shows a weakly significant effect at the .10 alpha-level. As described in section 3.4, firm size only exhibited a significant or close to significant effect for firms with a size above 30,000 employees, when measured in the univariable analyses and the restricted models. No significant relation was found for firms in the lower firm-size groupings in any of the analyses. In terms of magnitude, the two larger groupings (30,000-59,999 and 60,000+ employees) exhibited similar but not identical values, with the 60,000+ grouping having a somewhat lower magnitude compared to the 30,000-59,999 grouping. This is an interesting distinction, but one that was unfortunately not statistically significant, and it is hard to draw decisive inferences based on it. As mentioned above, the firm size effect was moderated by performance in the full model. It also holds a somewhat close correlation (~.25) with the variables "existence of a global policy body" and "management development", indicating that the inclusion of firm size in the analysis is important. The limited significance of the firm size effect may be attributed to the limited working sample size, given that previous studies by McDonnell *et al.* (2010), Guthrie and Datta (1998) and Dalton and Kesner (1983) all found significant firm size effects. However, looking at the groupings, the study by McDonnell *et al.* (*ibid*) found the opposite magnitude-effects in terms of the two largest groupings, with the 60,000+ group having the highest magnitude. This divergence might be a feature of the sample, as it is present in both the univariable analysis and all of the restricted models, as well as the final model. In terms of causality, this author agrees with the view set forth by Tregaskis *et al.* (2001), that the effect of firm size primarily works through an increased focus on the development of human resources within MNCs as they grow.

Large firms enjoy a relatively larger pool of high potentials than smaller firms, and as such the benefits given by a succession plan are greater for large firms. Thus we could view the interaction through a cost-benefit lens, in which the cost increases less than the benefit with firm size. It could also be related to the broader HR strategy, where the promotion of internal talents could facilitate higher retention rates and improve the reputation of the organization in terms of career opportunities. Furthermore, it could lead talented mid-level managers from other organizations with less developed career management practices to seek to enter the organization, providing a beneficial effect in several layers of the organization and reducing recruitment costs.

Firm age is interesting in that it is found to be significant at the .05 alpha-level in the final model, as well as all of the restricted models in which it is included. However, when examining the univariable analysis, it is far from having a significant effect. This suggests that firm age captures an effect that can easily be misattributed to other variables, in particular performance, product standardization and management development, which it is correlated with at levels between 0.20 and 0.31. This might help explain the lack of significant findings in previous studies (e.g. Guthrie & Datta, 1998). The odds ratio associated with firm age is very close to unity in both the restricted and final analyses. This means that the effect of age is not very large except for firms that have existed for a long time. To illustrate, we expect to see the odds ratio for a firm engaging in succession planning drop by approximately 2% for each year it has been in operation. It is interesting to note that the odds ratio associated with the firm age effect is below unity, meaning that all else equal, firms become less likely to engage in succession planning as they mature. This is in disaccord with the underlying theory, which suggests that the firm should be more likely to engage in succession planning as it grows older, because it experiences succession events or they draw closer due to the aging of senior management. One possible explanation for this finding might be that younger firms require a succession plan in order to attract the bright heads that might otherwise be attracted to more established businesses, providing a clear career path for high potential mid-level managers to follow. Another explanation could be that older firms generally prefer to hire outsiders as opposed to promoting insiders, which would render succession plans less relevant. Unfortunately, neither the data nor the analysis provides us with any clues as to why this effect works in the opposite direction of the suggested theory.

Country of origin, as measured by the VoC classifications, failed to provide any significant correlation with succession planning in any of the restricted or full models. Moreover, the correlations with succession planning and the other independent variables were all below the 0.1 threshold. Nevertheless, removing the VoCs from the analysis significantly affected the magnitudes of other independent variables, and as such the VoC variables can be seen to provide a moderating effect. In analyzing country of origin, this paper utilized the extended VoC approach set forth by Amable (2003) hoping that the use of this approach could shed further light on succession planning than the geographical or traditional VoC approach employed in previous studies. Unfortunately, no significant findings could be established. Minbaeva and Navrbjerg (2011) examined the same sample for country of origin effects, utilizing the traditional, dichotomous VoC approach, and they were also unable to find any significant effects. Therefore, there is reason to believe that country of origin might be, at most, mildly correlated to succession planning, but that succession planning is in the sphere of what can be termed the international (global) context (Farndale & Pauwe, 2007) and as such the country of origin effects are not particularly strong, whereas the MNC's culture and strategy may be more important factors. Indeed, we find that the firm's internationalization strategy and affinity for management development are far more relevant predictors of firm

behavior in terms of succession planning. As Farndale and Pauwe (2007) noted, it might be that the home-country of an MNC has an effect only insofar as it has an impact on the HRM activities adopted by the firm, through the mechanism of the HRM strategy. Thus the country-of-origin should be seen merely as a contributing factor in the development of an HRM strategy, rather than as an independent variable affecting each HRM practice. Rather than focusing on the country of origin, the effects of the culture, norms and laws of the host-country on the implementation of HRM practices could be the dominant country effect at play when discussing succession planning and other HRM practices. Through the synthesis of the MNC's HRM strategy and the host country's norms and laws, a unique approach is born for each country in which the MNC operates. This might explain why the management development index is a far more significant variable in categorizing which MNCs engage in succession planning.

Country of origin might, on the other hand, have an impact on the *type* of succession plan the organization implements. Whether the organization selects a range of potential candidates for succession or a *crown heir* (for an in-depth discussion of different approaches to succession planning, see: Friedman & Olk, 1995) could be dependent on the culture for competition in the country-of-origin. This is a topic that should be further explored in future studies.

Sector was not found to be significant in the univariable analysis, nor in any of the restricted models. Its exclusion from the analysis had no significant impact on the log-likelihood test statistic, and its correlations with the other independent variables were all very low, excepting firm age. There is thus no evidence to support a sector-effect when comparing manufacturing and services firms. However, if one were to utilize more advanced industry analysis categorizations there might be significant effects. For instance McDonnell *et al.* (2010) found that high-tech manufacturing firms were less likely to engage in succession planning. Nevertheless, the effect presented is only weakly significant (.10 alpha level) and only significant for a few sectors. Sector cannot be said to be an important predictor for whether or not a firm engages in succession planning. However, as with country of origin, there might be an effect of sector upon the *type* of succession plan implemented by the organization. Sectors characterized by high competitiveness within the organizations, such as professional services, might see more use of succession plans determining a range of potential candidates, whereas more traditional manufacturing sectors might opt for the *crown heir* approach.

4.2 Internationalization strategy

We now turn to our hypothesized relationships between the firm's internationalization strategy, as measured by the use of global coordination of HR activities (existence of a global

policy body) and the standardization of products across regions or globally. An important goal in this paper is to examine the effects of the firm's internationalization strategy upon whether or not a firm engages in succession planning.

Contrary to previous studies (e.g. McDonnell et al, 2010; Minbaeva & Navrbjerg, 2011) the existence of a *global HR policy body* is not found to significantly explain whether or not a firm engages in succession planning. This is particularly interesting because the existence of a global policy body is significant at the .05 alpha level in the univariable analysis, and it also holds a relatively high (.233) correlation with succession planning in the correlation matrix. However, the correlation matrix reveals an interesting relationship in which the highest among all of the inter-variable correlations is in fact between the existence of a global policy body and the management development index (.482). This strongly suggests that much of the effect attributed to the existence of a global policy body in previous studies may in fact be better explained by looking at the firm's use of management development techniques. This becomes increasingly apparent as we look at the step-wise regression presented in figure 3-11, where the existence of a global policy body becomes significant at the .05 level in the model excluding management development. In sum, we fail to reject the null-hypothesis of 1a.

Although hypothesis 1a is not supported, establishing a global policy body for HR management across the organization may be beneficial to the firm in terms of promoting internal recruitment to senior executive positions. Having a global approach to HR management could open more opportunities to each potential candidate and lead to better matching between position and talent within and across subsidiaries in the MNC. Such an approach may be a way, in some firms, to mitigate the self-serving effects of subsidiary managers retaining internal talent rather than recommending them to headquarters, and as a result the top management could be allowed a wider range of successor candidates. In other cases, where the leadership of the MNC is dominated by managers from the home-country, it could give subsidiaries increased leverage in terms of promoting diversity among senior executives and could help lessen group-think behavior. Mellahi & Collings (2010) provided a compelling discourse on how such mechanisms of self-serving behavior in either the subsidiary or headquarters may severely disrupt or limit the success of an MNC. Managers were often seen to primarily focus on their own direct benefits, rather than the impact on the organization as a whole, and thus high potentials that could have been beneficial at a higher hierarchical level were retained in the subsidiary instead.

With the global economic shift towards Asia, many MNCs based in the western hemisphere may be at a disadvantage in terms of cultural distance and may be in need of more talented managers with a different cultural background. Implementing a global policy body may be one of the easiest, or at least fastest, ways of speeding up such integration. Indeed, such a global policy body is likely to have an impact beyond succession planning, for instance in

aligning HR systems for compensation or development. This would explain the high inter-correlation between the existence of a global policy body and management development techniques.

Looking at *product standardization*, firms with a standardized product portfolio are seen to be significantly more likely to engage in succession planning than firms which do not, with an odds ratio of 3.4. The finding is robust, being significant in both the univariable analysis and all but one of the restricted models. We can therefore reject the null hypothesis of hypothesis 1b. In terms of correlations with the other independent variables, we see that product standardization is in particular related to firm age and management development.

Those firms with products or services that are standardized at a regional or global level are more than three times more likely to engage in succession planning than those firms that adapt their products to the local market. As mentioned in the literature review, the research stream is divided in its findings on product standardization, with studies by Helmich (1974) and Guthrie & Datta (1998) both failing to find a significant correlation. Meanwhile, McDonnell et al (2010) found a similar effect to that established in this paper, in which product standardization is significantly correlated with the use of succession planning. Unfortunately, none of the studies examined provide a strong theoretical foundation for the effect. One explanation might be that firms with a standardized product portfolio are relatively more dependent on senior managers with a strong understanding of the production system, which can be more easily attained by longevity in the organization, something that would support a succession plan approach. Another explanation could be that these firms are more focused on standardization in a strategic area such as production would also focus on standardization at the senior management level. Such thinking bears resemblance to the distinction between a cost leader approach (standardization) and a differentiation approach (fragmentation) that has been utilized in strategy research. Thinking along these lines, we could expect cost leaders to attempt standardization along as many facets of the organization as possible, including both products and senior management, whereas a differentiation strategy would reflect an organization that takes an independent approach to each aspect of the organization. However, further research is clearly required in order to provide a more robust explanation for how this correlation manifests itself in practice.

The correlation between product standardization and the existence of a global policy body is slightly negative, which has implications for the proponents of a linkage between these two aspects of internationalization: production and HRM. In this sample, there is little evidence of a linkage between the internationalization strategy of production and that of HRM, which is an implicit criticism of the theoretical framework employed in this study, in which the two were grouped together. In fact, it seems that while some firms are very integrated in

production across borders, their HRM structure is fragmented, and vice versa. Future studies should explore this relationship further.

While internationalization strategy has an effect on succession planning, we must be careful in extrapolating this finding to other locations that differ significantly from the Danish-context. Denmark represents a relatively stable and mature business environment, and is in that regard relatively similar to most MNC's country of origin. It might very well be that such centralized or standardized approaches would cause more harm than good in countries characterized by uncertainty and a highly dynamic business environment, in which local responsiveness becomes much more important. Such thinking is supported by Smale (2008) who found that centralization was not used extensively by Finnish MNCs operating in China, noting in particular the complexities of operating in China and the widely different workforce characteristics between the two countries.

4.3 Management development

Management development is found to be significant at the .05-level and of a substantial magnitude with an odds ratio of close to 2. Management development is also the independent variable with the highest correlation with succession planning in the correlation matrix, and holds relatively high correlations with other independent variables such as performance, size, age, product standardization, and, as mentioned above, the existence of a global policy body. As described in the discussion on the existence of a global policy body, the use of management development techniques (as measured by the management development index) may be seen as a more important driver of succession planning than the existence of a global policy body, but it has largely been neglected in previous studies of succession planning. The linkage between the existence of a global policy body and the use of management development techniques is clearly seen when examining the step-wise regression models in which the two are excluded from the final model, and each grows in magnitude and reaches substantially higher significance levels when the other variable is excluded. This indicates quite clearly that in excluding management development techniques from any analysis focusing on succession planning, the researcher is generating a strong omitted variable bias that may artificially inflate other variables and provide misleading inferences. Another way to look at this might be to consider if the use of management development techniques such as expatriation creates a need for greater coordination within the organization, leading to the creation of global policy bodies aiming to synchronize such activities. In this case, management development must be considered a more direct explanatory variable than the existence of a global policy body. In other words, the existence of the global policy body can be seen as contingent on the use of management development techniques. However, there is also the possibility that there is another,

unknown factor driving both the use of management development techniques and the existence of global policy bodies. This could be something akin to the *internationalization strategy* that this paper attempted to measure, only with regards to management development instead. Perhaps an operationalized variable measuring the HR development strategy would yield further explanatory power. However, there is a lack of such a theoretical framework in the research stream. Returning to hypothesis 2, we reject the null hypothesis that the use of management development techniques do not affect succession planning.

Management development should, in this author's eyes, be seen as a strong antecedent to succession planning, because firms that wish to rely on their high potentials in time of succession will need to prepare them for future challenges and ensure that they possess the skills needed in the time after the succession event. This is in line with the argument set forth by Hall (1986) where he argued that firms must develop their internal talent in order for succession planning to be useful. Indeed, the main question in regards to the linkage between management development and succession planning is whether or not it should be seen as an independent variable explaining succession planning, or as an integral part of the succession plan itself. Theoretically, both may be viable approaches, depending on the framework employed. Empirically, however, we see that the correlation between management development techniques and succession planning is not high enough to warrant such an integrated view of the two. Instead, management development captures much of the variation attributed to internationalization strategy (e.g. existence of a global policy body) or firm characteristics (e.g. country of origin) in studies where no measure of management development is included. This is an important finding, because it questions the validity of previous findings on the importance of global policy bodies and geographic origin.

Management development remains an important strategic tool for businesses, which can be seen from its high correlations with firm characteristics and internationalization strategy. There can be no doubt that a firm engaging in succession planning will maximize its potential if management development techniques are also used extensively. Even so, investing in management development may not be strategically viable for all firms; those suffering from poor performance over time may be better off recruiting outsiders to the senior management team rather than developing internal systems within an organization that has failed to prove successful. In such cases, the will of an outsider to radically change the strategy and operations may be worth more than the tacit knowledge brought to the table by a highly trained and developed insider.

4.4 Limitations

The most obvious limitation of this study is the use of a proxy variable for performance. In contrast to previous studies on the topic, performance was not found to have a significant effect upon whether or not a firm engages in succession planning. This might be because no such relation exists in the population of study (MNCs operating in Denmark), or because the proxy variable did not correlate closely enough with the variable being measured (performance in terms of profit generation). One way to view this would be that previous studies on the relationship between succession planning and performance neglected to include other explanatory variables such as firm size, global policy bodies or product standardization, and that the significance of their findings may be a result of wrongly attributing the effects of omitted variables to performance. A more plausible explanation, however, is that the respondents of the survey questionnaire were consciously or unconsciously biased in their responses and that this lead to a lack of correlation with the key variable in question: performance. Future studies should venture to collect data on both the sample firms and the industries in which they operate so that supernormal returns on assets or equity may be used as an explanatory variable.

The business environment at the time of data collection (2009) was also somewhat troubled, with Danish firms experiencing the aftermath of the financial crisis and the beginning of what has been dubbed the Eurozone crisis. In their efforts to cut costs during the financial crisis or in light of the emerging Eurozone crisis, MNCs may have been cutting spending on activities with less tangible benefits, such as succession planning. Similarly, new HRM initiatives may not have been initialized, due to a lack of funding. If this is the case, the extent of the use of succession planning might be underestimated in this report and that of McDonnell et al (2010). Future research should aim to collect data when the macroeconomic conditions are not so depressed, and further examine the significance of macroeconomic conditions on firms' prevalence of engaging in succession planning.

A more subtle limitation of this study, that so far has been neglected, is that the use of a questionnaire in obtaining the data may have left the respondents with an unclear definition of succession planning. As was noted in the introduction to this paper, a clear definition of succession planning is lacking in the literature, with several interpretations being used in academic texts. Some researchers only examine succession of CEOs, while others concern themselves with the CEO and his closest executives. Yet others exclude the CEO altogether (as this paper has done) and only look at one or several layers of the senior management. No matter which definition is employed, the lack of a clear, universal understanding of the term *succession planning* can lead each respondent to answer a separate question, according to each of their understandings of the term. For instance, it is quite possible that some respondents to the survey questionnaire answered that the firm engages in succession planning, even if this approach is limited to the CEOs position. If so, the understanding of the

respondents and the definition employed in this paper is at odds and the findings of the analysis cannot be readily accepted.

Another potential problem relating to the dependent variable of the study is that there might be a mismatch between the perception of the survey-respondent and the actual implementation of such a system. Many HRM practices are included in strategic plans and goals, but fail to materialize or are implemented incompletely, and this might lead to a mismatch between the actual outcome and the perception of those in charge of formulating the strategy (the HR director). Such a problem could be relevant for a number of studies in the field, and studies comparing strategic plans and goals with the actual implementations of succession plans would thus be a valuable addition to the stream of research.

Using a questionnaire that is administered only to one person in each organization can lead to what is known as common method variance (CMV), which is caused by single-source bias. Podsakoff *et al.* (2003) defined this as overlapping variability in key variables that is caused by using a single respondent. Such a bias is mainly applicable when measuring perceptions, and less applicable if one is measuring practices or constructs with a clear definition and answer. This study may suffer from CMV in regards to some variables (e.g. succession planning or performance), whereas other variables (e.g. the existence of a global policy body) are less likely to suffer from such bias. Future studies should endeavor to collect data from multiple constituents within organizations, in order to avoid CMV bias.

The top-down view employed in this study can lead to a lack of understanding of the more complex inter-personal relationships within the organization. By focusing on the system rather than the people who make up the system, the study may have missed confounding variables or alternate hypotheses. In particular, it would have been interesting to see the views of those candidates selected for the succession program as well as those who did not make it. What effect did the very inclusion or exclusion from the talent pool have on factors such as motivation or performance?

5. Conclusion

In the preceding analysis, this paper has added to the literature identifying which MNCs choose to engage in succession planning, an important strategic tool within the sphere of IHRM. Based on work by other researchers, in particular McDonnell *et al.* (2010), a holistic model explaining inter-firm variation in the use of succession planning in MNCs was developed. This model may be of use to future researchers in understanding the factors impacting the use of succession plans within MNCs, and in replicating this analysis in different geographic contexts.

One of the more important findings of this paper is support for the linkage between performance and succession planning. This is an effect that has mainly been studied separately, or excluded, from analyses of succession planning. The study concludes that performance has a weakly significant effect upon whether or not an MNC engages in succession planning, and finds that excluding performance from an analysis of succession planning can inflate other explanatory variables such as firm size. Meanwhile, firm size was found to be a significant predictor when comparing firms with more than 30,000 employees worldwide with those that have fewer employees, but when using a wider range of firm size categorizations, we were unable to find replicate the significant predictors. This might be a result of the limited sample size. Among other firm characteristics, firm age was found to be significantly and negatively correlated with succession planning, a finding that defies the predicted direction of the effect. No clear explanation could be found for the causality of the firm age effect.

Utilizing an extended Varieties of Capitalism (Amable, 2003) approach, no significant effects were found. However, no inferences or analyses could be made with regards to MNCs belonging to the Asian or Mediterranean classifications due to low cell counts. Based on the findings, it seems probable that country of origin at most holds a moderating effect, and primarily acts through other variables such as the internationalization strategy and management development techniques. In this way, the country of origin works by influencing the firm's culture, norms and strategy, rather than succession planning directly.

Looking at the hypotheses, we see that internationalization strategy is found to be somewhat relevant in determining which firms engage in succession planning, with hypothesis 1a not being supported but hypothesis 1b being supported. The existence of a global policy body is not significantly related to succession planning, whereas having a standardized product portfolio is significant in explaining inter-firm variation in regards to succession planning. This is particularly interesting because previous studies have found a significant effect of the existence of global policy bodies, which this study does not. We explain this deviance from previous findings by the inclusion of a management development

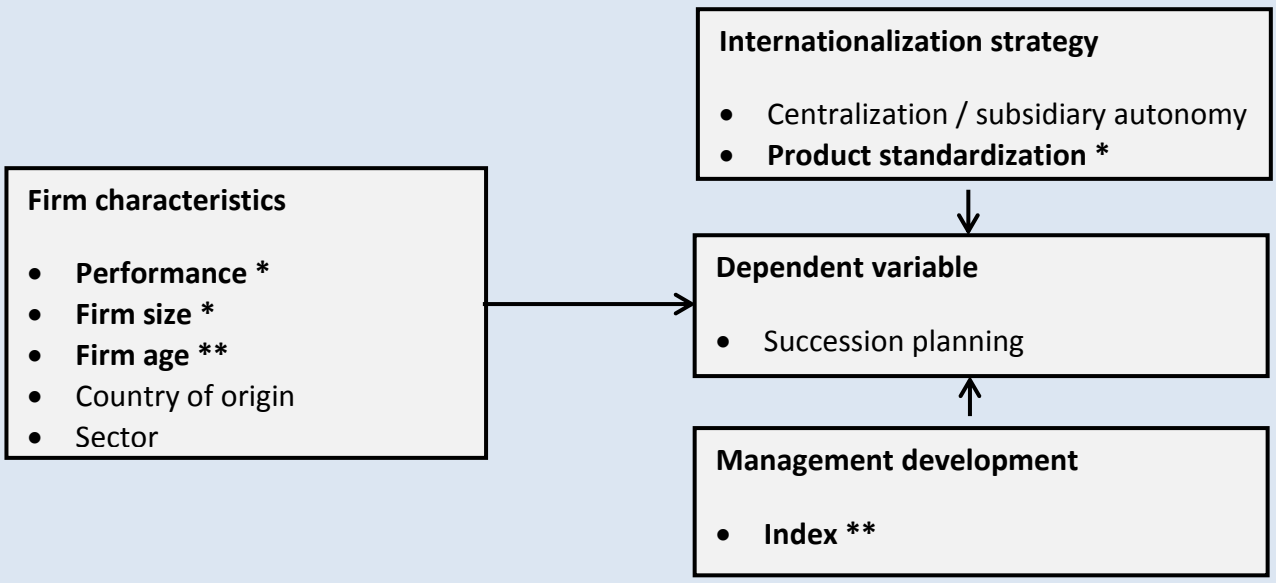
index; upon inclusion of this index, the existence of a global policy body goes from being a highly significant variable to being non-significant. This suggests that previous research may have attributed the management development effect to the existence of a global policy body incorrectly. If so, this study could help drive future research forward by providing a clear understanding of the dynamics driving MNCs to implement succession plans, as well as one of the potential drivers for the existence of global policy bodies. The causal relationship proposed in this study is that the use of management development techniques such as expatriation creates a pressure for greater coordination within the organization, leading to the creation of global policy bodies. This is supported by the high correlation between the two variables, although the relationship should be tested further.

Looking at product standardization, this study finds support for a significant correlation between succession planning and product standardization, but fails to provide a compelling theoretical foundation for its effects. The dynamic suggested by previous researchers has largely been that firms that standardize their products would also be more likely to standardize HRM practices, but this does not fit with the relatively low correlations with variables such as the existence of a global policy body or management development techniques. Instead, we suggest that the correlation could be understood by relating product standardization to either a cost leader or differentiation strategy, in which the MNCs following a cost leader strategy will seek to standardize at multiple levels of the organization, including succession planning. In other words, a linkage between the product strategy and choice of senior management successors might exist.

The study adds to the long list of research papers that emphasize the effects of training and development of personnel within the organization, in that the explanatory variable measuring management development techniques is found to be both significant and of a high magnitude. All else equal, MNCs that widely utilize management development techniques such as formal training or expatriation are much more likely to engage in succession planning than MNCs that utilize these tools to a lesser extent. This is related to the overall policy within the MNC in regards to learning and development, especially of high potentials. This is an important finding because many traditional studies on succession planning have not accounted for management development techniques, and it is shown that this can lead to the overestimation of the effect of the existence of a global policy body within the organization. A clear recommendation is made to include a measurement of management development in future studies of succession planning.

In order to sum up the findings of this study, the succession planning model presented in figure 2-7 is revisited, with those variables for which a significant effect was found presented in bold.

Figure 5-1 – Succession planning model revisited



*** Significant at the .01-level

** Significant at the .05-level

* Significant at the .10-level

5.1 Implications for management

Leaving the theoretical lens aside and instead taking a pragmatic look at the study, some MNCs appear to be more aligned with a succession plan approach than others. For instance, a firm with poor performance might generally be better off recruiting outsiders for senior executive positions rather than insiders, in an attempt to change strategic or operational direction. Similarly, large MNCs may have more use of succession plans than smaller firms, which may not be large enough to warrant the use of a succession plan, or which may not have enough high potential candidates within the organization for it to be worth the cost. Therefore, the first recommendation for managers is to examine whether their organization's characteristics are aligned with those of the typical MNC utilizing succession plans, in particular with in regards to performance and size.

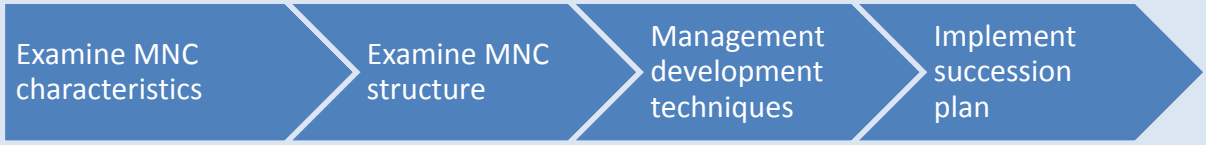
If there is a will to implement a succession plan, and the organization's characteristics are not the primary inhibitors of implementation, the senior management could consider further use of management development techniques such as expatriation, training or qualifications programs in order to both improve the pool of high potentials, and boost the skills of the

high potentials already identified. Such an effect could be amplified through the creation of a global policy body, aiming to harmonize practices (in particular management development techniques) across the different subsidiaries and divisions within the MNC, although this should only be seen as a supporting activity to the management development techniques.

Examining the MNC's strategic approach could also help determine whether or not it is structured in a way that facilitates succession planning. A cost-leader strategy with a high degree of product standardization is generally seen to be well aligned with succession planning, likely because the organization is set up with centralized control. The opposite holds for a highly diversified MNC, where each subsidiary or division manager holds more power and is more likely to have divergent approaches to management and development of the business. In other words, management must examine whether the structure of the MNC is aligned with the structure most commonly seen in firms utilizing succession planning.

The recommendations to MNCs' senior management in approaching the implementation of succession plans are presented in a step-wise model below. Hopefully this model can help facilitate the development of succession plans in MNCs and as a result ensure both continued high performance of the firm and protect shareholder wealth.

Figure 5-2 – Implementing a succession plan



5.2 Future research

The arguably most important finding of this paper is the close correlation that exists between succession planning and the development of high potentials within the organization. The finding is both robust and statistically significant, and moderates the effect of the existence of global policy bodies found in previous studies to a large degree. Future research should attempt to replicate this study with different samples and host countries, seeking to provide a theoretical foundation upon which this finding can be generalized.

The existence of a significant country of origin effect is not supported by this study, which utilized the extended VoC approach set forth by Amable (2003). However, due to the low cell counts in the cross-tabulations for MNCs classified as belonging to the Asian or

Mediterranean VoC, no conclusions can be drawn with regards to them or the utility of the extended VoC approach. This author strongly believes that the extended VoC is useful for analyzing HRM practices because it accounts for more facets of the country of origin than the original VoC approach. Future research should attempt to apply the framework with a larger sample containing sufficient observations from both the Asian and the Mediterranean VoCs.

This paper found a significant correlation between product standardization and succession planning, similar to that found by McDonnel *et al.* (2010). However, no clear theory of causality has been presented for this linkage, and the underlying mechanism remains opaque. The theory that firms with a standardized product portfolio will also be more likely to centralize HRM policies is not supported by the failure to accept hypothesis 1a, and the negative inter-correlation between product standardization and the existence of a global HR policy body. It might be that the correlation merely represents some other, underlying variable that is not included in the model, similar to what has been argued in this paper in regards to management development and the existence of a global policy body. Exploratory research, for instance through the use of case analyses, should seek to explain this linkage or find other, underlying variables driving both succession planning and product standardization.

Firm age showed a significant effect in the final model, although it was not significant in a univariable analysis with succession planning, suggesting that it has a moderating effect on other variables in the analysis. Moreover, the effect of firm age did not behave as expected, with firms instead becoming less likely to engage in succession planning as they age. Further research is required to determine whether this result holds in other contexts, and more importantly, why and how this effect manifests itself. Additionally, future research should account for different methods of measuring age. This study adopted an approach in which the age of the operations in Denmark, the host country, was measured, but this should be compared with other measures, such as the age of the MNC as a whole.

Lastly, the overall model should be tested for similar faults to the ones that were identified in determining it, such as omitted variables. The model was only tested with a sample of MNCs operating in Denmark, and other host-country contexts may present different characteristics and challenge the model. This should be explored, and if necessary the model should be adapted.

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Appendix

A1 – Measures

Performance: item statistics and inter-item correlation matrix

Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
,850	,854	3

Item Statistics

	Mean	Std. Deviation	N
Profit generation	3,57	1,148	115
Turnover	3,63	,959	115
Market share	3,64	,984	115

Inter-Item Correlation Matrix

	Profit generation	Turnover	Market share
Profit generation	1,000	,730	,587
Turnover	,730	1,000	,666
Market share	,587	,666	1,000

Item-Total Statistics

	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Squared Multiple Correlation	Cronbach's Alpha if Item Deleted
Profit generation	7,27	3,146	,721	,552	,799
Turnover	7,22	3,610	,786	,620	,734
Market share	7,20	3,846	,669	,465	,836

Management development: item statistics and inter-item correlation matrix.

Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
,848	,846	5

Item Statistics

	Mean	Std. Deviation	N
Short term International assignments 12 months or less	2,23	1,179	100
Long term international assignments more than 12 months	2,35	1,258	100
Formal global management training	2,72	1,457	100
Assessment of performance against a set of global management competencies	2,68	1,563	100
Qualifications programme (e.g. MBA, professional qualifications)	2,51	1,115	100

Inter-Item Correlation Matrix

	Short term International assignments 12 months or less	Long term international assignments more than 12 months	Formal global management training	Assessment of performance against a set of global management competencies	Qualifications programme (e.g. MBA, professional qualifications)
Short term International assignments 12 months or less	1,000	,687	,408	,577	,332
Long term international assignments more than 12 months	,687	1,000	,500	,669	,368
Formal global management training	,408	,500	1,000	,692	,443
Assessment of performance against a set of global management competencies	,577	,669	,692	1,000	,564
Qualifications programme (e.g. MBA, professional qualifications)	,332	,368	,443	,564	1,000

Item-Total Statistics

	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Squared Multiple Correlation	Cronbach's Alpha if Item Deleted
Short term International assignments 12 months or less	10,26	19,447	,620	,498	,827
Long term international assignments more than 12 months	10,14	18,162	,703	,586	,805
Formal global management training	9,77	17,330	,645	,486	,821
Assessment of performance against a set of global management competencies	9,81	14,964	,817	,677	,768
Qualifications programme (e.g. MBA, professional qualifications)	9,98	20,727	,524	,324	,848

A2 – Cross-tabulations

Cross-tabulation: firm size

Succession planning * Firm size

Count

		Firm size 4 groups				Total
		100-4,999 employees	5,000-29,999 employees	30,000-59,999 employees	60,000+ employees	
Succession planning	No	29	15	4	10	58
	Yes	14	15	10	15	54
Total		43	30	14	25	112

Cross-tabulation: VoC

Succession planning * Variety of capitalism

Count

		Variety of capitalism					Total
		Market based capitalism	Social democratic capitalism	Asian capitalism	Continental European capitalism	Mediterranean capitalism	
Succession planning	No	13	25	1	16	0	55
	Yes	11	20	1	18	1	51
Total		24	45	2	34	1	106

Cross-tabulation: Sector

Succession planning * Sector

Count

		Sector		Total
		Manufacturing	Services	
Succession planning	No	28	30	58
	Yes	21	33	54
Total		49	63	112

Cross-tabulation: Global policy body

Succession planning * Existence of global policy body

Count

		Existence of global policy body		Total
		,00	1,00	
Succession planning	No	24	33	57
	Yes	12	42	54
Total		36	75	111

Cross-tabulation: Product standardization

Succession planning * Product standardization

Count

		Product standardization		Total
		Local adaptation	Standardized regionally or globally	
Succession planning	No	17	36	53
	Yes	7	43	50
Total		24	79	103

A3 – Final model regression output [SPSS]

Case Processing Summary

Unweighted Cases[a]		N	Percent
Selected Cases	Included in Analysis	91	76,5
	Missing Cases	28	23,5
	Total	119	100,0
Unselected Cases		0	,0
Total		119	100,0

a. If weight is in effect, see classification table for the total number of cases.

Dependent Variable Encoding

Original Value	Internal Value
No	0
Yes	1

Categorical Variables Codings

		Frequency	Parameter coding			
			(1)	(2)	(3)	(4)
Variety of capitalism	Market based capitalism	16	,000	,000	,000	,000
	Social democratic capitalism	41	1,000	,000	,000	,000
	Asian capitalism	1	,000	1,000	,000	,000
	Continental European capitalism	32	,000	,000	1,000	,000
	Mediterranean capitalism	1	,000	,000	,000	1,000

Classification Table[a,b]

	Observed		Predicted		
			Succession planning binary		Percentage Correct
			No	Yes	
Step 0	Succession planning binary	No	0	44	,0
		Yes	0	47	100,0
	Overall Percentage				51,6

a. Constant is included in the model.

b. The cut value is ,500

Variables in the Equation

		B	S.E.	Wald	df	Sig.	Exp(B)
Step 0	Constant	,066	,210	,099	1	,753	1,068

Variables not in the Equation

			Score	df	Sig.
Step 0	Variables	SP_Performance	3,042	1	,081
		SP_Firm_Size_Binary	4,676	1	,031
		SP_Global_Policy_Body	4,919	1	,027
		SP_Product_Standardization	5,547	1	,019
		SP_Management_Development	11,195	1	,001
		SP_VoC	2,053	4	,726
		SP_VoC(1)	,246	1	,620
		SP_VoC(2)	,947	1	,331
		SP_VoC(3)	,043	1	,836
		SP_VoC(4)	,947	1	,331
		SP_Firm_Age	,410	1	,522
	Overall Statistics		25,912	10	,004

Omnibus Tests of Model Coefficients

		Chi-square	df	Sig.
Step 1	Step	30,899	10	,001
	Block	30,899	10	,001
	Model	30,899	10	,001

Model Summary

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	95,155[a]	,288	,384

a. Estimation terminated at iteration number 20 because maximum iterations has been reached. Final solution cannot be found.

Hosmer and Lemeshow Test

Step	Chi-square	df	Sig.
1	4,105	8	,848

Contingency Table for Hosmer and Lemeshow Test

		Succession planning binary = No		Succession planning binary = Yes		Total
		Observed	Expected	Observed	Expected	
Step 1	1	9	8,370	0	,630	9
	2	7	7,282	2	1,718	9
	3	7	6,373	2	2,627	9
	4	5	5,486	4	3,514	9
	5	3	4,738	6	4,262	9
	6	5	3,770	4	5,230	9
	7	3	3,199	6	5,801	9
	8	3	2,698	6	6,302	9
	9	1	1,621	8	7,379	9
	10	1	,463	9	9,537	10

Classification Table[a]

	Observed		Predicted		
			Succession planning binary		Percentage Correct
			No	Yes	
Step 1	Succession planning binary	No	31	13	70,5
		Yes	13	34	72,3
	Overall Percentage				71,4

a. The cut value is ,500

Variables in the Equation

		B	S.E.	Wald	df	Sig.	Exp(B)
Step 1[a]	SP_Performance	,653	,310	4,451	1	,035	1,922
	SP_Firm_Size_Binary	1,299	,764	2,892	1	,089	3,665
	SP_Global_Policy_Body	,838	,624	1,804	1	,179	2,311
	SP_Product_Standardization	1,222	,644	3,599	1	,058	3,392
	SP_Management_Development	,659	,314	4,397	1	,036	1,932
	SP_VoC			1,926	4	,749	
	SP_VoC(1)	1,285	,977	1,728	1	,189	3,614
	SP_VoC(2)	20,013	40192,969	,000	1	1,000	491501799,826
	SP_VoC(3)	,533	,799	,445	1	,505	1,705
	SP_VoC(4)	23,821	40192,969	,000	1	1,000	22144775150,913
	SP_Firm_Age	-,020	,009	5,087	1	,024	,980
	Constant	-5,943	1,708	12,108	1	,001	,003

a. Variable(s) entered on step 1: SP_Performance, SP_Firm_Size_Binary, SP_Global_Policy_Body, SP_Product_Standardization, SP_Management_Development, SP_VoC, SP_Firm_Age.

A4 – Questionnaire

[Next page]

(Q4) A4. What is your job title?

HR/Personnel Director..... ☐ 1
HR/Personnel Senior Manager/ Manager..... ☐ 2
HR/Personnel Senior Officer..... ☐ 3
HR/Personnel Officer..... ☐ 4
HR/Personnel Executive..... ☐ 5
HR/Personnel Assistant..... ☐ 6
Other (please specify) _____ **(Q04)**..... ☐ 7

A5. For which of the following policy levels do you have any HR responsibilities:
Tick all that apply

(D7_1) Global HR policy..... | | 1
(D7_2) Regional HR policy..... ☐ 2
(D7_3) HR policy in Denmark..... ☐ 3
(D7_4) Other (please specify) _____ **(Q07)**..... | | 4

(Q5) A6. How long have you worked for *[COMPANY NAME]* in Denmark?
Please write number of years.

_____

In the rest of the questionnaire when we ask you questions about [COMPANY NAME] in Denmark, we would like you to think of all operation units in Denmark.

(Q8) A7. In how many foreign countries does the company have operating sites?

1 country..... ☐ 1
2 – 5 countries..... ☐ 2
6 or more countries..... ☐ 3

(Q9) A8. Does [company name] in Denmark have?

1 site..... | 1
2 – 5 sites..... ☐ 2
6 or more sites..... ☐ 3

(Q10) A9. What is the total number of employees worldwide including Denmark by headcount?

Up to 99 employees ..... | 1
100 – 499 employees..... | 2
500 – 999 employees..... | 3
1,000 – 4,999 employees..... | 4
5,000 – 29.999 employees..... | 5
30.000 – 59.999 employees..... | 6
60.000 +..... | 7

A10. What is the total number of employees by headcount in the following geographical regions?

(Q19) Denmark
(Q20) Europe (excluding Denmark)
(Q21) North America
(Q22) Asia-Pacific
(Q23) Rest of the world

Up to 99 employees ..... | 1
100 – 499 employees..... | 2

500 – 999 employees..... | 3
1,000 – 4,999 employees..... | 4
5,000 + employees..... | 5
None ... . | 6
Don't know .... | 7

A11. Please estimate the approximate number of employees in *[COMPANY NAME]* in Denmark in each of the following core functions

Number

(Q13) Research & Development (R&D) ....._____
(Q14) Manufacturing Operations ....._____
(Q15) Sales and Marketing....._____
(Q16) Customer Service ....._____
(Q17) Business Services (finance, IT, payroll, etc)_____
(Q18) Other....._____

(Q11) A12. When was the company first established?
Please write the year

_____

(Q12) A13. What year did it establish its first foreign operation?
Thinking of the first significant investment outside of Denmark– ignoring minor sales presence.

_____

(Q24) A14. How many of the top five management positions in *[COMPANY NAME]* in Denmark are filled by individuals from outside Denmark?

1..... ☐ 1
2..... ☐ 2
3..... ☐ 3
4..... ☐ 4
5..... ☐ 5
None ..... ☐ 6
Don't know ..... ☐ 7

A15. To what degree (percentage) has the following changed in the worldwide company in the last 3 years?
Can be both positive and negative. Only approximate numbers are necessary.

(Q30) Number of employees _____ (%)
(Q31) Sales _____ (%)

(Q32) A16. Approximately what percentage of revenues of *[COMPANY NAME]* comes from sales abroad?

0% ..... | 1
1-25% ..... | 2
26-50% ..... | 3
51-75% ..... | 4
76-100% ..... | 5
Don't know..... | 6

(Q33) A17. Is the worldwide company state or partly state owned?

Yes..... 1 No..... | 2 Don't Know 3

(Q34) A18. Is the worldwide company privately owned or are its shares publicly traded?

Privately owned..... ☐ 1 Publicly traded ..... ☐ 2

(Q25) A19. Which of the following statements best describes [*COMPANY NAME*] in Denmark?
The company produces…

- ☐ 1 A single product or service that accounts for more than 90% of sales
- ☐ 2 A number of products and services but one of these accounts for between 70% and 90% of sales
- ☐ 3 A number of products and services but no single one of these accounts for more than 70% of sales
- ☐ 4 A range of unrelated products and services
- ☐ 5 Don't know

(Q26) A20. Which of the following statements best describes the worldwide operations?
The worldwide company produces…

- ☐ 1 A single product or service that accounts for more than 90% of sales
- ☐ 2 A number of products and services but one of these accounts for between 70% and 90% of sales
- ☐ 3 A number of products and services but no single one of these accounts for more than 70% of sales
- ☐ 4 A range of unrelated products and services
- ☐ 5 Don't know

(Q27) A21. Is the worldwide company's most important product, service or brand (or group of products, services or brands)?

Help: With 'most important' we want you to think of the product, service or brand that generates the most revenue.

Adapted significantly to national markets ..... ☐ 1
Adapted to different regions of the world but standardised within them..... 2
Standardised globally ..... ☐ 3
Don't know..... 4

(Q28) A22. Are any of the components, products and services of [company name] in Denmark produced for operations of the worldwide company based outside Denmark?

Yes – all..... ☐ 1
Yes – some but not all..... ☐ 2
No – none..... ☐ 3
Don't know..... ☐ 4

(Q29) A23. Do other parts of the worldwide company supply components, products or services to [company name] in Denmark?

Yes..... ☐ 1
No..... ☐ 2
Don't know..... ☐ 3

SECTION C. THE HR FUNCTION

(Q37) C1. What percentage of the managers spends the majority of their time on HR matters in *[COMPANY NAME]* in Denmark?

_____ (%)

C2. On which of the following issues is information on the operating units <u>in Denmark</u> monitored by management in a higher organizational level?

Help: By "a higher organizatonal level" we mean e.g. senior management in Denmark, international business HQ, European HQ (in Denmark or elsewhere) or global HQ.

Please tick all that apply

(D38_1) Managerial pay packages ☐ 1
(D38_2) Management career progression ☐ 1
(D38_3) Overall labour costs ☐ 1
(D38_4) Numbers employed (headcount) ☐ 1
(D38_5) Staff turnover ☐ 1
(D38_6) Absenteeism ☐ 1
(D38_7) Labour productivity ☐ 1
(D38_8) Workforce composition by diversity (e.g. gender, ethnicity, disability etc. ☐ 1
(D38_9) Employee attitude and satisfaction ☐ 1
(D38_10) None of these ☐ 1
(D38_11) Don't know ☐ 1
(D38_12) Other (please specify)_____**(Q038)** ☐ 1

C3. On which of the following issues is information on the operating units <u>outside Denmark</u> monitored by management in a higher organizational level?

Help: By "a higher organizatonal level" we mean e.g. senior management in Denmark, international business HQ, European HQ (in Denmark or elsewhere) or global HQ.

Please tick all that apply

(D39_1) Managerial pay packages ☐ 1
(D39_2) Management career progression ☐ 1
(D39_3) Overall labour costs ☐ 1
(D39_4) Numbers employed (headcount) ☐ 1
(D39_5) Staff turnover ☐ 1
(D39_6) Absenteeism ☐ 1
(D39_7) Labour productivity ☐ 1
(D39_8) Workforce composition by diversity (e.g. gender, ethnicity, disability etc. ☐ 1
(D39_9) Employee attitude and satisfaction ☐ 1
(D39_10) None of these ☐ 1
(D39_11) Don't know ☐ 1
(D39_12) Other (please specify)_____**(Q039)** ☐ 1

(Q40) C4. Is there a body within the worldwide company, such as a committee of senior managers, that develops HR policies that apply across countries?

Yes..... ☐ 1 ⇒ Go to C5 No..... ☐ 2 ⇒ Go to C6 Don't know..... ☐ 3 ⇒ Go to C6

E. TRAINING, DEVELOPMENT AND ORGANISATIONAL LEARNING

(Q91) E1. What percentage of the annual pay bill in *[COMPANY NAME]* in Denmark was spent on training and development for all employees over the past 12 months?

0% ..... ☐ 1
Up to 1% ..... ☐ 2
Over 1% and less than 4% ..... ☐ 3
Over 4% ..... ☐ 4
Don't Know..... ☐ 5

(Q92) E2. Thinking of *[COMPANY NAME]* in Denmark is there a formal system of succession planning for senior managers?

Yes in all operations..... ☐ 1 ⇒ Go to E3
Yes in some operations ..... ☐ 2 ⇒ Go to E3
No ..... ☐ 3 ⇒ Go to E4
Don't Know..... ☐ 4 ⇒ Go to E4

(Q93) E3. Is this system also used in other parts of the worldwide company?

Yes in all operations..... ☐ 1
Yes in some operations ..... ☐ 2
No ..... ☐ 3
Don't Know..... ☐ 4

(Q94) E4. Does *[COMPANY NAME]* in Denmark have a management development programme specifically aimed at developing its 'high potentials' or senior management potential?

Yes in all operations..... ☐ 1 ⇒ Go to E5
Yes in some operations ..... ☐ 2 ⇒ Go to E5
No ..... ☐ 3 ⇒ Go to E6
Don't Know..... ☐ 4 ⇒ Go to E6

(Q95) E5. Is this system also used in other parts of the worldwide company?

Yes in all operations..... ☐ 1
Yes in some operations ..... ☐ 2
No ..... ☐ 3
Don't Know..... ☐ 4

E6. How extensively are each of the following techniques used for the development of these managers in *[COMPANY NAME]* in Denmark?

1	*2*	*3*	*4*	*5*
Not used at all	A little use	Some use	Used quite extensively	Used very extensively

	Use codes 1-5	Don't know	NA
(Q96) Short term International assignments (12 months or less)	_____ ..... ☐ 6	.....	☐ 7
(Q97) Long term international assignments (more than 12 months)	_____ . ☐ 6	.....	☐ 7
(Q98) Formal global management training.....	_____ ..... ☐ 6	.....	☐ 7
(Q99) Assessment of performance against a set of global management competencies.....	_____ ..... ☐ 6	.....	☐ 7

(Q100) Qualifications programme (e.g. MBA, professional qualifications) ..... _____ ..... ☐ 6 ..... ☐ 7

(Q101) E7. How many expatriates from the company's foreign operations are currently working on long-term assignments (i.e. more than 12 months) in Denmark? Please include all types of long-term assignments for any purpose.

Type 0 if none.

Help: Expatriates in this question refers to employees from operating companies outside Denmark who are currently working on assignment in Denmark.

Number..... ☐ 2 _____ **(Q0101)** Don't know..... ☐ 1

(Q102) E8. How many expatriates from *[COMPANY NAME]* in Denmark are currently working on long-term (i.e. more than 12 months) assignments overseas? Please include all types of long-term assignments for any purpose.

Type 0 if none.

Help: Expatriates in this question refers to employees of the company's operations in Denmark who are currently on assignment in operations of the worldwide company abroad.

Number..... ☐ 2 _____ **(Q0102)** Don't know..... ☐ 1

E9. To what extent do you agree with each of the following statements for LOG in *[COMPANY NAME]* in Denmark:

	Strongly Disagree	Disagree	Neither agree nor disagree	Agree	Strongly Agree	Don't know
(Q107) On-the-job learning (experience gained on the job) is more valuable than off-the-job classroom training and development	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ 6
(Q108) Investment in training is critical to either developing or retaining key skills in this company	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ 6

E10. To what extent do you agree with each of the following statements for MANAGERS in *[COMPANY NAME]* in Denmark:

	Strongly Disagree	Disagree	Neither agree nor disagree	Agree	Strongly Agree	Don't know
(Q105) Our company favours internal promotion over external management recruitment	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ 6
(Q106) International experience is a key criterion for career progression at senior levels.	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ 6

In this section you will be asked about the mechanisms you use for organisational learning on an international level. By this we mean mechanisms used to create new knowledge involving MANAGERS from different country operations or to transfer knowledge across the international organisation.

(Q103) E11. Thinking of *[COMPANY NAME]* in Denmark is there a formal policy on organisational learning?

Yes in all operations ..... ☐ 1 ⇒ Go to E12
Yes in some operations ..... ☐ 2 ⇒ Go to E12

Section H: Company Performance

This is the final section of the questionnaire.

H1. How would you compare performance of the [not answered] in Denmark over the past three years with that of other competitors in your sector?

	Poor				Outstanding
(Q181) Quality of products/services	1	2	3	4	5
(Q182) Development of new products/services	1	2	3	4	5
(Q183) Profit generation	1	2	3	4	5
(Q184) Turnover	1	2	3	4	5
(Q185) Market share	1	2	3	4	5
(Q186) Ability to recruit essential employees	1	2	3	4	5
(Q187) Ability to retain essential employees	1	2	3	4	5
(Q188) Customer/client satisfaction	1	2	3	4	5
(Q189) Manager-employees relations	1	2	3	4	5
(Q190) General employee relations	1	2	3	4	5

H2. Please rate the following series of statements about the role of the operations outside Denmark within the worldwide company.

1 = strongly disagree
2 = disagree
3 = neither agree nor disagree
4 = agree
5 = strongly agree

(Q195) The operations outside Denmark have international responsibility for one or more products or services on behalf of the worldwide company

1 ..... 2 ..... 3 ..... 4 5

(Q196) Significant expertise in R&D within the worldwide company is generated outside Denmark operations

1 ..... 2 ..... 3 ..... 4 5

(Q197) H3. How important is/are your overseas subsidiary/subsidiaries to the global performance of the parent company?

Not at all important 1
Of little importance 2
Somewhat important 3
Important 4
Very important 5
Don't know 6

(Q198) H4. Has this level of importance changed over the past five years?

Significantly decreased 1
Slightly decreased 2
Stayed about the same 3
Slightly increased 4
Significantly increased 5
Don't know 6