Loss or Gain? The Moderating Role of Top Manager Teams in the Relationship between Political Hazards and Foreign Subsidiary's Performance

ABSTRACT

When political hazards could be threats or opportunities for foreign subsidiary's performance? Combing literature on political hazards and top management teams (TMTs), we argue that TMTs in the subsidiary (local TMTs) or dispatched from headquarter play distinctive roles in influencing whether multinational companies (MNCs) could reduce costs and take advantages of benefits associated with political hazards in their foreign operations. We first argue that political hazards are negatively related with foreign subsidiary's performance. Then, more importantly, we propose that local TMTs' international experience in countries with high-level political hazards will weaken the negative relationship between political hazards and foreign subsidiary's performance while such relationship will be strengthened when there is a large number of TMTs dispatched by MNCs' headquarter. Using a panel dataset of 12,362 overseas subsidiaries across 54 countries during the period of 2004 to 2013, our hypotheses are supported.

Keywords: political hazards, subsidiary performance, TMTs, international experience

INTRODUCTION

Political hazard, defined as the presence of instability in a country's political institutions (Delios & Henisz, 2003; W. J. Henisz, 2000; North, 1990), is becoming a salient topic among international bussiness scholars and practitioners. There is a growing body of research on how multinational companies (MNCs) mitigate political hazards in host countries (Delios & Henisz, 2000, 2003; Getachew & Beamish, 2017). These studies have exclusively agreed that multinational companies find it hard to survive in countries with high political hazards (Dai, Eden, & Beamish, 2013; Demirbag, Tatoglu, & Glaister, 2007; Getachew & Beamish, 2017; Liu, Gao, Lu, & Lioliou, 2016; Song, 2014). A dominant stream of research posits that MNCs are more likely to reduce their exposure to political hazards through risk-avoidance strategies such as deterring entry (Delios & Henisz, 2003), reducing foreign direct investment (FDI) (Busse & Hefeker, 2007; Feinberg & Gupta, 2009), lower equity entry mode (Delios & Henisz, 2000; Lu, Li, Wu, & Huang, 2018), and diversification (Jiménez, Benito-Osorio, & Palmero-Cámara, 2015). However, ironically, as established markets are rapidly becoming saturated, we witnessed an increased number of MNCs entering political hazardous countries (i.e. China, Africa, and Latin America) (Getachew & Beamish, 2017; Khoury, Junkunc, & Mingo, 2015; Lu et al., 2018). Another stream of literature has supported this choice by arguing that political hazards also could bring growth opportunities and increase firm's performance if MNCs can manage well the risks associated with such an unstable environment (Barbopoulos, Marshall, MacInnes, & McColgan, 2014; Click, 2005; Jiménez & Delgado-García, 2012; Kobrin, 1979a). These inclusive findings regarding the relationship between political hazards and foreign subsidiary's performance highlight an underestimated

but important question, that is, how MNCs deal on an ongoing basis with political hazards in the foreign subsidiary after they have established majority owned operations in countries with high political hazards. In other words, *when do political hazards could be a threat or opportunity to subsidiary's performance?*

In this study, we argue that it would be problematic to explain the above puzzle if we ignore the contingent role of top manager teams (TMTs) in both the MNCs' headquarter and its subsidiaries. This is because TMTs are the direct decision-makers and first responders to the ongoing political hazards in the host countries (Giambona, Graham, & Harvey, 2017; Hambrick & Mason, 1984). Their international knowledge or expertise will affect the interpretation of the political hazards and, consequently, determine whether MNCs are able to reduce costs and increase benefits associated with political hazards in the foreign subsidiaries (Giambona et al., 2017; Hambrick & Mason, 1984; Maitland & Sammartino, 2015). However, as existing studies on political hazards exclusively focus on how political hazards influence international strategies (Feinberg & Gupta, 2009), they are largely silent on how TMTs' interaction with local political hazards results in various levels of foreign subsidiary performance. Drawing upon political hazard literature and TMTs literature, this study aims to fill this gap by introducing the contingent roles of TMTs in the relationship between political hazards and foreign subsidiary performance.

Notably, the MNCs are always facing the dilemma of making best use of local knowledge while not losing their control over the foreign subsidiary (Ghoshal, 1987; Nohria & Ghoshal, 1994). Based on the above assumptions, the current study will divide the moderating roles of TMTs into two different perspectives. On the one hand, we expect that

when foreign subsidiary's TMTs (or local TMTs) have gained international experience in countries with high levels of political hazards, they are more capable of mitigating costs and taking advantage of opportunities associated with political hazards. In this light, we expect local TMTs international experience in politically hazardous countries will mitigate the negative relationship between political hazards and foreign subsidiary's performance. On the other hand, MNCs can dispatch TMTs from headquarters to foreign subsidiaries as expatriates to facilitate knowledge transfer and deployment of parent expertise in foreign subsidiaries (Chang, Gong, & Peng, 2012; Fang, Jiang, Makino, & Beamish, 2010; Song & Lee, 2017). Despite these advantages, the increasing number of TMTs expatriates would increase coordination costs and slow down the decision-making process in politically unstable countries, which otherwise requires substantial local responsiveness and flexibility. For this reason, we expect that the number of TMTs expatriates from headquarter will strengthen the negative relationship between political hazards and foreign subsidiary's performance.

Through a large sample of Obis from a consulting firm called Bureau van Dijk, our hypotheses are significantly supported. This study endeavours to make three contributions. Firstly, we go beyond the existing focus on how political hazards influence pre-entry international strategies by investigating the less-explored question on how MNCs manage political hazards and obtain superior performance after their foreign entries. Our significant moderating roles of both TMTs' international experience in politically hazardous countries and the number of TMTs expatriates not only add a missing piece on exploring how MNCs manage political uncertainties in the post-entry period, but they also offer a contingent explanation for the inclusive findings on the relationship between political hazards and

foreign subsidiary's performance. Secondly, our contingent role of TMTs at subsidiary and from headquarter complements prior studies which focus on examining mitigating strategies for political hazards at the firm level or country level (Delios & Henisz, 2000, 2003; Getachew & Beamish, 2017; Jiménez, Benito-Osorio, Puck, & Klopf, 2018; Lu et al., 2018). Furthermore, the contrasting moderating effects of local TMTs in the subsidiary and headquarter TMTs shed lights on two different roles of TMTs, namely application of their existing international knowledge and acts as MNCs' agents to apply headquarters' rules of international operations. Such different moderating roles of TMTs highlight that we need to carefully be aware of TMTs from headquarters will be a burden in countries with high political hazards. Thirdly, we extend TMTs literature in international business which largely focuses on general international experience without considering the exact content of international experience (S. Nielsen, 2010; Piaskowska & Trojanowski, 2014; Sambharya, 1996). Our significant moderating effects of TMTs international experience weighted by political hazards lends support to pay attention to what TMTs actually can learn from their prior experience.

THEORY AND HYPOTHESES

The Salience of Political Hazards

Political hazards and their influences, have drawn increasing attention from scholars in international business and strategy area (Busse & Hefeker, 2007; Delios & Henisz, 2003; Fitzpatrick, 1983; Kobrin, 1979b). By definition, political hazards indicate the instabilities and uncertainties arose from the host country government (Delios & Henisz, 2003). Under

conditions of high-level political hazards, institutions cannot sustain policy-making credibility and policy makers are more likely to break the current policy structures (Henisz & Delios, 2001). As a result, MNCs may not easily interpret or predict policies, nor could they secure their success of foreign investments.

The impact of political hazards has consequences at various levels on MNCs' foreign progresses through various channels. Directly, foreign firms' profits or assets could be expropriated by governments with coercive power (Demirbag, Tatoglu, et al., 2007; Holburn & Zelner, 2010). This would happen if the host government was to seek political rents or deploy economic protectionism (Amit & Schoemaker, 1993; Faccio, 2006; Siegel, 2007). Indirectly, without stringent and stable regulations, contracts between foreign firms and local partners are more likely to be torn up (Feinberg & Gupta, 2009). In addition, host country governments may make strong interventions to influence foreign firms' market value, such as through increasing tax rates or setting prohibitions for market entries (Feinberg & Gupta, 2009; Lu et al., 2018). Consequently, political hazards could downgrade MNCs' effectiveness in leveraging resources and gaining profits in the host country (Zoogah, Peng, & Woldu, 2015).

Scholars have reached a widespread consensus that the political environment plays an important role in shaping MNCs' behaviours and performance (W. J. Henisz, 2000; North, 1990; Olson, 1996). To cope with high levels of political hazards, MNCs tend to reduce FDI flows to countries with high political hazards (Gastanaga, Nugent, & Pashamova, 1998), select joint-venture mode (Witold J. Henisz, 2000; Lu et al., 2018; Luo, 2001) or enter

markets under WTO and Bilateral Investment Treaties (BITs) so as to counterbalance international institutions (Jandhyala & Weiner, 2014).

Political Hazards and Foreign Subsidiary's Performance

Institutions are devised to reduce uncertainties and regulate exchanges (North, 1990). Political hazards, perceived as an important element of host country institutions, will greatly influence MNCs' foreign operations. The expectation is that foreign subsidiary in countries with high level of political hazards will have low performance. There are two mechanisms underlying the relationship between these phenomena.

First, subsidiary faces extra costs for reducing political unfamiliarity and uncertainties, a budget which should be otherwise available for business purposes(Scott, 1987; Zaheer, 1995). . If governments' policies change frequently, firms are then forced to make substantial adjustments or cater for the authorities (Oliver, 1991, 1997). As a result, subsidiary would be burdened by huge expenditures on legitimacy processes, infrastructure buildings and other sunk investments (Jandhyala & Weiner, 2014). Firms exposed to high levels of political hazards would have to divert their available resources away from focal business operations; leading to poor performance.

Secondly, compared to local firms, political instabilities may disadvantage foreign subsidiary by treating them as outsiders (Lu et al., 2018; Zaheer, 1995). Indeed, host governments can form or enforce policies that normally consider local firms as first priorities. Although foreign subsidiary possesses stronger competitive capabilities and could gain higher profits in the local markets, their advantages may be offset by disadvantageous policies developed in host countries with political hazards in the host country (Zoogah et al., 2015).

Firms' assets and outputs could be easily expropriated, leading to a mounting loss in the foreign business (Minor, 1994).

At the same time, we notice that MNCs can also benefit from political hazards because of the higher market power in the host countries. Indeed, within countries with high political hazards there is normally less competition than in stable countries because many MNCs are either reluctant to enter or tend to divest/exit if they perceive high political hazards (Dai et al., 2013). In support of this, some studies show that political hazards lead to better performance when firms are able to navigate uncertainties (Jiménez & Delgado-García, 2012) and transform these in outstanding returns (Beaulieu, Cosset, & Essaddam, 2006). In order to profit from these unfavourable conditions, the negative effects from substantial costs operating in high-level political hazard countries need to be effectively managed. We argue that the benefits are only profound when MNCs' could have certain capabilities, this will discuss in our moderating effects. Thus, we propose

Hypothesis 1 (H1): There is a negative relationship between the level of political hazards and foreign subsidiary's performance.

The Moderating Role of TMTs' International Experience in Countries with High Political Hazards.

An important but largely neglected contingency in the literature is the role of TMTs in mitigating the negative effects of political hazards for MNCs. This moderating role is well-developed in strategy and management field but still not adequately explored in the international business sector.

TMTs are the major decision-makers in the MNCs and the first responders to changing environment (Hambrick & Mason, 1984). A number of studies have demonstrated that TMTs promote firm performance (Carpenter & Sanders, 2002; Hambrick & Mason, 1984; Simons, Pelled, & Smith, 1999), including in international context (Herrmann & Datta, 2005; Sekiguchi, Bebenroth, & Li, 2011). TMTs' characteristics influence whether MNCs will suffer from high transactions costs or will be able to exploit potential benefits in political hazardous host countries. In particular, we discuss two TMTs-related contingencies: pre-existing foreign subsidiary TMTs' (local TMTs) international experience in countries with high political hazards and the number of TMTs dispatched by headquarter.

TMTs' international experience is formed and shaped by their previous exposure (Sambharya, 1996) and plays a central role in reducing extra costs in host country with high political hazards. TMTs with low level of previous international experience in hazardous countries will invest extensive and unnecessary amounts of time and resources learning by trial and error how to take advantage of the unstable host country political environment. In contrast, TMTs with first-hand international experience in similar unstable contexts are able to deal with institutional uncertainty by being more sensitive to political signals and making quicker decisions in order to conform to local government requirements (Kobrin, 1984). . They have the expertise of both local successful political strategies and their MNCs culture and expectations (Sambharya, 1996) which will, in turn, directly reduce the company's political engagement costs (Wu & Liu Cheng, 2011). .

Given the advantageous knowledge of foreign institutions (Luo, 2005), TMT members are able to defend themselves through appropriate channels. By doing so, they can reassure

governments' biases so to eliminate host governments' hostility towards outsider firms and avoid asset expropriation.

Lastly, TMT members with high level of international experience in political hazardous countries perform better at estimating risks (B. B. Nielsen & Nielsen, 2011), perceiving and seizing opportunities (Tihanyi, Ellstrand, Daily, & Dalton, 2000). Given TMTs' capability in evaluating, recognising and mitigating political hazards, costs can be reduced and benefits associated with political hazards in the host country can be increased. We contend that:

Hypothesis 2 (H2): The negative relationship between political hazards and subsidiary's foreign performance will be weakened in proportion to the local TMTs' level of international experience in political hazardous countries.

The Moderating Role of TMTs Dispatched by Headquarter

In addition to the TMTs directly employed in the host countries (local), the MNCs normally dispatch their TMT members from headquarter as expatriates for the foreign subsidiaries. The main reasons of doing it are to control foreign operations through transferring expertise from headquarter to their network of subsidiaries and overseeing local operations to make sure interest alignment between headquarter and foreign subsidiaries (Foss & Pedersen, 2004; Kogut & Zander, 1993). However, given the changing environment of countries with high political hazards, we concern the effectiveness of such a dispatching of TMTs from the headquarter (Harzing, 1995; Hung-Wen, 2007).

Firstly, TMTs from headquarter will face significant unfamiliarity in managing institutional distant operations. Driven by a well-established knowledge and experience, they are more confident in replicating their parent country approach and, therefore, reluctant to

change (Reiche, Harzing, & Kraimer, 2009). Nonetheless, political hazards in an international context are significantly incompatible with the standards of home countries. The degree and directionality of policies changes in entry criteria, legitimacy, licences, and industrial standards are commonly country-specific (Belderbos & Zou, 2009; Fisch & Zschoche, 2011) and require a great level of adaptability, especially from the TMTs of MNCs. Therefore, unfamiliarity will increase after TMTs' intervention, leading to even higher coordination costs.

Furthermore, MNCs' headquarter cannot effectively guide subsidiary's decisions via dispatching TMTs (Nohria & Ghoshal, 1994). According to existing studies, positive outcomes are based on the (mis)assumption that headquarter and subsidiary have already shared common goals and aligned their reciprocal best practices (Gong, 2003; Song & Lee, 2017). In reality, TMT members employed by headquarters for an international assignment are more likely to be loyal to and strictly follow the requirements of the headquarters. Their ultimate scope is that of enforcing headquarter's interests on local subsidiary's decisions, ignoring the changing demand needed in political hazardous countries. Taken together, we expect that:

Hypothesis 3 (H3): The negative relationship between political hazards and foreign subsidiary's performance will be strengthened when there is a large number of TMTs dispatched from headquarter.

Figure 1 gives an illustration of our research model.

****** Figure 1 goes about here ******

METHODOLOGY

Data

We test these hypotheses using panel data on international subsidiaries from the Orbis database. This database, compiled by a large consulting firm called Bureau van Dijk, is widely used in the international business field (Bhaumik, Driffield, & Pal, 2010; Contractor, Yang, & Gaur, 2016). Orbis database provides detailed accounting and financial information on listed and unlisted firm across the globe. More importantly, it records the ownership linkage between headquarters and its international subsidiaries. This allows us to match subsidiaries' information with their headquarter. Several selection criteria were used to select our sample subsidiaries: 1) subsidiaries who locate in foreign countries (i.e. the subsidiary's country is different from its headquarters; 2) subsidiaries whose minimum 50.01% equity is controlled by a headquarter (Feinberg & Gupta, 2009); and 3) subsidiaries who have complete information on sales, return on assets, leverage, current assets, current liabilities, date of establishment, capital, employees, intangible assets.

With the above restriction, the final sample includes 12,362 international subsidiaries and 8,597 headquarters, corresponding to 34,532 observations. The sample covers 54 host economies and 77 industries. The ten-year window covers a time period of 2004-2013. The political hazard information of host countries was collected from the Political Constraint Index (POLCON) Dataset. We then are able to calculate host country political risk and local TMTs' experience in high-risk countries – two main independent variables that we consider

in this paper. The other country-level data were collected from the World Bank database. All monetary variables are reported in US dollars.

Variables

Dependent variables

This paper use return on assets, calculated as the net profit divided by total assets, to subsidiary-level firm performance. Return on assets has been widely used in the international business literature (Contractor et al., 2016; Jane W. Lu & Beamish, 2004; Qian, Li, Li, & Qian, 2008). This also helps to compare our results with those of previous studies.

Independent variables

Host country political risk. We employ the political constraints index (POLCON) developed by Witold J Henisz (2000) to measure host country political risk. POLCON has been widely used in the literature (Delios & Henisz, 2003; Demirbag, Glaister, & Tatoglu, 2007; Jiménez et al., 2018; Khoury et al., 2015) as a proxy of political risk since it measures an imperative determinant of foreign direct investment – how easily a government can change its rules arbitrarily and the credibility of its commitments to maintain the policies unchanged. The score of political constraint range from 0 to 1. The lower the values, the executive has more political discretion and could more easily change the existing policies at any point in time. Therefore, lower values imply higher risk. Note that political hazards equal –(political constraints) (Witold J Henisz, 2000). To avoid potential confusion in results interpretation, we reverse-code (multiply it by minus one) the political constraints and plus one. Possible score for this variable ranges from zero (least hazardous) to one (most hazardous).

Local TMTs' experience in high-risk countries. To measure subsidiary-level capability to manage political risk, we use TMTs' tenure experience in foreign risky country. TMTs can acquire international experience via tenure abroad (Sambharya, 1996). Through international tenure experience in the political hazardous country, TMTs accumulates political risk experience of how to manage a company under high political uncertainty. Prior study argues that the number of high-risk subsidiaries within each MNC multinational network reflects MNCs' experience in high-risk country (Feinberg & Gupta, 2009). We extend this argument of MNCs' experience to TMTs' experience. To measure local TMTs' experience in high-risk countries, we count the number of foreign high-risk countries (i.e. excluding the focal subsidiary's country) where the focal firms' TMTs have worked before within each TMTs tenure network. The high-risk countries were defined as those above the mean of country risk (i.e. 1-political constraints based on POLCON) calculated from the population of subsidiaries.

The number of TMTs dispatched by headquarters. To measure this headquarter-level action to manage risk, we employ expatriate TMTs in the foreign subsidiary. Headquarters can influence subsidiary's operation by sending different levels of expatriates. We exclude low-level expatriate and only keep the high-level one, since TMTs member are best personnel to transfer the knowledge from headquarters to subsidiaries (Song & Lee, 2017). Following prior studies (Delios & Bjorkman, 2000), we operationalize this variable as the number of TMT members who is dispatched (or rotated) from headquarters to focal subsidiaries in a given year.

Control variables

Country- and industry-specific characteristics. We control for institutional distance using the absolute difference of institution scores between host and home country (Cui & Jiang, 2012). The institution score is based on the average of six dimensions in Worldwide Governance Indicators. The market potential was measured using GDP growth rate of host country, sourced from World Development Indicators. The market size was captured using GDP per capita (Laeven & Levine, 2009). Finally, we use host country industry concentration to control for the competition within each industry in the host country, which is calculated as one minus top-four-firm sales concentration ratio in each industry (Ho, Wu, & Xu, 2011).

Headquarter-specific characteristics. To measure MNCs' experience in high-risk countries, we follow (Feinberg & Gupta, 2009) and take the total count of MNCs' foreign subsidiaries in high-risk countries. High-risk subsidiaries were defined as those above the mean of country risk (i.e. 1-political constraints based on POLCON) calculated from the population of subsidiaries. We control for MNCs' international experience using multinationality, which is operationalized as the ratio of the number of overseas subsidiaries to total subsidiaries. We use the number of partners (i.e. owners of the focal subsidiaries, focal headquarters excluded) to control for the other partners' influence on the focal subsidiary's decision making and performance (Meschi & Wassmer, 2013). We also control for headquarters' prior commitment on the focal subsidiary (Saunders, Strock, & Travlos, 1990), using the percentage of subsidiary's equity owned by its focal headquarter in prior year.

Subsidiary firm-specific characteristics. Prior research suggests that several firm heterogeneity variables may influence firm performance. Thus, we control for heterogeneous

firm characteristics such as slack available, slack potential (Ref & Shapira, 2017), firm age (Jiménez et al., 2018), sales (Sambharya, 1996), capital (Driffield, Love, & Yang, 2016), and intangibles (Chen & Steiner, 1999). In addition, we control for time fixed effects (Piaskowska & Trojanowski, 2014) and parent-affiliate fixed effects (Driffield et al., 2016).

RESULTS

Our sample structure is a panel data. To reduce the reverse causality, all independent variables are lagged by one year (Lin, 2014). As the Hausman test revealed that explanatory variables were correlated with the unobserved effects ($p<0.05$), and thus, panel regression with fixed effects was used in our analysis. In the meantime, we also added year dummies, and headquarter-subsidiary linkages dummies. Tables 1 and 2 reports the descriptive statistics of the variables used in our analysis and the matrix of correlations coefficients. Table 2 shows that the highest correlation coefficient in Table 1 is 0.6. We also examined the variance inflation factors (VIFs) of each model after our regression analyses. All the VIF scores are below 4, confirming that multi-collinearity is not a major issue in our analyses. Table A1 (in Appendix A) presents the distribution of foreign subsidiaries in our sample. Clearly in Table A1, we can see large variances of political hazards across countries in our sample, from 0.3 (lowest political hazard) to 1 (highest political hazard). This shows our samples are representative for testing our hypotheses.

****** Tables 1 and 2 go about here ******

Table 4 presents the results of our panel regression model. Model 1 contains our country-, industry- and firm-level control variables. Model 2 adds the main variable and

moderating variables. Model 3 and Model 4 include the interaction terms to test our hypotheses 2 and 3. Model 4 is the full model. We conducted Wald tests on the inclusion of the independent variables and interaction terms in each model. The results further confirm that the inclusion of the main variables and interaction terms significantly fit of each model (p<0.05). Similarly, all the model shows the consistent results

****** Table 4 goes about here ******

In terms of the interest, as shown in the Model 2, we find that the relationship between host country political risk and foreign subsidiary's performance are significantly negative (-0.0207, p<0.05). This supports the negative argument is dominant in our samples, indicating that political hazards are threatening foreign subsidiary's performance, confirming Hypothesis 1.

Hypothesis 2 predicts that the negative relationship between host country political risk and foreign subsidiary's performance is weakened when local TMTs has high level of international experience in countries with high political hazards. As shown in Model 3, the significant and positive interaction term (0.1284, p<0.05) between host country political risk and local TMTs' experience in high-risk countries support Hypothesis 2. It clearly confirms that local TMTs' experiencing high-level political hazard in the past will facilitate foreign operations. Consistent with Hypothesis 3, the significantly negative coefficients of the interaction term (-0.0246, p<0.05) in Model 4 shows that the negative relationship between host country political risk and foreign subsidiary's performance is weakened when there is a large number of TMTs dispatched by headquarters, lending support to our Hypothesis 3.

To further show our moderating effects in a visionary way, we plotted marginal moderating effects based on the full model (Model 4 in Table 3). Figure 2 shows the interaction between host country political risk and moderating variables. In Figure 2a, we changed the value of local TMTs' international experience in countries with high political hazards from low level of local TMTs' experience (i.e. the mean minus two standard deviations) to high level of local TMTs' experience (i.e. the mean plus two standard deviations). The positive slope in Figure supports our Hypothesis 2. In contrast, we adopted the same method to plot Figure 2b. The negative slope further confirms that the negative relationship between political hazards and foreign subsidiary's performance is worsened when there is a large number of TMTs dispatched by headquarters.

****** Table 3 and Figure 2 go about here ******

DISCUSSION AND CONCLUSION

Our aim was to investigate how MNCs could effectively manage political hazards and increase their subsidiary's performance after entry. Through a sample of MNCs across 54 countries, we have highlighted the significant contingent roles of TMTs in the relationship between political hazards and foreign subsidiary's performance. In particular, our results show that there is no significant relationship between political hazards and foreign subsidiary's performance. However, the negative relationship between political hazards and foreign subsidiary's performance is significantly weakened when local TMTs have previously gained international experience in countries with high political hazards. In contrast, we have also demonstrated that the negative relationship between political hazards and foreign

subsidiary's performance is significantly strengthened when there is a large number of TMTs members dispatched by the headquarters. Our study contributes to the literature on political hazards, TMTs and international business in several ways.

Firstly, we move beyond past research which largely focuses on the impact of political hazards on pre-entry strategies. Although there is a shared conclusion that political hazards drive MNCs to either avoid or at least minimize their risk exposure in pre-entry strategies (Delios & Henisz, 2000, 2003; Lu et al., 2018), we still have limited knowledge about how MNCs dynamically manage political hazards and achieve superior foreign subsidiary performance across time. Our direct investigation of TMTs' moderating role in the relationship between political hazards and foreign subsidiary's performance addressed this gap.

Secondly, although there are a few exceptions examining performance implications of political hazards, our current findings are inclusive (Dai et al., 2013; Getachew & Beamish, 2017; Jiménez & Delgado-García, 2012; Liu et al., 2016). Instead of testing costs or opportunity arguments separately, our findings on the contingent role of TMTs extend this line of research by confirming that whether political hazards are a threat or rather an opportunity depends on the extent of how MNCs exploit their TMTs' knowledge and capabilities in their foreign subsidiaries. The significant findings in this study support that local TMTs with substantial experience in high political hazardous countries will weaken the negative relationship between political hazards and foreign subsidiary's performance while the number of TMTs members sent from the headquarters have the opposite effects. Such significant moderating effects of TMTs identify the boundaries for the relationship between

political hazards and subsidiary's performance, offering an important justification for the prior mixed findings.

Furthermore, the significant moderating roles of TMTs in the relationship between political hazards and foreign subsidiary's performance shed light on the need to consider the interactions between TMTs and institutions in influencing firms' performance. Prior literature on mitigating political hazards dominantly focuses on factors occurring at the headquarter level (i.e. (Delios & Henisz, 2000, 2003; Getachew & Beamish, 2017; Jiménez et al., 2018; Lu et al., 2018)). Until recently, several scholars such as Giambona et al. (2017) or Buckley, Chen, Clegg, and Voss (2018) have pointed out the important role of TMTs' experience and risk-preferences in overseas risk management. The current study not only shares similar interests in acknowledging TMTs' significant influences on international success, but it also complements this line of research by representing the different roles of TMTs locally deployed at the subsidiary level as well as of those coming from the headquarter. We have concluded that subsidiary's TMTs with an extensive pre-international experience in politically hazardous countries will facilitate political hazards management and increase the overall performance of the subsidiary. However, TMTs from headquarter are not so helpful for managing political hazards in foreign subsidiary. The increasing number of TMTs coming from the headquarters will most likely sacrifice the extent of flexibility and adaptability; two crucial concepts for surviving in unstable foreign environments. Compared to Song and Lee (2017)'s study, which finds MNCs' foreign subsidiary in hostile market condition are less likely to divest if there is a large number of TMTs dispatched from their headquarters, our opposite moderating effects of TMTs in this study highlight the distinctive performance

implications of TMTs from headquarters in hostile economic environment and political environment.

Lastly, our study also extend literature on TMTs international experience. TMTs international experience has been well documented in international business and assumed as a facilitator for MNCs' international expansion (S. Nielsen, 2010; Piaskowska & Trojanowski, 2014; Sambharya, 1996). However, TMTs international experience in prior studies are general international knowledge. Our results of the positive moderating role of subsidiary's TMTs international experience weighted by political hazards in the relationship between political hazards and foreign subsidiary's performance, on the one hand, share the similar findings that international knowledge of TMTs has substantial influence on international operations. On the other hand, we advanced this literature by explicitly testing the positive role of TMTs who actually learn from politically hazardous environment. This demonstrates a more refined and in-depth understanding of TMTs in MNCs' international success.

Implications

Our findings have important implications for MNCs' managers. In order to reduce loss and increase gain in operating countries with high political hazards, our findings help MNCs' managers better understand how to manage efficiently in countries with high political hazards after entry. Our findings suggest that MNCs should allocate full flexibilities to local operations in order to respond to the dynamic political environment in the host country. More specifically, for international success, our findings suggest that MNCs could hire executives who have rich working experience in politically hazardous countries to facilitate foreign operations. At the same time, MNCs should also be aware of dispatching many TMTs from

headquarters that may inhibit foreign subsidiary's capabilities to respond to the highly changing environment.

Limitations

Despite the several strengths reported in the study, some limitations can be identified that will offer opportunities for future research. The current study focuses exclusively on the contingent role of TMTs' international experience in the relationship between political hazards and foreign subsidiary's performance. It would be promising to extend the investigation to other characteristics of TMTs, such as their demographic diversity or their tenure (Hambrick & Mason, 1984). This would provide a more comprehensive view of how managers influence MNCs' business success. Another limitation, and in line with prior studies in international business area (Delios & Bjorkman, 2000; Song & Lee, 2017), is that we consider TMT members dispatched from the headquarter as interchangeably covering the functions of knowledge transfer and agent of direct control to ensure that the interests between headquarter and foreign subsidiary are always aligned. A new line of research could go beyond these two functions and distinguish them so to have an in-depth understanding of how expatriates can contribute to manage politically unstable environments.

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TABLES

Table 1 Operationalization of Variables

Variable	Operationalization	Source
Subsidiary's performance	The focal subsidiary's return on assets using net income.	Orbis
Host country political risk	One minus Polconiii in the Political Constraint Index (POLCON) Dataset (2017 Data Release).	POLCON
Local TMT's experience in high-	The number of high-risk countries (i.e. above the mean of country risk calculated from the population of subsidiaries) in	POLCON, Orbis
The number of TMT dispatched by	The number of expatriates in the focal subsidiary. The logarithm transformation is applied.	Orbis
Institutional distance	The absolute difference of institution scores (the mean of six dimensions in WGI) between host country and home country.	WGI
GDP growth rate	The host country's GDP per capita (%).	WDI
GDP per capita	The logarithm of the host country's GDP per capita (US$).	WDI
Host country industry concentration	One minus top-four-firm sales concentration ratio in each industry of host country.	Orbis
MNCs' experience in high-risk countries	The number of MNCs' high-risk subsidiaries (i.e. above the mean of country risk calculated from the population of	POLCON, Orbis
Multinationality	The ratio of the number of overseas subsidiaries to total subsidiaries.	Orbis
Number of partners	The logarithm of the total number of partners (focal headquarter excluded) who have equity ownership of the focal	Orbis
Ownership by headquarter	The level of ownership controlled by the focal headquarter in prior year (%).	Orbis
Slack available	The logarithm of the focal subsidiary's current assets to current liabilities ratio.	Orbis
Slack potential	The focal subsidiary's debt to equity ratio.	Orbis
Firm age	The logarithm of the focal subsidiary's duration of the existence since the date of establishment.	Orbis
Sales	The logarithm of the focal subsidiary's total sales.	Orbis
Capital	The logarithm of the focal subsidiary's total fixed capital divided by the number of employees.	Orbis
Intangibles	The logarithm of the focal subsidiary's intangible assets (US$).	Orbis

Table 2 Descriptive Statistics

Variable	Mean	Std. Dev.	Obs
Subsidiary's performance	0.03	0.05	34,532
Host country political risk	0.54	0.12	34,532
Local TMT's experience in high-risk countries	0.07	0.17	34,532
The number of TMT dispatched by headquarter	0.27	0.50	34,532
Institutional distance	0.40	0.45	34,532
GDP growth rate	0.01	0.03	34,532
GDP per capita	10.52	0.46	34,532
Host country industry concentration	0.75	0.13	34,532
MNCs' experience in high-risk countries	1.90	1.49	34,532
Multinationality	0.94	0.14	34,532
Number of partners	0.34	0.48	34,532
Ownership by focal headquarter	0.90	0.18	34,532
Slack available	1.11	0.65	34,532
Slack potential	0.88	1.20	34,532
Firm age	2.75	0.82	34,532
Sales	16.92	2.27	34,532
Capital	10.47	2.52	34,532
Intangibles	5.53	6.80	34,532

Table 3 Correlation Matrix

		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
1.	Subsidiary's performance	1.00																	
2.	Host country political risk	-0.03	1.00																
3.	Local TMT's experience in high-risk countries	0.01	0.25	1.00															
4.	The number of TMT dispatched by headquarter	0.02	0.03	0.22	1.00														
5.	Institutional distance	-0.05	0.20	-0.06	-0.15	1.00													
6.	GDP growth rate	0.03	-0.04	-0.13	-0.04	0.07	1.00												
7.	GDP per capita	0.03	-0.27	0.03	0.13	-0.60	-0.10	1.00											
8.	Host country industry concentration	-0.01	-0.02	-0.03	-0.04	0.01	0.08	0.01	1.00										
9.	MNCs' experience in high-risk countries	0.03	-0.15	0.07	0.20	-0.12	-0.04	0.13	0.00	1.00									
10.	Multinationality	-0.01	0.05	-0.02	-0.05	0.05	0.01	-0.04	0.02	0.07	1.00								
11.	Number of partners	0.01	0.02	0.09	0.18	0.03	-0.02	-0.04	-0.04	0.27	-0.07	1.00							
12.	Ownership by focal headquarter	-0.01	0.07	-0.05	-0.11	0.07	0.02	-0.01	0.02	-0.17	-0.02	-0.17	1.00						
13.	Slack available	0.06	0.03	0.00	-0.02	0.03	-0.03	-0.01	0.02	-0.03	0.01	-0.02	0.01	1.00					
14.	Slack potential	-0.13	0.10	0.03	0.04	-0.02	0.00	0.03	0.01	0.00	-0.01	0.03	0.01	-0.23	1.00				
15.	Firm age	0.07	-0.13	0.00	0.08	-0.18	-0.02	0.19	0.01	0.18	-0.04	0.10	-0.02	0.03	-0.05	1.00			
16.	Sales	0.07	-0.11	0.05	0.11	-0.23	0.01	0.26	0.01	0.27	-0.07	0.20	-0.09	-0.21	0.14	0.25	1.00		
17.	Capital	-0.09	-0.08	0.01	0.04	-0.07	-0.02	0.11	0.06	0.13	-0.05	0.12	-0.04	-0.10	0.14	0.04	0.25	1.00	
18.	Intangibles	-0.05	-0.13	-0.01	0.01	-0.05	-0.01	0.05	-0.02	0.12	-0.04	0.17	-0.04	-0.13	0.09	0.02	0.41	0.30	1.00

Notes: Correlation coefficients with values larger than |0.15| are significant at over 10% level.

Table 4 Fixed Effects Panel Regression Model for Host Country Political Risk and Subsidiary Performance

	(1)	(2)	(3)	(4)	(5)
	Model 1	Model 2	Model 3	Model 4	Model 5
Direct effects					
Host country political risk		-0.0207**	-0.0237**	-0.0175*	-0.0205**
		(0.010)	(0.010)	(0.010)	(0.010)
Local TMT's experience in high-risk countries		-0.0017	-0.0789**	-0.0012	-0.0823**
		(0.003)	(0.039)	(0.003)	(0.039)
The number of TMT dispatched by headquarter		0.0015	0.0014	0.0138**	0.0143**
		(0.002)	(0.002)	(0.006)	(0.006)
Moderating effects					
Host country political risk*Local TMT's experience in high-risk countries			0.1284**		0.1349**
			(0.065)		(0.065)
Host country political risk*The number of TMT dispatched by headquarter				-0.0246**	-0.0256**
				(0.012)	(0.012)
Controls					
Country level					
Institutional distance	0.0020	0.0025	0.0026	0.0024	0.0025
	(0.005)	(0.005)	(0.005)	(0.005)	(0.005)
GDP growth rate	0.0009***	0.0008***	0.0008***	0.0008***	0.0008***

	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
GDP per capita	-0.0107**	-0.0090*	-0.0098**	-0.0095**	-0.0104**
	(0.004)	(0.005)	(0.005)	(0.005)	(0.005)
Industry level					
Host country industry concentration	0.0035	0.0035	0.0035	0.0036	0.0037
	(0.004)	(0.004)	(0.004)	(0.004)	(0.004)
Parent level					
MNCs' experience in high-risk countries	0.0001	0.0003	0.0004	0.0003	0.0004
	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)
Multinationality	0.0166***	0.0165***	0.0164***	0.0165***	0.0163***
	(0.006)	(0.006)	(0.006)	(0.006)	(0.006)
Number of partners	-0.0016	-0.0016	-0.0016	-0.0016	-0.0016
	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)
Ownership by focal headquarter	0.0090***	0.0091***	0.0090***	0.0091***	0.0090***
	(0.003)	(0.003)	(0.003)	(0.003)	(0.003)
Subsidiary level					
Slack available	-0.0024***	-0.0024***	-0.0024***	-0.0024***	-0.0024***
	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)
Slack potential	-0.0005	-0.0005	-0.0005	-0.0005	-0.0005
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Firm age	0.0026	0.0028	0.0028	0.0029	0.0029

	(0.003)	(0.003)	(0.003)	(0.003)	(0.003)
Sales	0.0006	0.0006	0.0006	0.0006	0.0006
	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)
Capital	-0.0017***	-0.0017***	-0.0017***	-0.0017***	-0.0017***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Intangibles	-0.0004***	-0.0004***	-0.0004***	-0.0004***	-0.0004***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Adj R-squared	0.402	0.402	0.402	0.402	0.403
No. observation	34532	34532	34532	34532	34532
F statistics	16.501	14.784	14.397	14.337	13.991

Notes: Dependent variable is subsidiary's performance. All columns control time fixed effects and parent-affiliate fixed effects. Values in parentheses are robust standard errors. Significance levels: *0.1; **0.05; ***0.01.

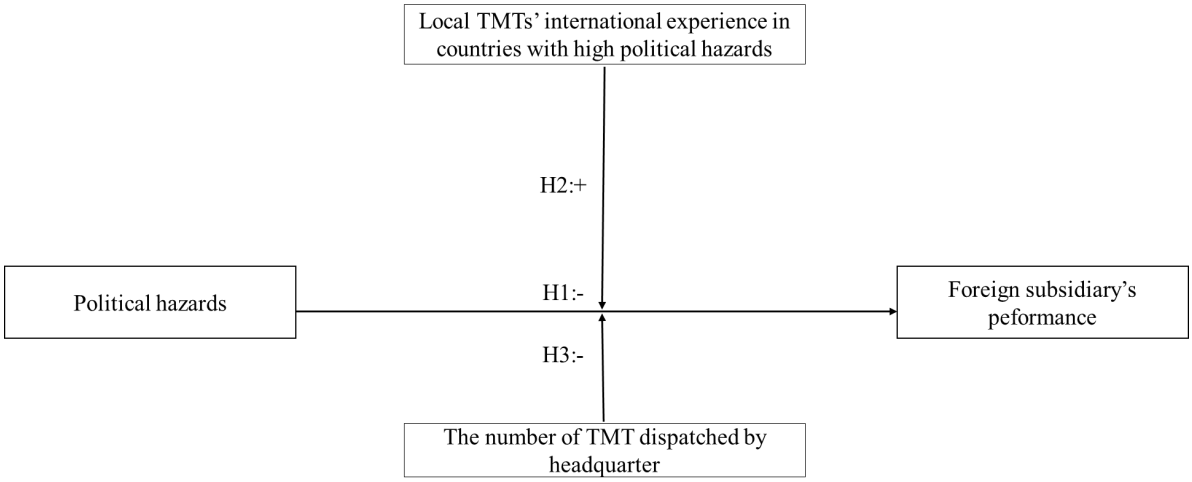

Figure 1: Research Model

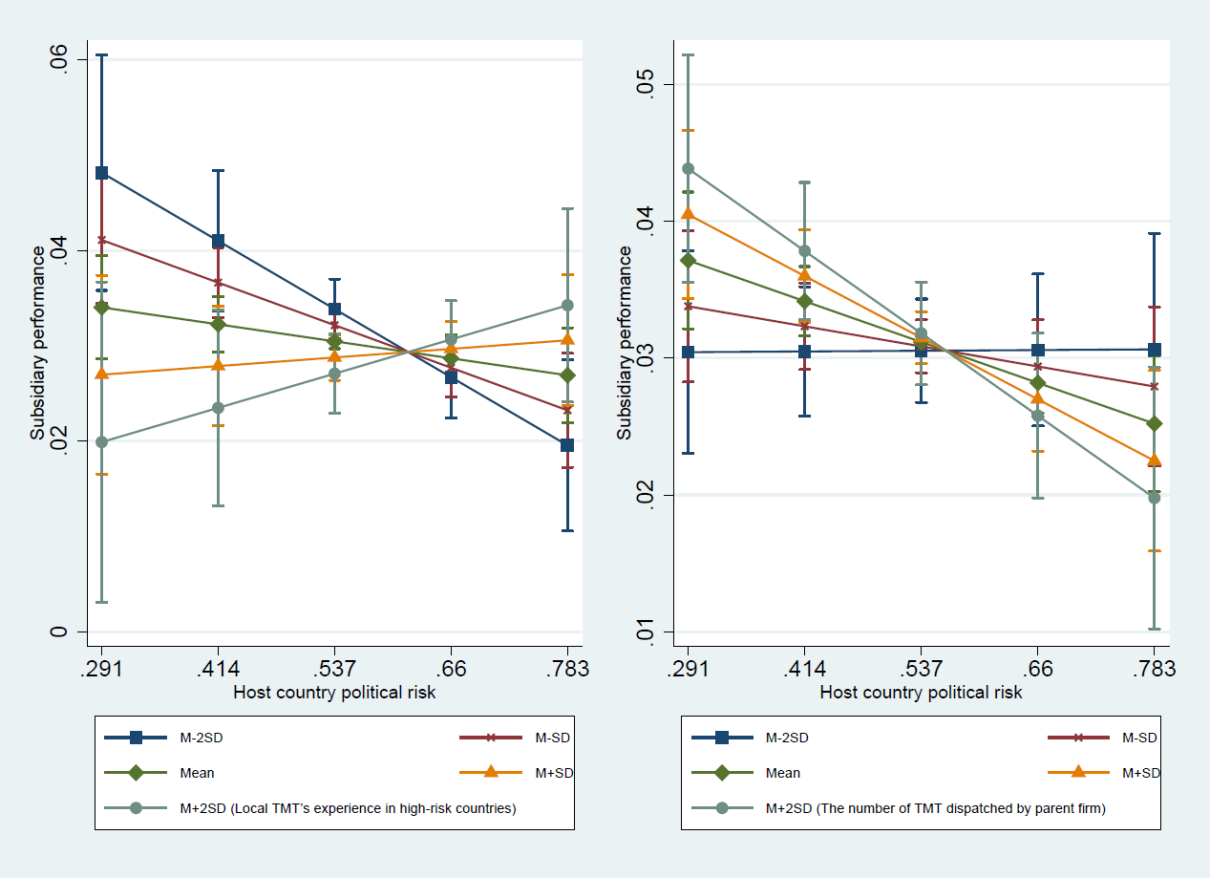

Figure 2: Moderating Effects of Local TMT's Experience in High-Risk Countries and The Number of TMT Dispatched by Headquarter

Appendix A

Table A1: The Number of Firms and Main Variables for Each Economy

Economy	N	Subsidiary's performance	Host country political risk
Australia	4	0.04	0.50
Austria	309	0.04	0.57
Bangladesh	1	0.10	0.64
Belgium	1401	0.03	0.30
Brazil	2	0.09	0.84
Bulgaria	23	0.02	0.50
Canada	1	0.04	0.55
China	2	-0.02	1.00
Colombia	3	0.05	0.80
Cyprus	10	0.04	0.49
Czech Republic	3	0.01	0.48
Denmark	1	0.00	0.45
Estonia	183	0.03	0.48
Finland	268	0.03	0.46
France	313	0.03	0.48
Germany	950	0.03	0.51
Ghana	1	0.06	0.64
Greece	2	0.07	0.61
Hong Kong	13	0.05	1.00
Hungary	11	0.04	0.63
India	11	0.07	0.36
Indonesia	9	0.05	0.75
Ireland	466	0.03	0.55
Israel	3	0.03	0.42
Jordan	1	0.04	0.93
Kazakhstan	1	0.08	1.00
Kuwait	1	0.04	0.53
Latvia	269	0.03	0.46
Lithuania	2	0.05	0.45
Luxembourg	74	0.04	0.52
Malaysia	3	0.07	0.50
Morocco	1	0.12	0.69
Netherlands	446	0.03	0.38
Nigeria	4	0.07	0.65
Norway	2	0.06	0.49
Philippines	4	0.06	0.77
Poland	9	0.04	0.65
Portugal	1	0.05	0.59
Romania	352	0.03	0.71
Russia	672	0.02	0.67
Singapore	2	0.00	0.97
Slovakia	1	0.00	0.48
Slovenia	23	0.04	0.47
South Africa	4	0.07	0.58
South Korea	44	0.04	0.58
Spain	900	0.02	0.64
Sri Lanka	2	0.00	0.60
Sweden	574	0.04	0.49
Thailand	2	0.05	0.66
Turkey	1	-0.01	0.63
UK	4954	0.03	0.61
US	16	0.03	0.60
Ukraine	6	0.00	0.63
Zimbabwe	1	-0.01	0.64

Notes: The table covers 54 host economies. There are 12,362 overseas subsidiaries and 8,597 headquarters.