I thank the Canadian Foundation for Governance Research (CFGR), the Institute of Corporate Directors (ICD), and all their members and staff for their financial and non-financial support that made this research possible. I also thank my mentor for the Award, Mr. David Beatty, my supervisor, Professor Paul Beamish, the interviewees who participated in this research, my wife, Rida Elias, and all my colleagues who provided me with feedback and helped improve this research.
Abstract

This paper demonstrates that better governed foreign subsidiaries of multinational enterprises (MNEs) have higher survival likelihood than their less effectively governed counterparts. It also explains, using agency theory and prospect theory, how and why the use of subsidiary-level and parent-level foreign subsidiary governance mechanisms increases subsidiary survival likelihood. We draw upon archival and interview data on the mechanisms that Japanese MNEs use to govern their Canadian subsidiaries and use multi-methods to analyze these data. Implications and future directions are discussed.

Key words: foreign subsidiary governance; agency theory; prospect theory; governance mechanisms; ownership; expatriates; risk; multi method; mixed method; survival; interviews; Canada; Japan.
INTRODUCTION

International corporate governance (ICG) research has grown rapidly in the last few decades (Aguilera & Jackson, 2010). However, most research in this area focuses on comparing and contrasting governance systems across countries or regions (Denis & McConnell, 2003). In contrast, surprisingly limited attention has been given to MNE corporate governance and more specifically the governance of foreign subsidiaries by their multinational parents (Luo, 2005) (for exceptions see Brellochs (2007), Kim, Prescott, & Kim (2005), and Costello (2002)).

MNEs are increasingly dominating the global economy and becoming ever more internationalized. Many foreign subsidiaries, although they may be wholly owned by their MNE parent, are themselves gigantic enterprises. For example, as of December 2012, Toyota Motor, the world’s eighth largest company by revenues on the Fortune Global 500 (Fortune, 2013), had 52 overseas manufacturing companies in 27 countries and regions. It operated huge foreign subsidiaries in Canada, U.S., Latin America, Europe, Russia, China and other countries. Thus shedding more light on MNE corporate governance and particularly on the governance of foreign subsidiaries by their MNE parents is becoming increasingly more needed (Luo, 2005).

Senior consultants from the Entity Governance and Compliance team at PricewaterhouseCoopers observe that “Quite often when you look at corporate governance failings, they’ve occurred at the subsidiary level” (Gibson, Elsdon, & Johnson, 2013). Several MNE international governance practices support Gibson et al.’s observation. These practices suggest that poor foreign subsidiary governance can threaten the survival and worsen the performance of these poorly governed subsidiaries. In turn, it can worsen the performance and,
in extreme cases, ultimately threaten the survival of the multinational parents of these poorly governed foreign subsidiaries.

One very well-known recent example that supports Gibson et al.’s observation is the 2010 foreign subsidiary governance failure that led to BP’s Gulf of Mexico oil disaster and its ramifications on the survival and performance of BP’s US subsidiary and BP corporation as a whole. BP’s Gulf of Mexico oil spill cost BP Exploration & Production Inc., BP’s Texas-based subsidiary responsible for Gulf of Mexico oil exploration and production, the blowout (death) of its Gulf of Mexico Macondo well and the death of 11 of its employees. It also cost BP corporation more than $4.5 billion in fines and penalties, the largest criminal resolution in US history (Goldenberg & Rushe, 2012). Furthermore, it resulted in a downgrade in BP’s credit rating (Logendran, 2010) and a sharp decline in its stock price, a drop of around 50% in its share value in 50 days (Smith, 2011). In addition, on 25 June 2010 BP’s shares reached a low of $26.97 per share costing BP a total loss of $100 billion in market value (Hays & Schnurr, 2010). The popular press is replete with stories of foreign subsidiary governance failures.

There is an abundance of research on corporate governance and international corporate governance (for literature reviews see Daily, Dalton, and Cannella (2003a), Denis (2001), Shleifer and Vishny (1997), Aguilera and Jackson (2010), Denis and McConnell (2003)). Moreover, there is an abundance of research linking corporate governance / international corporate governance and performance (e.g. (Larcker, Richardson, & Tuna, 2007), (Bhagat & Bolton, 2008), (Renders, Gaeremynck, & Sercu, 2010), (Brav, Jiang, Partnoy, & Thomas, 2008), (Kaplan, 1997), (Gompers, Ishii, & Metrick, 2003), (Ho, 2005)). In contrast, there is limited research on MNE-foreign subsidiary governance (Luo, 2005) and there is no research examining
the impact of MNE-foreign subsidiary governance on foreign subsidiary survival and performance. This paper is an initial attempt to fill this gap in the literature.

Here we go beyond studying overall MNE-parent corporate governance structures, such as MNE-parent ownership structures, MNE-parent board structures, and MNE-parent executive compensation structures, to study MNE-foreign subsidiary governance mechanisms and their impact on foreign subsidiary survival. Thus we attempt to answer the following research questions: (1) are better governed foreign subsidiaries more likely to survive than their less effectively governed counterparts and (2) if so, how and why are they more likely to survive.

To answer these questions we draw on agency theory (Berle & Means, 1932; Fama & Jensen, 1983a; Fama & Jensen, 1983b; Jensen & Meckling, 1976) to argue that better governed foreign subsidiaries are more likely to survive than their less effectively governed counterparts. Furthermore, by extending agency theory to an MNE parentsubsidiary governance context we argue that the reason why these better governed subsidiaries are more likely to survive is that the use of better subsidiary governance mechanisms reduces parent (principal) - subsidiary (agent) agency problems and aligns the interests, goals, and outcomes of subsidiaries and their parents.

Moreover, to answer these two questions we follow a multi-method approach. To answer the first question we gather archival data on the ownership, expatriates, and risk orientation mechanisms that Japanese MNEs use to govern their Canadian subsidiaries. We then build a survival model to test our hypotheses and present our quantitative results. To answer the second question we conduct interviews with Canadian subsidiary board members, CEOs, and top management team (TMT) members. We then analyze these interviews and present our qualitative results.
FOREIGN SUBSIDIARY GOVERNANCE AND SURVIVAL

“MNE … governance is the system that not only monitors the relationship[s] between executives and stakeholders (including shareholders) but also directs … [an MNE’s] various globally dispersed businesses and pinpoints the distribution of power, rights and responsibilities among critical participants in the corporate-level [and subsidiary-level] decision-making process that affects worldwide corporate affairs” [italics added] (Luo, 2005). Consequently, foreign subsidiary governance (Brellochs, 2007) refers to the system that directs and monitors the relationships between foreign subsidiary executives and foreign subsidiary stakeholders and identifies the distribution of power, rights, and responsibilities among key participants in the subsidiary-level decision-making process. This paper focuses on the foreign subsidiary governance aspect of MNE governance.

Despite its importance, MNE governance and subsidiary governance research has been almost inexistent before the 2000s (Delios, 2011). And despite calls for papers on MNE governance (e.g. (Luo, 2005), (Rahman, 2011), and (Delios, 2011)) research in these areas grew only slowly since then, perhaps due to limited availability of MNE governance data. What follows is a literature review of the few studies on MNE and subsidiary governance. Lippert and Rahman (1999), in a quantitative empirical study, find that CEO compensation of domestic companies (DCs) is more aligned with equity performance than that of multinational corporations (MNCs) and that DCs and MNCs use corporate governance constructs / mechanisms differently. Kim, Prescott, and Kim (2005), in a conceptual paper, argue that MNE-foreign subsidiary governance must respond to different levels of agency problems related to
varying strategic roles of foreign subsidiaries and that varying governance structures for each foreign subsidiary leads to better overall MNE performance. Kiel, Hendry, and Nicholson (2006), also in a conceptual paper, propose the following four governance frameworks for subsidiary corporations: (1) Direct Control, (2) Dual Reporting, (3) Advisory Board, and (4) Local Board. They then provide recommendations on when would these different models lead to improved overall MNE performance. Brellochs (2007), in a qualitative empirical PhD thesis, finds, based on agency theory’s predictions, that there are three categories of subsidiary governance mechanisms. He argues that the mechanisms in the categories aimed at reducing goal incongruence and managerial discretion are more important than those in the category aimed at decreasing information asymmetry. Furthermore, he finds that a subsidiary’s governance mechanisms are contingent on the subsidiary’s local environment and the MNE group that the subsidiary is part of. Finally, Costello and Costello (2010), in a quantitative empirical study, find that there are three types of subsidiary governance bundles, those that respectively depend on parent-centered governance mechanisms, subsidiary-centered governance mechanisms, and parent- and subsidiary-centered governance mechanisms. They argue that the MNE’s international strategy, its subsidiary’s importance, its subsidiary’s environmental uncertainty, and its subsidiary’s age are factors that help predict what type of subsidiary governance bundle an MNE will use to align the interests of its headquarters with those of a particular subsidiary.

We draw on agency theory following Filatotchev and Wright’s (2011) call for a greater focus on agency theory to understand corporate governance in MNEs. Most of the empirical literature on corporate governance is grounded in agency theory and focuses on associating different corporate governance mechanisms with performance (Filatotchev & Wright, 2011). We extend
agency theory to link different MNE parent-subsidiary governance mechanisms with foreign subsidiary survival, a phenomenon that has been under-researched.

Agency theory attempts to explain agency problems, that is, principal-agent problems (Fama & Jensen, 1983a; Fama & Jensen, 1983b; Jensen & Meckling, 1976). It assumes that principals and agents are self-interested rational utility-maximizers and thus have divergent interests. Therefore to align the agent’s interests with those of the principal it analyzes the optimal contract form and the optimal governance structure (Eisenhardt, 1989). The two most discussed agency problems are moral hazard and adverse selection. Moral hazard arises when the principal cannot observe or monitor the agent’s actions. Adverse selection arises when the principal cannot evaluate whether the agent’s actions are in the principal’s best interests.

We extend agency theory to explain parent-subsidiary governance relationships and their impact on the survival of foreign subsidiaries of parents of MNEs. MNE parent-subsidiary relationships can be considered principal-agent relationships since parents (i.e. principals) delegate decision-making authority and responsibility to foreign subsidiaries (i.e. agents) (Nohria & Ghoshal, 1994). Physical, institutional, cultural, and psychological distances make it even more difficult for MNE parents than for domestic parents to observe and monitor their subsidiaries’ actions, let alone assess whether these actions are in these parents’ best interests (Gong, 2003); thus, exacerbating the adverse selection and moral hazard agency problems even more than in traditional domestic companies.

To better govern their foreign subsidiaries, parents use different foreign subsidiary governance mechanisms. In the following section we explain how headquarters use ownership ratio, expatriate number, and risk orientation to better govern their foreign subsidiaries. We predict that parents with better governed subsidiaries (i.e. subsidiaries with higher parent
ownership percentages, higher expatriate numbers, and parents with moderate risk orientations willing to take more moderate risks than their industry peers) increase the survival likelihood of their foreign subsidiaries.

Ownership (as a Subsidiary Governance Mechanism) and Survival

Connelly, Hoskisson, Tihanyi, and Certo (2010) note that “Firm ownership is an increasingly influential form of corporate governance.” Judge (2011) suggests that ownership plays a pivotal role in corporate governance. And Daily, Dalton, and Rajagopalan (2003b) dedicated a Special Research Forum on Governance through Ownership to further research on ownership as a governance mechanism. Therefore we consider subsidiary ownership as an important subsidiary governance mechanism.

Ownership generally refers to “the right to exclusive use of an asset. The owner of an asset normally has the right to decide what use shall be made of it, and cannot be deprived of it except by law. The state, however, claims the right to regulate the use of many assets, and to tax income derived from them” (Black, 1997). In our MNE context, ownership refers to the MNE parent’s exclusive rights to use its shares (assets) in its foreign subsidiary. Ownership percentage refers to the percentage of foreign subsidiary-shares owned by the MNE parent. Two major ways parents use their ownership in their foreign subsidiaries are as a strategic governance mechanism (Gatignon & Anderson, 1988; Pan, 1996; Xu, Pan, & Beamish, 2004) and a structural governance mechanism.

We argue that, within limits, an MNE-parent (principal) with a higher ownership percentage in a foreign subsidiary (agent) has more incentive and influence to minimize parent-subsidiary agency problems and consequently increase the survival likelihood of its foreign subsidiary.
Classical corporate governance research suggests that concentrated owners, such as institutional investors and large blockholders, have more incentives and influence to better monitor and govern their companies than their minority investor counterparts (Daily et al., 2003b). Analogously, we expect MNE parents with higher ownership concentrations in their foreign subsidiaries to have more incentives and influence to better monitor and govern their subsidiaries than their counterparts with lower ownership concentrations.

We contend that an MNE-parent (principal) with a higher ownership percentage in a foreign subsidiary (agent) typically has more influence on directing and monitoring the purpose, goals, strategies, policies, and actions of the foreign subsidiary. With such influence the parent can restructure the subsidiary’s business activities or ownership or even change its charter (Birkinshaw & Hood, 1998) or influence managerial behavior (Connelly et al., 2010). In the event of restructuring, the parent can pursue financial, governance, operational, or ownership restructuring of the subsidiary. When changing a subsidiary’s charter a parent can alter a subsidiary’s mandate (Roth & Morrison, 1992), responsibilities, business activities, markets served, products manufactured, technologies held, functional areas covered, or any combination thereof (Birkinshaw & Hood, 1998). While attempting to influence managerial behavior a parent can persuade, lobby, or sometimes even force subsidiary managers to follow certain courses of action. For instance, one of the participants who we interviewed for this study was a subsidiary governance senior officer at the headquarters of an MNE. He suggested that, at times, after making some acquisitions, the management of the MNE that he worked at had to ‘politely’ force the management of the acquired subsidiary to follow the acquirer’s policies and procedures.

With more influence to direct and monitor the subsidiary’s mission, goals, strategies, policies, and behaviors, the parent is more likely to align the subsidiary’s interests with the
parent’s interests. A greater alignment of the parent’s and the subsidiary’s interests decreases parentsubsidiary agency problems (Jensen & Meckling, 1976; O’Donnell, 2000). Fama and Jensen (1983b) argue that reducing agency problems significantly contributes to the survival of different organizational forms. Similarly, we argue that minimizing parentsubsidiary agency problems considerably increases the survival likelihood of a subsidiary and ultimately the parent (Jensen, 1983). Thus, a parent with lower parentsubsidiary agency problems would govern a subsidiary that is more likely to survive. Therefore we hypothesize that:

**Hypothesis 1:** Ceteris paribus, foreign subsidiaries with higher home parent ownership percentages have higher survival likelihoods than their counterparts with lower home parent ownership percentages.

**Expatriates (as a Subsidiary Governance Mechanism) and Survival**

We previously defined foreign subsidiary governance as the system that directs and monitors the relationships between headquarters and foreign subsidiaries. We view expatriates as an important foreign subsidiary governance mechanism. MacedoSoares and Schubsky (2010) explicitly view expatriates as an effective foreign subsidiary governance mechanism, whereas most studies see expatriates as a key foreign subsidiary control mechanism (Edström & Galbraith, 1977; Fenwick, De Cieri, & Welch, 1999; Gong, 2003). We consider control as analogous to only the monitoring dimension in our foreign subsidiary governance definition. As a result, we view expatriates as acting as an additional foreign subsidiary alignment mechanism because we consider alignment as analogous to the directing dimension in our definition. So in
this study, we broaden the role of expatriates from just being subsidiary controllers to being subsidiary governors.

Expatriates are employees coming from an MNE’s headquarters and working in a foreign-country subsidiary of that MNE. Expatriate number refers to the number of expatriates in a foreign subsidiary. Expatriates typically function as operational governance mechanisms and social governance mechanisms for their parents (Beamish & Inkpen, 1998; Boyacigiller, 1990; Delios & Bjorkman, 2000).

We argue that, within expatriate availability, cost, and other limits, an MNE-parent (principal) with more expatriates in a foreign subsidiary (agent) has more influence to minimize parent-subsidiary agency problems and consequently increase the survival likelihood of its foreign subsidiary. Headquarter-subsidiary research shows that as subsidiary control increases, headquarters use of expatriates as a parent supervision mechanism increases (O’Donnell, 2000). Therefore, we contend that subsidiaries with more expatriates are expected to be better monitored and governed, thus minimizing parent-subsidiary agency problems and consequently increasing their survival likelihood.

Headquarter-subsidiary relationships are similar to principal-agent relationships (Tan & Mahoney, 2006). However, parent-subsidiary relationships have more pronounced information asymmetry between the parent and the subsidiary than the information asymmetry present between traditional domestic principals and agents. This higher level of information asymmetry arises from the different kinds of distances (physical, institutional, cultural, and psychological, etc. distances) between the headquarters and the subsidiary.

Parent-subsidiary distance and information asymmetry increase moral hazard and adverse selection (Shapiro, 2005). They increase moral hazard because they make it more difficult and
costly for the parent to observe and / or monitor the subsidiary’s actions. They also increase adverse selection because they make it more difficult and costly for the parent to evaluate whether the subsidiary’s actions are in the parent’s best interests (Eisenhardt, 1989).

Expatriates are expected and tend to be committed to the MNE-parent as a whole and therefore are deemed trustworthy parent representatives in ‘distant’ foreign subsidiaries (Gong, 2003). Thus they are considered extended forms of headquarters-subsidiary control (Boyacigiller, 1990) and alignment (Tan & Mahoney, 2006).

Expatriates socially align or direct the parent’s and subsidiary’s interests, goals, actions, and outcomes in a way that is beneficial for both the subsidiary and parent through continually communicating and negotiating strategy and performance between the parent and subsidiary (Macedo-Soares & Schubsky, 2010). Moreover, they socially or culturally control or monitor a subsidiary’s goals, actions, and outcomes to fit with those set for it by the parent through sharing the parent’s values and norms with and inculcating them in the subsidiary’s managers and employees (Ouchi, 1979).

By socially controlling and aligning parent-subsidiary relations, expatriates decrease parent-subsidiary agency problems. The minimization of parent-subsidiary agency problems helps the subsidiary seek enlightened value maximization (Jensen, 2002), its headquarters enlightened value maximization, and the MNE’s overall enlightened value maximization (Agrawal & Knoeber, 1996; Hill & Jones, 1992; Jensen, 2002). Minimizing parent-subsidiary agency problems and maximizing long-term value in an enlightened manner increases the survival likelihood of the subsidiary (Fama & Jensen, 1983b; Jensen, 1983, 1986). Therefore we hypothesize that:
Hypothesis 2: Ceteris paribus, foreign subsidiaries with higher expatriate numbers have higher survival likelihoods than their counterparts with lower expatriate numbers.

Risk Orientation (as a Subsidiary Governance Mechanism) and Survival

At the public sector level, the term ‘risk governance’ refers to the ‘various ways in which many actors, individuals, and institutions, public and private, deal with [public or societal] risks surrounded by uncertainty, complexity, and/or ambiguity (van Asselt & Renn, 2011). We define risk governance, at the business sector level, as the ways in which corporations, and more particularly MNEs, deal with corporate risks surrounded by uncertainty, complexity, and/or ambiguity. In this sense we contribute to the risk and governance literatures by expanding the use of the term ‘risk governance’ beyond the public sector to the business sector.

Risk governance is becoming increasingly more expected and required from boards of directors. This is evident from the clear trend by capital market regulators and stock exchanges around the world, since the early 2000s, to recommend to, or require from, corporations to improve their internal risk management practices (Brown, Steen, & Foreman, 2009; Kleffner, Lee, & McGannon, 2003; Sobel & Reding, 2004).

To govern their risks, MNEs explicitly or implicitly follow one of three risk orientations. We define risk orientation (Pan & Tse, 2000) as an organization’s degree of comfort with facing uncertain, complex, and/or ambiguous gains or losses (Ehrlich & Maestas, 2010; van Asselt & Renn, 2011). We describe MNEs as endorsing one of the following three risk orientations: extreme risk-averting orientation, moderate risk-taking orientation, or excessive risk-seeking orientation (Kahneman & Tversky, 1979; Wiseman & Gomez-Mejia, 1998).
We argue that for subsidiaries with better risk governance by their parents (i.e. for subsidiaries with parents who themselves are moderate risk-takers and who thus formally or informally lead their subsidiaries to be moderate risk-takers as well), the higher their risk level, compared to their industry peers, the higher their survival likelihood. In contrast, for subsidiaries with worse risk governance by their parents (i.e. for subsidiaries with parents who themselves are either extreme risk-avers or excessive risk-seekers and who thus formally or informally (mis)lead their subsidiaries to be correspondingly extreme risk-avers or excessive risk-seekers as well), the higher their risk level, compared to their industry peers, the lower their survival likelihood.

We adopt the view that, generally subsidiaries’ and parents’ risk orientations are similar. We base this view on the anecdotal evidence that we collected from the interviews we conducted with subsidiary general managers. These interviews suggest that almost all MNEs had formal risk compliance policies / guidelines / systems and that their subsidiaries typically complied with these risk policies. However, this is not to say that these guidelines don’t have an element of discretion embedded in them.

For subsidiaries with better risk governance by their parents (i.e. subsidiaries that are led to be moderate risk-takers) we argue that the higher their risk level, compared to their industry peers, the higher their survival likelihood. That is because moderate risk-takers neither extremely avoid risks nor excessively seek risks but take risks in a moderate manner. Thus, they rationally calculate the prospects of the outcomes of their risky choices then wisely choose to take risks that are more likely to benefit them than to harm them. Taking risks in a rational manner allows the subsidiary to make more optimal decisions that increase its competitiveness and thus its survival likelihood (Tversky & Kahneman, 1986). However, among the moderate risk-taking
subsidiaries, those which take slightly more uncertain moderate risks than their industry peers are even more likely to survive than their moderate risk-taking peers because they are taking the more uncertain moderate risks but are not excessively seeking irrational risks (Caliendo, Fossen, & Kritikos, 2010).

For subsidiaries with worse risk governance by their parents (i.e. subsidiaries that are (mis)led to be extreme risk-aversers or excessive risk-seekers) we argue that the higher their risk level, compared to their industry peers, the lower their survival likelihood. For instance, extreme risk-aversers intuitively misjudge the prospects of the outcomes of their risky choices by overestimating the likelihood of loss. Consequently, they erroneously avoid risks that could have benefited them if they had taken them. Averting risks in an unintendedly biased manner leads the subsidiary to make suboptimal decisions that decrease its competitiveness and thus its survival likelihood (Tversky & Kahneman, 1986). However, among the extreme risk-averting subsidiaries the ones that take greater uncertain risks than their industry peers are even less likely to survive than their extreme risk-averting peers because they are going beyond their risk-aversion comfort zone. Taking risks beyond their risk-aversion comfort zone increases their erroneous decisions even further and thus decreases their survival likelihood.

Similarly, excessive risk-seekers intuitively misjudge the prospects of the outcomes of their risky choices by overestimating the likelihood of gain. Consequently, they erroneously seek risks that ultimately harm them. Seeking risks in an unintendedly biased manner leads the subsidiary to make suboptimal decisions that decrease its competitiveness and thus its survival likelihood (Tversky & Kahneman, 1986). However, among the excessive risk-seeking subsidiaries the ones that seek more uncertain risks than their industry peers are even less likely to survive than their
excessive risk-seeking peers because they are seeking even greater irrational risks. This increases their erroneous decisions even further and thus decreases their survival likelihood.

*Hypothesis 3*: Ceteris paribus, the relationship between parent risk orientation and foreign subsidiary survival is curvilinear (forward tilted s-shaped), with the slope negative for parents with an extremely risk-averse orientation, positive for parents with a moderate risk-taking orientation, and negative for parents with an excessively risk-seeking orientation.

**METHODS**

Following recent calls for methodological advancements in international business research (Punnett & Shenkar, 2004; Scandura & Williams, 2000), we used a multi-method (i.e. quantitative and qualitative) approach. First, we conducted a quantitative survival analysis to investigate whether better governed Canadian subsidiaries of Japanese MNEs are more likely to survive than their less effectively governed counterparts. Second, after quantitatively confirming that better governed Canadian subsidiaries of Japanese MNEs have higher survival likelihood than their less effectively governed counterparts, we conducted ten long interviews (McCracken & McCracken, 1988), each around one hour in length, with Canadian subsidiary CEOs, board members, or top management team (TMT) members to better understand how and why these better governed subsidiaries have higher survival likelihood. We combined quantitative and qualitative methods to ensure higher levels of relevance and validity (Jick, 1979). Following Bruning, Sonpar, and Wang (2012), and Bresman, Birkinshaw, and Nobel (1999) we (1) describe our methods in two sections, a quantitative approach section and a qualitative approach section
and then (2) present our statistical findings in a quantitative results section and our interview findings in a qualitative results section.

**Quantitative Approach**

**Sample and Data**

We tested our theory on a sample of Canadian subsidiaries of Japanese parent MNEs from several editions of Kaigai Shinshutsu Kigyou Souran, Kuni-Betsu (Japanese Overseas Investments, by Country), published by Toyo Keizai (TK data set hereafter). The TK dataset provides *subsidiary-level data* on the overseas activities of Japanese MNEs. A Canadian-Japanese sample was appropriate for several reasons. First, Japanese inward FDI stock into Canada amounted to approximately $16 billion in 2010, an increase of 11 percent from 2009, and Japan is the leading Asian foreign direct investor in Canada followed by China (Canada, 2012). Second, the Canadian-Japanese sample provided Canadian subsidiary-level governance data which could also be matched with Japanese parent-level governance data. Third, the extensive time distribution in the dataset offered considerable variance in the survival-vs-exit outcomes of the Canadian subsidiaries.

Additional Canadian *subsidiary-level data* were hand-coded from the 1991-2009 editions of the Dun & Bradstreet Canadian Key Business Directory to complement the TK’s subsidiary-level data. Japanese MNE *parent-level data* were drawn from the *Nikkei Economic Electronic Databank* of Nihon Keizai Shimbun, Inc. and matched with parent MNE names in the TK data. *Country-level data* were collected from the World Bank’s World Development Indicators.
Variables

Dependent Variable (DV)

**Subsidiary Exit:** Following previous studies on subsidiary survival (e.g. Dai, Eden, & Beamish, 2013), our dependent variable Subsidiary Exit is an indicator variable, SubExit, that takes a value of 1 if subsidiary x exits at time t, and 0 if it stays (survives). Observations start in 1990, and continue until an exit occurs, or they are right-censored in 2008. We follow Delios and Beamish (2001) in treating delisted subsidiaries from the sample as exits, because the TK data set is almost exhaustive for all cases of Japanese FDI. Our approach has been validated by another study by Delios and Beamish (2004) in which they compared identified cases of exit in the TK data with reported cases of exit. For the period 1990–2008 there were 74 exits out of a total of 1799 observations.

Independent Variables (IVs)

**Ownership Ratio:** consistent with previous research (Dai et al., 2013) we measure ownership ratio as the percentage of the focal subsidiary’s equity owned by the Japanese parent.

**Expatriate Number:** consistent with previous research we measure expatriate number as the number of expatriates in the subsidiary.

**Risk Orientation:** we measure risk orientation as the Japanese parent’s sector-adjusted debt ratio. To calculate this measure we first calculated the Japanese parent’s debt ratio (i.e. total liabilities divided by total assets). Second we calculated the debt ratio for each sector by adding the debt ratios of all the Japanese parents in a sector and dividing their total by the number of parents in that sector. Finally, we divided each Japanese parent’s debt ratio by its sector’s debt ratio to get each firm’s sector-adjusted debt ratio. We also squared and cubed the sector-adjusted debt ratio to test the curvilinear relationship between risk orientation and survival likelihood that
we hypothesized. Using a firm’s sector-adjusted debt ratio as a proxy to measure its risk orientation is appropriate for several reasons. First, firm debt ratios have been used in the literature to measure firm risk (Abor, 2007; Beaver, Kettler, & Scholes, 1970; Berger, Ofek, & Yermack, 1997; Friend & Lang, 1988; Miller & Bromiley, 1990; Wen, Rwegasira, & Bilderbeek, 2002). Second, among the other used debt ratio measures, the debt ratio measure that we used (i.e. the total liability divided by total assets measure) has been shown to exhibit the highest association with risk (Beaver, 1966). Third, our sample is a sample of Canadian subsidiaries of Japanese MNEs and sector appears to influence governance mechanisms in general (Coles, McWilliams, & Sen, 2001) and corporate debt ratios in Japan in particular (Remmers, Stonehill, Wright, & Beekhuisen, 1974).

**Control Variables**

We controlled for several other variables that the literature suggests may be possible alternative explanations for subsidiary survival and that could consequently confound our results. First, at the subsidiary level, we controlled for the following variables.

*Subsidiary sector:* we controlled for subsidiary sector. However, given that our Canadian subsidiaries sample was a relatively small sample we grouped all the industries into 3 broad sectors (manufacturing = 1, trade = 2, and services & others =3) to keep the number of variables in our model at a statistically acceptable level.

*Subsidiary age:* consistent with (Dai et al., 2013) we controlled for subsidiary age to account for (1) the possible effect of the liability of newness as well as (2) the possible effect of the ability of older subsidiaries to adapt to host-country conditions, on subsidiary survival. We measured subsidiary age as the logarithm (base 10) of the number of years a subsidiary has operated since its date of establishment in the host country.
Subsidiary Size: we controlled for subsidiary size to account for liabilities of smallness and structural inertia since previous studies have shown a positive relationship between the size and survival of foreign subsidiaries (Li, 1995). We measured subsidiary size as the logarithm (base 10) of the total number of subsidiary employees.

Second, at the parent level, consistent with (Kim, Lu, & Rhee, 2012) we controlled for Parent Performance and Parent Size since these variables are known to affect subsidiary survival (Delios & Beamish, 2001). We measured parent performance as the return on assets of the parent and measured parent size as the logarithm (base 10) of parent operating revenue.

Third, at the country level, consistent with Dai et al. (2013), we controlled for Host Market Size, Host Market Potential, and Host Market Inflation Rate, factors expected to influence foreign subsidiary survival. We measured host market size as the logarithm (base 10) of host country per capia gross domestic product (GDP). We measured host market potential as the percentage change in GDP of the host country from 1 year to the other. We measured host market inflation rate as the inflation, GDP Deflator (annual %), for different years.

Qualitative Approach

We interviewed 10 participants. Nine were CEOs, board members, or TMT members of Canadian subsidiaries of foreign MNEs, mainly Japanese MNEs. One was the Subsidiary Governance Senior Officer at the Canadian headquarters of a large Canadian-based MNE, who was responsible for governance of the local and foreign subsidiaries of that MNE. In addition, one of the CEOs we interviewed was a former Canadian subsidiary CEO and a current Director at the Japanese headquarters of that Canadian subsidiary. One of the major reasons for interviewing these two latter participants was to get a headquarters, in addition to the subsidiary,
perspective on foreign subsidiary governance, so as to triangulate our data and reduce bias. The interviews were conducted in summer of 2013.

The purpose of conducting these interviews was to enhance our understanding on how and why better governed subsidiaries, in general, and Canadian subsidiaries, in particular, are more likely to survive than their less effectively governed counterparts. Consequently, in order to be interviewed, participants had to be CEOs, board members, or TMT members of Canadian subsidiaries of foreign MNEs and particularly Japanese MNEs. Participants were recruited mainly through personal contacts and referrals by these personal contacts. Some were also recruited through the Ivey Alumni Relations office and the Institute of Corporate Directors (ICD) and Canadian Foundation for Governance Research (CFGR).

The interviews were semi-structured; the interview guide is available in Appendix A. Broadly, the interviews focused on the following three overarching questions: (1) How do you influence the changes in your subsidiary’s governance mechanisms / structures, namely the use of expatriates, ownership, and risk? (2) Why do you attempt to influence the changes in these governance mechanisms / structures (i.e. the use of expatriates, ownership, and risk) in your subsidiary? and (3) How does your parent use these governance mechanisms (i.e. ownership, expatriates, and risk) to govern your subsidiary?

The interviews were taped and transcribed then coded and analyzed with NVIVO (Bazeley & Jackson, 2013). Finally, following Bruning et al. (2012) and Yin’s (2011) qualitative data presentation and composition approaches, our qualitative findings were presented in a qualitative results section as brief direct or indirect explanations, narratives, or quotations.
RESULTS

Quantitative Results

This section presents this study’s quantitative results. The purpose of our quantitative analysis was to test whether better governed foreign subsidiaries were more likely to survive than their less effectively governed counterparts. We used survival analysis, namely the extended Cox regression technique, to test our hypotheses. An extended Cox model is appropriate because our dependent variable is survival likelihood and our independent and control variables are time-varying and the extended Cox model can incorporate and test for such time-dependent covariates (Kleinbaum & Klein, 2005).

Insert Table 1 about here

Table 1 presents descriptive statistics and correlations for the study variables. This correlation matrix shows that, among all covariates, there is only one correlation above 0.5, namely the correlation between Inflation Rate and Host Market Size and even this correlation is below 0.6, which suggests that multicollinearity shouldn’t be a concern. However there are several covariates that are significantly correlated (p<0.05). Therefore to ensure the absence of multicollinearity and ensure the robustness of our results we performed regressions and collinearity diagnostics for each two covariates one by one. All our variance inflation factors (VIFs) were below two which ensures that multicollinearity is unlikely to be an issue in the analyses (Field, 2009).
We test our hypotheses using a four-stage extended Cox regression model. Table 2 presents the findings, in which our Risk Orientation construct is operationalized as Parent Sector-Adjusted Debt Ratio, Parent Sector-Adjusted Debt Ratio Squared, and Parent Sector-Adjusted Debt Ratio Cubed. All four models are highly significant (p < 0.001). The full model, Model 4 in Table 2, shows that all our hypotheses were supported. For the interpretation of results, a coefficient estimator with a negative value suggests a decreased likelihood of foreign subsidiary exit or an increase in likelihood of foreign subsidiary survival.

Model 1 is the baseline model, which includes only control variables. Among the subsidiary-level controls, as expected, Model 1 shows that a foreign subsidiary’s age and size (as measured by its number of employees) are significantly related to its survival likelihood (p < 0.05 and p < 0.001 respectively). Moreover, a subsidiary’s sector is significantly associated with its survival likelihood since the reference, manufacturing, in this categorical variable is significantly related to foreign subsidiary survival likelihood (p < 0.01).

In this baseline model, among the parent-level controls, parent size (as measured by its operating revenues) was unexpectedly negatively related to subsidiary survival (p < 0.01). This may be due to the fact that bigger parents, that probably have a large number of foreign subsidiaries, are less dependent on a single specific subsidiary for their MNE’s overall success, and thus are more likely than their smaller counterparts, to let go of certain underperforming subsidiaries if necessary. Furthermore, parents’ performance (as measured by their ROA) was unexpectedly unrelated to their subsidiaries’ survival. This may be due to the fact that parent
performance is a shorter term measure than the relatively longer term measure of subsidiary survival. And thus their association may not be very consistent.

Among the country-level controls, as expected, a subsidiary’s host market size (as measured by the host market’s per capita GDP) and host market potential (as measured by the host market’s percentage change in GDP) were significantly related to subsidiary survival (p < 0.001 and p < 0.05 respectively). However, in this baseline model, host market inflation rate was not significantly related to subsidiary survival. This may be due to the fact that the relation between host market inflation and subsidiary survival is an indirect one. Since inflation usually decreases market growth which is expected to ultimately decrease subsidiary survival.

Model 2 adds our two independent variables, parent ownership ratio and expatriate number, and the linear form of our third independent variable, parent sector-adjusted debt ratio, on top of the control variables in Model 1. The results of the controls in Model 2 are similar to the ones in Model 1 except for the parent size and host market inflation rate variables. The relationships between these two controls on one hand and subsidiary survival likelihood on the other hand become respectively not significant and marginally significant (p > 0.1 and p < 0.1 respectively), which are now closer to our initial expectations.

More importantly, Model 2 shows that, as we expected, there is a highly significant relationship between a parent’s ownership level in its foreign subsidiary and that foreign subsidiary’s survival likelihood (p < 0.001). Furthermore, it also shows that there is a highly significant relationship between the number of expatriates in a foreign subsidiary and that subsidiary’s survival likelihood (p < 0.001). These two results clearly support our first two hypotheses. In addition, it shows that there is no significant relationship between the linear form of our third independent variable, parent sector-adjusted debt ratio, and foreign subsidiary
survival likelihood. This suggests that there is no significant linear relationship between parent risk orientation and foreign subsidiary survival likelihood.

Model 3 adds the parent sector-adjusted debt ratio squared variable on top of the variables in Model 2. The results of the variables (controls and independent variables) in Model 3 are similar to the ones in Model 2 except for the sector variable. From the negatively significant result of the subsidiary sector services and other dummy variable (p < 0.05) we can now state that foreign subsidiaries in the services & other sector are more likely to survive (less likely to exit) than their counterparts in the manufacturing sector. This may be due to the fact that services subsidiaries require less capital investment to survive.

Furthermore, and more importantly, Model 3 shows that there is no significant relationship between the quadratic form of our third independent variable, parent sector-adjusted debt ratio squared, and foreign subsidiary survival likelihood. This suggests that there is no significant quadratic relationship between parent risk orientation and foreign subsidiary survival likelihood.

Model 4 adds the parent sector-adjusted debt ratio cubed variable on top of the variables in Model 3. The results of the variables (controls and independent variables) in Model 4 are similar to the ones in Model 3 except for the parent performance (as measured by parent ROA) and host market size variables. In this model, unexpectedly, parent performance became negatively significantly related to foreign subsidiary survival likelihood (p < 0.05). The reason may be that as the performance of the overall MNE improves the dependence of the MNE on specific subsidiaries decreases and thus the likelihood of letting go of specific subsidiaries increases. Also unexpectedly, the relationship between host market size and foreign subsidiary survival became insignificant. We speculate that given that this model shows that there is a significant cubic relationship between parent risk orientation and subsidiary survival (see paragraph below),
parent risk orientation might have partially accounted for the parent’s decision to operate in a small (big) market-sized high-risk (low-risk) country. This may have led the impact of risk orientation on subsidiary survival to overshadow the impact of host market size on subsidiary survival and thus make the latter relationship insignificant.

Most interestingly, Model 4 clearly shows that once parent sector-adjusted debt ratio cubed is included in this full model, all three relationships between the three parent sector-adjusted debt ratio variables (parent sector-adjusted debt ratio, parent sector-adjusted debt ratio squared, and parent sector-adjusted debt ratio cubed) on one hand and foreign subsidiary survival likelihood on the other, become significant (p < 0.05, p < 0.05, and p < 0.01 respectively). Given that adding this last cubed variable to the model makes all three risk orientation variables significant when previously the first two risk orientation variables were not, shows that the relationship between risk orientation and subsidiary survival is a cubic and not a linear or quadratic one. The positive and negative values of the coefficients of the three risk orientation variables suggest that the relationship between parent risk orientation and foreign subsidiary survival likelihood has an s-shaped forward tilted form. This clearly supports our third hypothesis.

**Qualitative Results**

This section presents this study’s qualitative results. The purpose of our qualitative analysis was to explain how and why the use of subsidiary-level and parent-level foreign subsidiary governance mechanisms, such as ownership, expatriates, and risk orientation, increase the survival likelihood of foreign subsidiaries of MNEs.

The interviews we conducted with foreign subsidiary board members, CEOs, or TMT members corroborated our quantitative findings in that most of our participants believed that better foreign subsidiary governance increases the survival likelihood of foreign subsidiaries. For
example, one subsidiary board member said “I don't believe that there is a direct correlation between good governance and good performance. I think it is the other way around. It is more of a null hypothesis. There is a correlation between good governance and lack of failure.”

These qualitative findings were perfectly consistent with our quantitative results. First, they were consistent with the results that we presented in our Quantitative Results section and that showed that better subsidiary governance increases subsidiary survival likelihood. Second, they were also consistent with quantitative results that we did not present in this paper and that showed that subsidiary governance was not significantly related to subsidiary performance.

Moreover, these interviews clarified why and how better subsidiary governance increased subsidiary survival likelihood. For instance, another participant explained that better governed subsidiaries “would survive better because there will be insurance of compliance with [host country and parent country regulations], in other words, the risk of fines or penalties would be mitigated because somebody [i.e. the parent] was making sure that they’re in compliance with their regulatory environment.”

Furthermore, one subsidiary general manager, who served as a subsidiary manager in more than one country for a very well-known and -respected MNE, believed that there absolutely was a relationship between higher parent ownership in a foreign subsidiary and higher foreign subsidiary survival likelihood. He explained that, compared to a distributor, “we were willing to take losses in certain [wholly-owned subsidiaries] in order to have a longer term horizon that would make these [losing subsidiaries] profitable. The company was willing to invest for the longer term whereas a distributor just would not be doing that.”

A subsidiary general manager, who himself was an expatriate, also explained how using expatriates as a subsidiary governance mechanism increased subsidiaries’ survival likelihoods at
his parent corporation. He explicated that in his parent corporation, they usually send expatriates to establish foreign subsidiaries. Once the subsidiary’s performance is on track they are fine with locals running the subsidiary. In that case, they still have expatriate teams go on short assignments to audit the behavior and performance of the subsidiary on a biennial basis. However, when a subsidiary is not behaving or performing as expected, such as not following the parent’s policies or meeting the parent’s targets, an expatriate(s) is sent to fix these problems by reinforcing the parent’s culture and expectations.

In addition, another subsidiary CEO, whose company was number two in its industry worldwide, suggested that, following his parent’s risk guidelines, his subsidiary took moderate risks (for example, customer financing risks), “very similar to industry risk norms taken by our top two competitors but did not take extreme risks similar to the ones taken by our number four, five, and six competitors. Nevertheless we were more flexible than our number one competitor. [For example, we would do] letter of credit or just invoice, but we would never do a consignment shipment, never!” He added “since we were not outside of range of our competition, this was fine.” This interview anecdotally confirmed our quantitative findings related to the impact of risk orientation on subsidiary survival and briefly described certain types of subsidiary risks that would threaten these subsidiaries’ survival.

**DISCUSSION**

The purpose of this study was to answer the following research questions: (1) are better governed foreign subsidiaries more likely to survive than their less effectively governed counterparts and (2) if so, how and why are they more likely to survive. We argued that parent-subsidiary governance relationships are similar to principal-agent relationships, in that both need
to solve the agency problem. Thus, we drew on agency theory to build our theoretical framework. To answer our first research question, we developed agency-theory based hypotheses. Overall our statistical findings from testing these hypotheses show that better governed subsidiaries (i.e. subsidiaries with more parent ownership, more expatriates, and with moderately risk-taking parents who are willing to take more moderate risks than their industry peers) are more likely to survive than their less effectively governed counterparts. To answer our second research question, we conducted interviews with subsidiary CEOs, TMT members, and board members. Consistent with agency theory, we found that MNE parents use ownership, expatriates, and risk orientation as subsidiary governance mechanisms to monitor their foreign subsidiaries’ behaviors. However, beyond agency theory, but consistent with classical corporate governance, they use subsidiary governance mechanisms such as expatriates and risk orientation to also direct their foreign subsidiaries’ behaviors.

**Research Implications**

Our study offers the following theoretical and empirical contributions. First, we contribute to agency theory by advancing it in the following ways. Classical economic agency theory (Jensen & Meckling, 1976) embraces the following assumptions, among others: (1) a single principal (shareholders), (2) a single agent (management), (3) the principal and the agent are two distinct individuals or groups (in the case of two groups the individuals within each group have homogeneous interests, goals, and behaviors), and (4) the principal knows what is best for the firm and thus ideally creates an optimal contract that ensures that the agent does what the principal thinks is best for the firm and then monitors the agent’s behavior (Shapiro, 2005). More recent agency theory research in economics, political science, law, sociology, and business relaxes the above first tow assumptions and introduces multiple principals and multiple agents
into agency-based studies (Kiser, 1999; Shapiro, 2005; Waterman & Meier, 1998). To our knowledge, this study is the first to combine agency theory and MNE corporate governance to relax the above third assumption by conceptualizing MNE-parent managers and subsidiary expatriates as acting as principals and agents simultaneously.

We do this in the following two ways. Classical agency theory and corporate governance consider ownership as a governance mechanism used by shareholders (principals) to govern the behavior of managers (agents). Our study extends agency theory by combining it with MNE governance to suggest that in the context of MNE parent-subsidiary governance, ownership is used as a governance mechanism by MNE-parent managers, who are simultaneously agents to MNE shareholders and principals to subsidiary managers, to govern the behavior of these subsidiary managers. Similarly, agency theory considers managers as agents to owners or principals. Our study extends agency theory and the expatriate literature by suggesting that expatriates, who are most of the time subsidiary managers, simultaneously act as agents (subsidiary managers) to headquarters and principals (subsidiary governors representing the parent) to subsidiaries. Future research may need to investigate how such principal and agent managers resolve and integrate their personal internal agency conflicts.

Furthermore, expatriates, being not only parent agents but also simultaneously subsidiary principals, can go beyond agency theory’s prediction as only acting as parent controllers for their subsidiary’s behaviors to acting as directors of their subsidiary’s strategy. This relaxes the above fourth assumption of agency theory that predicts that the expatriate (agent) will be passive and just do what the parent believes is best for the subsidiary to suggest that the expatriate will be proactive and do what (s)he believes is best for the subsidiary and MNE-parent overall. Such a proactive behavior would be more similar to corporate governance’s prediction that corporate
board members act not only as monitors of management’s behavior but also as directors of corporate strategy.

Second, we contribute to corporate governance by extending it in the following ways. Conceptually, we advance corporate governance by widening its scope to parent-subsidiary governance and broadening its mechanisms to include \textit{intra-organizational governance mechanisms}, such as parent-subsidiary ownership, expatriates, and parent-subsidiary risk orientation. The classical corporate governance literature typically studies \textit{internal} (e.g. monitoring by the board of directors, compensation, internal audits, etc.) and \textit{external} (e.g. market for corporate control, media pressure, government regulations, etc.) corporate governance mechanisms to the domestic firm. This study extends the corporate governance literature by studying a third group of mechanisms, namely, \textit{intra-organizational governance mechanisms} between parent and subsidiaries of the MNE. Moreover, conceptually we advance corporate governance by borrowing the concept of risk governance from sister disciplines such as political science and public policy and redefining it to serve as a valuable concept in corporate governance in the business sector.

Empirically, we advance corporate governance research by conducting one of the first empirical and multi-methods studies on MNE and subsidiary governance and by showing that subsidiary governance matters and that better governed subsidiaries are more likely to survive than their less effectively governed counterparts. Previous findings on the relationship between corporate governance and performance are mixed (for examples see: Dalton, Daily, Ellstrand, & Johnson, 1998; Gompers et al., 2003; Klapper & Love, 2004; Larcker et al., 2007). Moreover, the few previous studies related to MNE parent-subsidiary governance and performance are mostly conceptual and / or qualitative (e.g. Adams, 1996; Ghoshal & Nohria, 1989; Kim et al.,
2005; Nohria & Ghoshal, 1994). Our study provides quantitative as well as qualitative evidence supporting the impact of subsidiary governance on subsidiary survival but not on subsidiary performance. One explanation may be that subsidiary governance has a long term effect, hence the significant relationship with subsidiary survival, but not necessarily a short term effect, hence the insignificant relationship with subsidiary performance. Furthermore, we empirically advance the field of MNE and subsidiary governance by utilizing advanced multi-methods, including advanced survival analysis methods that have not been used in this area before. In addition, empirically we advance risk research by showing that the relationship between firm risk and survival is curvilinear rather than linear. This insight may explain why previous findings on the relationship between risk and performance are contradictory (for examples see: Bowman, 1980; Fama & French, 1992; Fletcher, 2000; Henkel, 2009; Nickel & Rodriguez, 2002; Wiseman & Bromiley, 1991).

**Practical Implications**

Our study offers practical implications for directors, and managers. Our findings can help MNE and subsidiary directors and managers make better MNE parent-subsidiary governance decisions. For instance, our first main finding shows that foreign subsidiaries with higher parent ownership percentages are more likely to survive than their counterparts with lower parent ownership percentages. This broadly suggests that if MNE directors and managers want to increase the survival likelihood of their foreign subsidiaries they would be advised to have a higher level of ownership as a governance mechanism in these subsidiaries. Thus they would be recommended to operate international joint ventures (IJVs) that they dominantly own or wholly owned subsidiaries. These recommendations are consistent with previous findings that suggest that generally the higher the foreign parent’s ownership percentage in an IJV, the higher is its
survival likelihood and that the survival likelihoods of IJVs with high foreign parent ownership percentages are similar to those of wholly owned subsidiaries (Dhanaraj & Beamish, 2004).

Our second main finding shows that foreign subsidiaries with more expatriates are more likely to survive than their counterparts with fewer expatriates. This broadly suggests that, within expatriate availability, cost, and other limits, if MNE directors and managers want to increase the survival likelihood of their foreign subsidiaries they would be advised to have more expatriates as a governance mechanism in these subsidiaries. This recommendation is consistent with previous findings that broadly suggest that expatriate number or expatriate percentage positively influences subsidiary survival or performance (Fang, Jiang, Makino, & Beamish, 2010; Gong, 2003; Very, Hébert, & Beamish, 2004). However, these studies (Fang et al., 2010; Gong, 2003; Very et al., 2004) also suggest that the impact of expatriates on subsidiary survival or performance depends on several factors. For instance, Fang et al. (2010) find that the impact of expatriates on subsidiary performance depends on the role of expatriates in facilitating parent knowledge transfer to subsidiary and is contingent on the type of knowledge transferred and time of transfer. Very et al. (2004) find that the effect of expatriates on subsidiary survival depends on the MNE’s different kinds of experience (e.g. industry, country, and entry mode experience). Whereas, Gong (2003) finds that the influence of expatriates on subsidiary performance depends on the cultural distance between parent and subsidiary and on the length of subsidiary operation. Moreover, some studies suggest that MNEs may be gradually using fewer conventional expatriates in their foreign subsidiaries (Beamish & Inkpen, 1998; Collings, Scullion, & Morley, 2007; Kobrin, 1988) for various reasons. Therefore one must view our suggestion as a broad recommendation and must consider all the idiosyncrasies of each subsidiary and the availability,
cost, and other limits on the use of expatriates before deciding on the number of expatriates to send to each subsidiary.

Our third main finding suggests that if MNE directors and managers want to increase the survival likelihood of their foreign subsidiaries they would be advised to adopt a moderate risk taking orientation as opposed to adopting an extreme risk averting orientation or an excessive risk taking orientation, at the headquarters as well as at the subsidiary level. However, to increase the likelihood of their foreign subsidiaries’ survival, they are advised to take some more moderate risks than their industry peers.
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<td>Lg Subsidiary Age</td>
<td>1.097</td>
<td>0.333</td>
<td>-0.049*</td>
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<td>4</td>
<td>Lg Subsidiary Employees</td>
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<td>-0.396**</td>
<td>0.293**</td>
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<td>5</td>
<td>Lg Parent Operating Revenue</td>
<td>6.718</td>
<td>0.818</td>
<td>0.048*</td>
<td>-0.004</td>
<td>0.163**</td>
<td>0.121**</td>
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<td>0.026</td>
<td>0.049</td>
<td>-0.040</td>
<td>-0.068**</td>
<td>-0.037</td>
<td>0.103**</td>
<td>-1.03**</td>
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<td>Lg Host Market Size</td>
<td>4.377</td>
<td>0.108</td>
<td>-0.095**</td>
<td>-0.257**</td>
<td>-0.113**</td>
<td>-1.120**</td>
<td>-0.229**</td>
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<td>Host Market Potential</td>
<td>1.430</td>
<td>0.206</td>
<td>0.051*</td>
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<td>0.175**</td>
<td>0.103**</td>
<td>-0.025</td>
<td>-0.074**</td>
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<td>Inflation Rate</td>
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<td>1.165</td>
<td>-0.030</td>
<td>-0.032</td>
<td>0.050*</td>
<td>0.020</td>
<td>-0.051*</td>
<td>0.205**</td>
<td>0.576**</td>
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<td>Parent Ownership Ratio</td>
<td>0.847</td>
<td>0.244</td>
<td>-0.080**</td>
<td>-0.171**</td>
<td>0.056**</td>
<td>-0.149**</td>
<td>-0.176**</td>
<td>0.018</td>
<td>0.021</td>
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<td>Expatriate Number</td>
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<td>4.300</td>
<td>-0.098**</td>
<td>-0.197**</td>
<td>0.123**</td>
<td>0.480**</td>
<td>0.225**</td>
<td>0.043</td>
<td>-0.105**</td>
<td>-0.038</td>
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<td>Parent Sector Adjusted Debt Ratio</td>
<td>1.031</td>
<td>0.287</td>
<td>0.055*</td>
<td>0.002</td>
<td>-0.006</td>
<td>-0.066*</td>
<td>0.487**</td>
<td>-0.458**</td>
<td>-0.255**</td>
<td>-0.045</td>
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<td>Parent Sector Adjusted Debt Ratio Squared</td>
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<td>14</td>
<td>Parent Sector Adjusted Debt Ratio Cubed</td>
<td>1.338</td>
<td>0.891</td>
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<td>16</td>
<td>Subsidiary Employees</td>
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<td>309.894</td>
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<td>17</td>
<td>Parent Operating Revenue</td>
<td>25,115,670.730</td>
<td>45,452,257.846</td>
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<tr>
<td>18</td>
<td>Host Market Size (GDP per capita)</td>
<td>24,638,506</td>
<td>7,317,781</td>
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**. Correlation is significant at the 0.01 level (2-tailed).
*. Correlation is significant at the 0.05 level (2-tailed).
a. N=1799
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<th>SE</th>
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<td>Subsidiary Sector (Trading)</td>
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<td>0.284</td>
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<td>Subsidiary Sector (Services and Others)</td>
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<td>0.334</td>
<td>-0.581 +</td>
<td>0.336</td>
<td>-0.655 *</td>
<td>0.342</td>
<td>-0.754 *</td>
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<td>Lg Subsidiary Age</td>
<td>-1.464 *</td>
<td>0.580</td>
<td>-1.753 **</td>
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<td>-0.798 ***</td>
<td>0.147</td>
<td>-0.521 **</td>
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<td>-0.510 **</td>
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<td>0.181</td>
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<td>Parent ROA</td>
<td>0.733 **</td>
<td>2.857</td>
<td>2.577</td>
<td>3.644</td>
<td>2.871</td>
<td>3.483</td>
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<td>Lg Host Market Size</td>
<td>-17.653 ***</td>
<td>3.756</td>
<td>-17.622 ***</td>
<td>3.721</td>
<td>-17.570 ***</td>
<td>3.744</td>
<td>-17.826 **</td>
<td>3.722</td>
</tr>
<tr>
<td>Host Market Potential</td>
<td>-0.163 *</td>
<td>0.083</td>
<td>-0.163 *</td>
<td>0.082</td>
<td>-0.166 *</td>
<td>0.082</td>
<td>-0.168 *</td>
<td>0.082</td>
</tr>
<tr>
<td>Inflation Rate</td>
<td>0.204</td>
<td>0.129</td>
<td>0.215 +</td>
<td>0.128</td>
<td>0.216 +</td>
<td>0.128</td>
<td>0.226 +</td>
<td>0.127</td>
</tr>
<tr>
<td>Parent Ownership Ratio</td>
<td>-1.539 ***</td>
<td>0.440</td>
<td>-1.549 ***</td>
<td>0.437</td>
<td>-1.544 ***</td>
<td>0.435</td>
<td></td>
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<tr>
<td>Expatriate Number</td>
<td>-0.341 ***</td>
<td>0.102</td>
<td>-0.337 ***</td>
<td>0.102</td>
<td>-0.357 ***</td>
<td>0.103</td>
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<td></td>
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<tr>
<td>Parent Sector-Adjusted Debt Ratio</td>
<td>0.766</td>
<td>0.624</td>
<td>-1.843</td>
<td>2.391</td>
<td>19.842 *</td>
<td>9.460</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Parent Sector-Adjusted Debt Ratio Squared</td>
<td>1.407</td>
<td>1.264</td>
<td>-23.255 *</td>
<td>10.018</td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Parent Sector-Adjusted Debt Ratio Cubed</td>
<td>8.693 **</td>
<td>3.407</td>
<td></td>
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<tr>
<td>Log-Likelihood</td>
<td>827.28</td>
<td></td>
<td>793.61</td>
<td></td>
<td>792.43</td>
<td></td>
<td>785.91</td>
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<tr>
<td>Wald Chi-Square</td>
<td>145.58 ***</td>
<td></td>
<td>166.80 ***</td>
<td></td>
<td>168.84 ***</td>
<td></td>
<td>174.07 ***</td>
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</tr>
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</table>

a. N= 1799

+ p < 0.10 (2-tailed).
* p < 0.05 (2-tailed).
** p < 0.01 (2-tailed).
*** p < 0.001 (2-tailed).
Appendix A

Interview Guide

Overarching Research Question(s):

How do you influence the changes in your subsidiary’s governance mechanisms / structures, namely the use of expatriates, ownership, and risk?

Why do you attempt to influence the changes in these governance mechanisms / structures (i.e. the use of expatriates, ownership, and risk) in your subsidiary?

How does your parent use these governance mechanisms (i.e. ownership, expatriates, and risk) to govern your subsidiary?

Interview Questions:

Biographical questions:

Name:

Position:

Date started (and ended) position:

Is the subsidiary manager an expatriate or not: yes or no

Subsidiary location:

Category 1: How do you, as a subsidiary manager / director, influence the changes in ownership in your subsidiary:

1.1. How was your subsidiary set up in terms of ownership (i.e. nationality of owners, number of owners, number of shares for each owner, percentage of shares for each owner, etc.)?

1.2. Why do you think was it set up that way?

1.3. Who made these decisions (i.e. headquarters, regional headquarters, subsidiary, etc.)?
1.4. Do you have any influence on these decisions? If so, what kind of influence?

1.5. In the past, have you taken any initiative(s) to influence the changes in ownership in your subsidiary? If so, what were these initiatives? What were their outcomes? Why did you take them?

1.6. In the future, how would you influence the changes in ownership in your subsidiary? And why?

1.7. Do you believe you should have more or less influence on these decisions? Why, and in what way?

1.8. How does your parent use ownership to govern your subsidiary?

Category 2: How do you, as a subsidiary manager / director, influence the changes in expatriates in your subsidiary:

2.1. How was your subsidiary set up in terms of expatriates (i.e. nationality, number, percentage, positions, etc.)?

2.2. Why do you think was it set up that way?

2.3. Who made these decisions (i.e. headquarters, regional headquarters, subsidiary, etc.)?

2.4. Do you have any influence on these decisions? If so, what kind of influence?

2.5. In the past, have you taken any initiative(s) to influence the changes in expatriates in your subsidiary? If so, what were these initiatives? What were their outcomes? Why did you take them?

2.6. In the future, how would you influence the changes in expatriates in your subsidiary? And why?

2.7. Do you believe you should have more or less influence on these decisions? Why, and in what way?
2.8. How does your parent use expatriates to govern your subsidiary?

Category 3: How do you, as a subsidiary manager / director, influence the changes in risk orientation in your subsidiary:

3.1. How was your subsidiary set up in terms of risk guidelines [level of liquidity (liquidity ratio = current assets / current liabilities), level of (total) debt (debt ratio = total liabilities / total assets), level of interest coverage (times interest earned ratio = earnings before interest and tax / interest expense), credit terms, etc.]?

3.2. Why do you think was it set up that way?

3.3. Who made these decisions (i.e. headquarters, regional headquarters, subsidiary, etc.)?

3.4. Do you have any influence on these decisions? If so, what kind of influence?

3.5. In the past, have you taken any initiative(s) to influence the changes in risk orientation in your subsidiary? If so, what were these initiatives? What were their outcomes? Why did you take them?

3.6. In the future, how would you influence the changes in risk orientation in your subsidiary? And why?

3.7. Do you believe you should have more or less influence on these decisions? Why, and in what way?

3.8. How does your parent use risk guidelines to govern your subsidiary?

Category 4: Impact of the changes in these governance mechanisms on your subsidiary’s survival and / or performance:

4.1. In your subsidiary, do you find evidence for or against the relationship between subsidiary governance (e.g. the use of ownership, expatriates, and risk) and subsidiary
survival and/or performance? What kind of evidence/relationship? Why do you think this evidence exists or does not exist?

4.2. How (& why) do you think your subsidiary governance mechanisms (e.g. expatriates, ownership, risk orientation, etc.) affect your subsidiary’s survival and/or performance?

4.3. In your experience, which subsidiary governance mechanisms are most effective, why?

Category 5: Suggestions for improving foreign subsidiary governance & conclusion

5.1. How would you improve foreign subsidiary governance?

5.2. Do you have any documents about your company that you can provide that may include relevant governance information that may be useful for this research?

5.3. Is there anyone at headquarters who may be willing to give me a headquarters perspective on subsidiary governance? If so, please can you connect me with this person?

5.4. Do you know any other subsidiary managers who may be willing to participate as an interviewee for this research?

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