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# General Manager Succession in Multinational Enterprise Subsidiaries

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## **ABSTRACT**

This dissertation, based on interviews with over 40 managers and longitudinal data from over 1,900 foreign subsidiaries, develops new insights regarding subsidiary general manager (GM) changes in multinational enterprises (MNEs).

Essay 1 addresses whether GM successions accelerate or decelerate the momentum for further GM change, and improve or disrupt subsidiary performance. I show that MNE managers learn from prior GM change in order to appoint a right candidate, thus improving subsidiary performance and decelerating the momentum for further succession. But the reduced marginal costs of making succession decisions increasingly render GM change more likely. The accumulated shocks ultimately translate into poor subsidiary performance and lower subsidiary survival likelihood. To improve survival, I show that the subsidiary can deploy a parent country national (PCN) GM at its founding, followed by host country national (HCN) successors.

Essay 2 provides a more accurate account of subsidiary GM successions when subsidiary performance disappoints. It challenges the strategic contingencies perspective, which holds that GMs can accrue power from strategic configurations to weaken the existing association between performance and GM succession. Taking the MNE attention perspective, I show that some strategic configurations that increase subsidiary GM power can also enhance MNE monitoring, thus strengthening rather than weakening the subsidiary performance–subsidiary GM succession link. I conceptualize this as the performance–attention–succession model. I also show that GM succession is an effective subsidiary turnaround strategy.

Essay 3 elaborates a nuanced categorization of subsidiary GM successors. Extant studies suggest that to better address host country business practices and cultures, it is sensible to deploy HCN subsidiary GMs. The data, however, show that using HCN GM successors is not always

the best strategy. For HCN GMs promoted from within the subsidiary, ex post opportunism may arise, resulting in unsatisfactory subsidiary performance. Appointing HCN GMs from outside the subsidiary may limit opportunism, but it can entail divided engagement. Expatriating PCN subsidiary GMs, on the other hand, may beget over-reliance on existing practices. I reveal two safeguards that can address bounded reliability.

**Keywords:** Managerial succession, general managers, evolutionary theory, path-dependence, organizational change, expatriates, local managers, routines, the role of headquarters, MNE attention, subsidiary power, strategic contingencies, homophily, subpar performance, subsidiary turnaround, successor origin, micro-foundations, opportunism, bounded reliability, socialization, empowerment, longitudinal analysis, mixed-methods, multiple-case study

## **SUMMARY FOR LAY AUDIENCE**

This dissertation, based on interviews with over 40 managers and quantitative data from over 1,900 foreign subsidiaries, aims to provide new insights regarding the subsidiary general manager (GM) changes in multinational enterprises (MNEs).

Essay 1 focuses on continual GM changes. While with every succession, MNE managers learn more about how to select the right candidate, thus reducing the need to change the subsidiary GM again, I found that from a threshold onward, the reduced marginal costs of making succession decisions increasingly render succession more likely. The accumulated shocks ultimately lead to poor subsidiary performance and higher subsidiary exit rate. As a remedy, I show that the subsidiary can deploy a parent country national (PCN) GM at its founding, followed by host country national (HCN) successors.

Essay 2 focuses on the performance–succession relationship. While existing studies hold that GMs can leverage strategic configurations to defer succession when firm performance disappoints, I show that in the presence of structural factors that enhance the subsidiary GM power, the poor performance-succession relationship is not necessarily decreased. However, in the presence of structural factors that enhance MNE monitoring, the poor performance-succession relationship will be strengthened. This model thus provides a more accurate account of subsidiary GM successions when subsidiary performance disappoints. I also show that changing GMs can effectively turn around the ailing subsidiary.

Essay 3 focuses on subsidiary GM successor origin. Although it seems sensible to deploy HCN GMs in market-seeking subsidiaries in order to better address host country environment, I show that using HCN GM successors is not always the best strategy. HCN GM successors promoted from within the subsidiary may pursue self-interest with deceitfulness, resulting in

unsatisfactory subsidiary performance. Appointing HCN GMs from outside the subsidiary may address the problem, but it can lead to identity-based discordance. Expatriated PCN subsidiary GMs, on the other hand, may surrender to the force of old habit. The data delineate several managerial tools that can address these issues.

Overall, this dissertation underscores the complexity of subsidiary GM succession, bridges succession strategy with implementation, and provides a springboard for future studies on this largely neglected topic.

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## CHAPTER 1: GENERAL MANAGER SUCCESSION IN MULTINATIONAL ENTERPRISE SUBSIDIARIES

### INTRODUCTION

The general manager (GM) role in foreign subsidiaries of multinational enterprises (MNEs) is important to subsidiary-level development and performance (Björkman, Fey, & Park, 2007; Meyer, Li, & Schotter, 2020; O'Brien, Scott, Andersson, Ambos, & Fu, 2019). The staffing of this position is thus a critical decision in MNEs (Beechler, Bird, & Taylor, 1998; Dowling, Welch, & Schuler, 1999). A sizeable body of literature on international human resource management (IHRM) in subsidiaries of MNEs exists (Delios & Björkman, 2000; Fang, Jiang, Makino, & Beamish, 2010; Gaur, Delios, & Singh, 2007; Gong, 2003; Tarique, Schuler, & Gong, 2006). However, by mainly adopting a nationality-based view (e.g., Harzing, 2001; Kessapidou & Varsakelis, 2003; Peng & Beamish, 2007; Schotter & Beamish, 2011; Thompson & Keating, 2004), these existing studies paint a *snapshot* of the talent management within subsidiaries and are overly simplistic (Meyer et al., 2020).

Thus far, there is a paucity of theoretical and empirical research on subsidiary GM successions (For exceptions, see Bebenroth & Froese, 2020; Pitcher, Chreim, & Kisfalvi, 2000; Selmer & de Leon, 1997; Selmer & Luk, 1995), despite the fact that IHRM systems are inherently *dynamic* (Rees & Smith, 2017; Taylor, Beechler, & Napier, 1996) and that the replacement of GMs can occur in the history of any organization (Haveman, 1993). There are two possible reasons for this substantial gap in the literature. First, the theoretical development on the dynamic relationships between foreign subsidiary-level variables in general is limited (Riaz, Rowe, & Beamish, 2014). Second, empirically investigating complex issues over time and data collection in this regard is intricate and challenging (Brewster, Mayrhofer, & Smale, 2016). The lack of nuanced attention on this topic is unfortunate, because GM succession has the

potential to strongly impact a subsidiary outcomes (Colakoglu, Tarique, & Caligiuri, 2009).

Decision makers in many MNEs still do not know how and where to find the best GM candidates (Collings, Scullion, & Morley, 2007; Tarique & Schuler, 2010), thus failing to identify, deploy, and manage talent for this position effectively (Mellahi & Collings, 2010). As the risk of selecting the wrong manager is greater than any time in the past (Donatiello, Larcker, & Tayan, 2018), there is need for a systematic understanding of subsidiary GM successions. The task is particularly pressing in this challenging time, given that the COVID-19 pandemic spurs MNEs' strategic reorientation (and thus GM change) in many host countries but it also renders sending managers on international assignments difficult (Caligiuri, De Cieri, Minbaeva, Verbeke, & Zimmermann, 2020). Meanwhile, the pandemic exposes an old problem, that is, there are talented managers as well as poor performers in foreign subsidiaries remaining in "blind spots" (Mellahi & Collings, 2010), which then has pushed many MNE decision makers to reconsider whether they indeed have the right people in the right places.

In contrast to the limited succession literature within the field of international management (IM), the managerial succession problem has been studied widely in strategic leadership (Berns & Klarner, 2017; Bilgili, Calderon, Allen, & Kedia, 2017; Giambatista, Rowe, & Riaz, 2005; Hutzschenreuter, Kleindienst, & Greger, 2012; Kesner & Sebor, 1994; Schepker, Kim, Patel, Thatcher, & Campion, 2017). Considerable evidence exists that the characteristics of the incumbent GM (e.g., tenure, skills, prestige) (Boeker, 1992), the composition of the board of directors (Shen & Cannella, 2002), the firm's performance and characteristics (Kesner & Sebor, 1994), and the environmental dynamics (Friedman & Singh, 1989) all affect the change in GMs.

In this parallel domain, three types of models may hold the potential to inform subsidiary GM change: (I) the longitudinal models, which adopt a dynamic perspective to analyze the

(acceleration *or* deceleration) momentum of repeated GM changes (Amburgey & Miner, 1992; Beck, Brüderl, & Woywode, 2008); (II) the power model, which is built on the premise that the existing GM in a poorly performing organization can use strategic configurations to gain power in order to defer succession (Boeker, 1992; Drazin & Rao, 1999); and (III) the contingency model, which primarily focuses on whether the new GM is externally or internally appointed, and when the benefits of each successor type are likely to occur (Finkelstein, Hambrick, & Cannella, 2009; Georgakakis & Ruigrok, 2017). These models, though insightful, have been developed in domestic settings. Managing human resources within MNEs, however, is “more than a matter of scale and presents the field with unique and complex challenges” (Collings, Scullion, & Curran, 2018: 378). This suggests that insights drawn from the strategic leadership literature may warrant theoretical adaptations in order to inform subsidiary GM changes.

This dissertation is aimed as a step towards uncovering and explaining these adaptations in order to inform subsidiary GM successions in a coherent manner. Essay 1 focuses on the evolution of MNE subsidiaries by exploring how multiple GM changes unfold in the setting of foreign subsidiaries. By drawing on evolutionary theory (Kogut & Zander, 1993, 1995, 1996, 2003) and empirical observations, I argue that: first, the deceleration and acceleration momentum for further GM change can take place *sequentially*; and second, the continual GM change can be *both* adaptive and disruptive, depending on the pace and path of change. Essay 2 aims to explore how each succession event is triggered or impeded by specifying the process through which MNE attention and subsidiary GM power jointly affect subsidiary GM succession. By contrasting the MNE attention perspective (Ambos, Andersson, & Birkinshaw, 2010; Bouquet & Birkinshaw, 2008; Monteiro, 2015) with the strategic contingencies perspective (Drazin & Rao, 1999; Hickson, Hinings, Lee, Schneck, & Pennings, 1971), I argue that strategic configurations,

from which GMs of foreign subsidiaries may accrue power to defer succession in a poorly performing organization (Boeker, 1992), can also enhance MNE monitoring, thereby facilitating subsidiary GM changes. Essay 3 aims to explore the micro-process through which different types of subsidiary GM successors are selected and managed, and how these succession decisions link to subsidiary performance. Through considering the nationality-based strategy and the origin-based strategy *together*, this qualitative inquiry reveals that effective GM successors for local-market-seeking subsidiaries need to be able to simultaneously confront various facets of bounded reliability (BRel) (Kano & Verbeke, 2015, 2019; Lumineau & Verbeke, 2016; Verbeke & Greidanus, 2009). Essay 3 delineates several safeguards that can economize on BRel effectively.

In the remainder of this chapter, I first briefly review the managerial succession research. Next, I discuss how this dissertation addresses the theoretical and empirical gaps in existing studies on subsidiary GM succession. To that end, I also present a short overview of the aforementioned essays. I then briefly touch upon this dissertation's contributions.

## **MANAGERIAL SUCCESSION RESEARCH**

### **The nationality-based view**

Existing subsidiary staffing studies mainly argue that subsidiaries can choose between host-country nationals (HCNs), parent-country nationals (PCNs), and third-country nationals (TCNs) to staff managerial positions (Gaur et al., 2007; Shin, Hasse, & Schotter, 2017). Each of these nationality-based staffing choices may serve a unique strategic purpose. PCNs may possess a greater understanding of the MNE's culture, and thereby can facilitate communication with the headquarters and align the subsidiary's operations with the interests of the MNE (Tarique et al., 2006). Moreover, the role of PCNs in controlling the subsidiary on behalf of the headquarters is gaining prominence in the literature (Collings, Scullion, & Dowling, 2009). In contrast,

researchers view HCNs as being more familiar with the host-country environment, and thus being more effective in localizing the subsidiary's operations (Gupta & Govindarajan, 1991).

More recently, researchers have begun to fine-tune the nationality-based staffing framework by either expanding the category of subsidiary GMs or bringing to the fore the importance of organizational and environmental contingencies (for a detailed list, see McNulty & Brewster, 2017). Examples demonstrating the former endeavor include studies on expatriates of host-country origin (Thite, Srinivasan, Harvey, & Valk, 2009), the local employment of ex-HCNs (Tung & Lazarova, 2006), the localization of expatriates (Tharenou & Harvey, 2006), and the employment of migrants (Ariss, 2010); whereas the latter is mainly manifested in studies on the moderating effects of institutional distance, cultural difference, headquarters and subsidiary characteristics, and intraorganizational relationships on the utilization of various nationality-based staffing strategies (e.g., Boyacigiller, 1990; Gaur et al., 2007; Gong, 2003; Peng & Beamish, 2014; Rickley & Karim, 2018; Schotter & Beamish, 2011a).

This research agenda has been established as one of the cornerstones of the field of IHRM (Thomas, Lazarova, & Inkson, 2005) and some studies also began to adopt this nationality-based view to investigate subsidiary GM successions (e.g., Bebenroth & Froese, 2020). However, research on subsidiary GM successions is only at a rather nascent stage. In a parallel fashion, strategic leadership researchers have investigated this topic extensively within a domestic context and formulated several insightful models, to which I now turn.

### **The longitudinal model**

Key personnel succession is one of the most critical managerial issues for a firm (Schepker et al., 2017), and often an ongoing concern at the leadership level (Friedman, 2017). Extensive research has dealt with succession antecedents (for a review, see Berns & Klarner, 2017), among



which two competing lines of inquiry have stimulated a fruitful conversation. First, some researchers argue that organizational change is a self-reinforcing process (Amburgey & Miner, 1992), such that prior change accelerates the momentum of further change (Amburgey, Kelly, & Barnett, 1993). In the present context, I call it the acceleration model. Second and more recently, other researchers found that after controlling for firm-level heterogeneity, prior change in GMs reduces the likelihood of subsequent change such that the multiple changes demonstrate a deceleration pattern (Beck et al., 2008). Accordingly, I call it the deceleration model.

Because the foregoing acceleration–deceleration models suggest different paces of change, and the pace of change is found to be a major contingency factor that moderates the succession–performance relationships (Klarner & Raisch, 2013; Rowe, Cannella, Rankin, & Gorman, 2005), it follows that the momentum of continual GM changes may have implications for firm performance. However, theoretical and empirical inconsistencies also exist among the organizational studies on the consequences of GM change (Giambatista et al., 2005; Hutzschenreuter et al., 2012; Kesner & Sebra, 1994). Common-sense theory (and the succession-adaptation model), for example, suggests that managerial successions, as a reflection of the firm’s adaptive nature, contribute to performance improvement (Grusky, 1963; Huson, Malatesta, & Parrino, 2004). In contrast, vicious cycle theory argues that successions disrupt routines (Grusky, 1960; Klarner & Raisch, 2013), thus worsening firm performance.

### **The power model**

Concurrently, the performance–power–succession model has emerged to investigate the factors contributing to GM change (Boeker, 1992; Fredrickson, Hambrick, & Baumrin, 1988; Salancik & Pfeffer, 1980). The central premise is that when decision makers do not like a performance outcome, a frequent response is to replace the individual who is accountable for the

outcome (Pfeffer & Salancik, 2003). Thus, poor firm performance, for example, will likely result in the dismissal of the GM (Boeker, 1992; Boeker & Goodstein, 1993; Kesner & Sebra, 1994; Wiersema & Bantel, 1993). However, the relationship between performance and succession is not as direct and simple as it seems (Pfeffer & Salancik, 2003; Salancik & Pfeffer, 1980), given that a variety of sociopolitical forces may intervene between performance and the change of GM (Fredrickson et al., 1988). When an incumbent controls critical resources, for example, the GM in a poorly performing organization can gain power to avert replacement (Boeker, 1992). This performance–power–succession model has also been applied to the study of other types of executive roles such as strategic business unit managers (Drazin & Rao, 1999).

### **The contingency model**

A third well-researched topic is GM successor origin. As the selection of a new GM offers a great opportunity for decision makers to align their organizations with the environment and the interests of the board of directors (Friedman, 2017; Ocasio, 1999), considerable evidence exists that decisions on whether the new GM comes from outside or inside the firm can impact firm performance (Finkelstein et al., 2009). The mechanisms of this impact are threefold. First, outsiders are normally conceived of as change agents such that external successors tend to pursue more strategic change (Wiersema, 1992), while internal promotion may indicate the board's preference to broadly maintain the current strategic thrust (Finkelstein et al., 2009). Second, insiders possess more firm-specific knowledge and more established social ties to employees (Berns & Klarner, 2017) and managerial-level political coalitions (Wiersema, 1992). Third, to the extent that the organization has more detailed information about insider successors, information asymmetry is less severe (Zajac, 1990). These mechanisms have also been successfully applied to the study of other types of executive roles. Of particular interest is the

study of DeOrtentiis et al. (2018) on subunit managers in domestic firms. Their results showed that internal candidates demanded lower starting salaries, even though their performance ratings were higher and their probability of promotion was lower. Consequently, the authors suggested that firms staff the subunit manager position with internal candidates whenever possible.

## **MNE EVOLUTION AND SUBSIDIARY GM SUCCESSION IN CHAPTER 2**

Levitt and March (1988) view organizations as a multilevel learning system where inferences are encoded from history into routines that independently guide future organizational actions. Within such a framework, researchers have established that repetitive momentum can occur when firms keep repeating a specific action (Amburgey et al., 1993; Amburgey & Miner, 1992). This is because the efficiency of any particular procedure increases with use, which then results in the more frequent use of the procedure (Levitt & March, 1988). In this light, Ocasio (1999) found that as the rules of succession are established, a momentum is created such that firms likely repeat CEO succession of the same type. Repetitive momentum is also found elsewhere (Greve, 2013). Within IM, for example, studies have shown that multiple changes during the evolution of international equity joint ventures (IJVs) can trigger more changes (Chung & Beamish, 2010). Also, decision makers in MNEs are likely to repeat the mode of internationalization they have used in the past (Oehme & Bort, 2015).

However, the momentum argument builds on some behavioral assumptions that have been challenged. Beck et al. (2008) argue that as organizations learn to change by changing over time, the need to replace GMs again should decline. Through the accumulation of experience in changing GMs, decision makers can refine their succession routines, aspirations, and search and attention rules. As such, this argument contrasts squarely with the momentum hypothesis, but underneath this conceptualization lie some strong assumptions including that information is rich

and available and that feedback is prompt and non-random. Realistically, however, when the organizational structure and environment are complex, key outcome information may remain unclear (Bazerman, 2006).

In parallel, evolutionary theorists also highlight MNEs' superior efficacy in learning and knowledge transfer. But the distinctive features of MNEs and their environments render the preceding acceleration–deceleration models less applicable to the setting of subsidiaries. First, the acceleration pattern may prevail because the environment facing MNEs is much more complex than that facing domestic firms (Kostova, Roth, & Dacin, 2008). As noted by Cooke et al. (2019), MNEs have to grapple with more complex and challenging contexts within and outside the organization as well as within and across national borders. Second, the deceleration pattern may prevail, as MNEs specialize in the creation and internal transfer of knowledge (Kogut & Zander, 1993; Nohria & Ghoshal, 1997). These features therefore lead to the following puzzle: Will the complexity of environments impede MNEs from refining their subsidiary GM succession routines, or will MNEs' superior efficiency in knowledge creation and transfer facilitate the refinement of succession routines? Investigating the momentum of GM successions is important, because it might lead to organizational inertia or lock the subsidiary into continual GM change, which will in turn affect subsidiary performance and survival.

## **Essay 1**

The first essay (Chapter 2) is entitled “*Antecedents and consequences of general manager successions in foreign subsidiaries*”. It examines the longitudinal dynamics of subsidiary GM succession over the MNE's evolution process. Specifically, it aims to address whether GM successions accelerate or decelerate the momentum for further GM change, and improve or disrupt firm performance. I argue that while MNE managers can learn from prior GM change in the subsidiary in order to appoint a right candidate, thus improving subsidiary performance and

decelerating the momentum for further GM change, the reduced marginal costs of making succession decisions may increasingly render GM change more likely. The accumulated shocks with every change may ultimately translate into poor subsidiary performance and lower survival likelihood. To improve survival, I suggest that the subsidiary can deploy a PCN GM at its founding, followed by HCN successors, as this sequencing logic maximizes the value of knowledge recombination.

I develop a mixed-methods approach (Hurmerinta-Peltomäki & Nummela, 2006; Watkins & Gioia, 2015). In the first stage, I formulate a preliminary analytical framework based on the existing succession literature. I then collect qualitative data through in-depth, semi-structured interviews. In total, I have prepared over 550 pages of transcriptions and over 140 pages of notes. I then constantly go back and forth between theory and data, through systematic combining (Dubois & Gadde, 2002), to explore which theories can better explain the succession phenomenon in the setting of foreign subsidiaries. In the second stage of the investigation, I use quantitative hypothesis testing to better inform the subsidiary GM successions. Fixed effects logit regression is employed to control for subsidiary heterogeneity in the propensity to change the GM (Beck et al., 2008). In a similar vein, the performance and survival models also address firm heterogeneity. The quantitative analysis combines the Toyo Keizai NEEDS Merged Database (Shin et al., 2017) with the Penn World Table (Feenstra, Inklaar, & Timmer., 2015).

### **MNE ATTENTION AND SUBSIDIARY GM SUCCESSION IN CHAPTER 3**

Rooted in a power-dependence view (Emerson, 1962), Hickson et al. (1971) focused on structural sources of intra-organizational power and pointed out that the centrality of workflows, the substitutability of activities, and the ability to cope with critical uncertainties in an integrative manner determine the variation in interdependence between organizational subunits of domestic

firms (hereafter subunits). Building on the ideas advanced by Hickson and his colleagues, Drazin and Rao (1999) found that the availability of viable candidates and the critical contingencies (e.g., revenue and market share) controlled by the incumbent subunit manager interact with poor subunit performance to either increase or decrease succession probability. In parallel with the development of the interdependence-based approach, more recently, a market dependence-based approach to identify subunit power has emerged (Xia, Yu, & Lin, 2019). The central thesis of this new strand of research is that the exchange of resources (Jacobs, 1974) is not viewed as a necessary condition for subunits to shape their power bases. Instead, the relative importance of the market in which the subunit operates will suffice to determine its power (Xia et al., 2019).

Drawing on the same structural perspective (Hickson et al., 1971), Bouquet and Birkinshaw (2008: 582) pointed out that “the more powerful the subsidiary... the greater the amount of attention... from corporate headquarters.” The structural determinants of power and thus the MNE’s positive attention to the subsidiary are the subsidiary’s relative strength within the MNE and its local market significance. As a result, strategically important subsidiaries will gain more recognition from their headquarters. But the authors also stressed that the attention from headquarters is not always positive. It may lead to interventions from the MNE and the replacement of management when subsidiary performance disappoints, which is contrary to the performance–power–succession model based on domestic subunit studies (Drazin & Rao, 1999).

The foregoing inconsistency suggests that the extant model might need theoretical extensions in order to account for foreign subsidiary GM successions. However, there is a lack of international examination of the power–succession link (Pi & Lowe, 2011). To develop a more predictive theory and better utilize the distinctiveness of the MNE context for theory building, I contrast the MNE attention perspective (Ambos et al., 2010; Bouquet & Birkinshaw, 2008;

Monteiro, 2015) with the strategic contingencies perspective (Drazin & Rao, 1999; Hickson et al., 1971) to investigate the relationship between foreign subsidiary performance and subsidiary GM succession. Therefore, the question which guides my research in Essay 2 is: *How do strategic configurations that potentially affect MNE attention and foreign subsidiary GM power moderate the relationship between poor subsidiary performance and subsidiary GM succession?*

## **Essay 2**

Essay 2 (Chapter 3) is entitled “*MNE attention and general manager succession in foreign subsidiaries*”. Although the strategic contingencies perspective holds that GMs can accrue power from strategic configurations to weaken the poor firm performance–GM succession association, I argue that, in the context of MNEs, when strategic configurations such as the presence of country-of-origin competitors in the host country and the flows of revenue controlled by the foreign subsidiary simultaneously enhance subsidiary GM power and MNE monitoring, MNE managers’ hierarchal power can outweigh subsidiary GM power and strengthen the performance–succession link. I term this the performance–attention–succession model, which can also explain why a high expatriate ratio in the subsidiary strengthens the performance–succession link. Only when structural factors impede MNE monitoring, will the performance–power–succession model prevail. I also show that changing the GM in a poorly performing subsidiary can effectively turn around the subsidiary’s performance, but it is contingent upon the successor’s tenure.

This study employs a mixed-methods approach. Along with the literature review and deductive theorizing process, I conduct over 45 semi-structured interviews with MNE decision makers, subsidiary GMs, and the members of the top management who are well-positioned to offer detailed knowledge of the subsidiary GM successions. The relevant quotes and important background information collected through the qualitative inquiry in turn enables me to use the

deeper understanding of the phenomenon to better inform the hypotheses development. I then quantitatively test the hypotheses by employing a fixed-effects logit model. Panel data on the FDI inflows is collected from the Balance of Payments Database (1991–2013) (World Bank, 2019), and merged with a longitudinal dataset of Japanese FDI: the Toyo Keizai NEEDS Merged Database (Shin et al., 2017).

#### **SUCCESSOR ORIGIN AND SUBSIDIARY GM SUCCESSION IN CHAPTER 4**

As mentioned previously, although existing nationality-based studies add greatly to our knowledge of subsidiary GM staffing, they only tell half of the story. We still know little about how MNE decision makers choose internal or external subsidiary GM successors (For exceptions, see Sonkova, 2015). The lack of theoretical arguments and empirical evidence is surprising, given that whether to fill job openings through internal or external hires “is one of the most fundamental staffing decisions organizations must make” (DeOrtentiis, Van Iddekinge, Ployhart, & Heetderks, 2018: 916).

Some scholars within international management argue that HCNs can better respond to local demands, that PCNs perform better at integration (e.g., Harzing, Pudelko, & Reiche, 2016; Shin et al., 2017; Tarique et al., 2006). Implicit is the assumption that HCNs generally align more with the expectations of subsidiaries, and that PCNs tend to be closer to headquarters (Michailova, Mustaffa, & Barner-Rasmussen, 2016). It therefore seems that the nationality-based staffing strategy might be used to partly inform the internal–external categorization.

However, in the setting of MNEs, there is a notion of nestedness of agency relationships (Hoenen & Kostova, 2015) such that there are two types of insider GM successors, one is from within the subsidiary, and the other expatriated from within the MNE but outside the subsidiary. Along this line, therefore, PCN GMs do not necessarily identify more with the headquarters



(Gregersen & Black, 1992) if they are promoted within the host country (Tharenou & Harvey, 2006) or become localized expatriates or permanent transferees who are directly hired by the subsidiary and will not return to the MNE's home country (McNulty & Brewster, 2017; Tait, De Cieri, & McNulty, 2014). On a similar note, HCNs cannot automatically be equated with subsidiary insiders either. HCNs might also be expatriates from the headquarters (Thite et al., 2009) or locally hired from rival firms in the host-country (Morris, Snell, & Björkman, 2016). The theoretical–empirical divide implies that the nationality-based categorization needs extension (Meyer et al., 2020). To add to this topic, Essay 3, based on a qualitative research methodology, seeks to develop a new and enhanced model for subsidiary GM successor origin.

### **Essay 3**

The third essay (Chapter 4) is entitled “*General manager successors in local-market-seeking subsidiaries of MNEs: A multiple-case analysis*”. In order to explore how decision makers of MNEs appoint GM successors in their local-market-seeking foreign subsidiaries and how these succession decisions link to subsidiary performance, this qualitative inquiry adopts micro-foundational theorizing (Foss & Pedersen, 2019), and uses BRel as both the micro-foundation and the theoretical thread throughout the theory elaboration process. Although extant literature suggests that to better address host country business practices and cultures, it is sensible to deploy a HCN subsidiary GM, I found that using HCN GM successors is not always the best strategy. For HCN GM successors promoted from within the subsidiary, *ex post* opportunism is likely to arise, which may result in unsatisfactory subsidiary performance. However, while I concur that agency and transaction costs minimization can play an important role in influencing the international staffing decision (Tan & Mahoney, 2006), I argue that opportunism in the present context is only a situational occurrence (Lumineau & Verbeke, 2016). Appointing HCN GMs from outside the subsidiary may address opportunism, but it may entail

divided engagement. Expatriating PCN subsidiary GMs, on the other hand, may also reducing opportunism, but it may simultaneously lead to over-reliance on existing practices. To economize on these facets of BRel, Essay 3 reveals several effective managerial safeguards.

Methodologically, I adopt the theory building from cases approach (Eisenhardt, 1989; Eisenhardt & Graebner, 2007; Gehman et al., 2018). It has a multiple-case design and treats each case as an experiment (Yin, 1994). I use the series of cases, collected in a theoretical sampling manner (Eisenhardt, 1989), to test the observations. The unit of analysis is nine wholly-owned foreign subsidiaries with a local-market-seeking motive. These subsidiaries are from four large, established manufacturing MNEs that are technical and market leaders. Moreover, I conduct additional interviews with managers from 11 other foreign subsidiaries to assess the analytical power and the external validity of the model formulated here (Yin, 1994). The qualitative analysis, consistent with constant comparison (Eisenhardt, 1989), is based on around 350,000 words transcriptions of 36 formal one- to two-hour interviews (and nine follow-up interviews), 120 pages of notes, and secondary sources such as published cases, annual financial reports, media reports, and subsidiary GM resumes from LinkedIn. The results reported in Essay 3 are six propositions complementing and challenging the traditional views of the nationality-based staffing decision.

The dissertation overview, shown in Table 1, illustrates the inter-links among these three integrated essays. Specifically, Essay 1 develops a temporal model that investigates long-term issues in subsidiary GM staffing and explores the path-dependent nature of continual GM change within the organization. Thus, the focus of Essay 1 is process. Essay 2 complements Essay 1 by delving into the individual triggering event that is likely to set the path-building process in motion, and by showing that both the internal structure of organizations and the external

environment can influence organizational decision making in relation to GM successions. The focus of Essay 2 is therefore the contextualized event. Essay 3 further delves into the micro-foundations of subsidiary GM successors. It thus complements Essays 1 and 2 by providing detailed descriptions of succession decision making. The focus of Essay 3 is people.

**Table 1: Dissertation Overview**

	<b>Essay 1</b>	<b>Essay 2</b>	<b>Essay 3</b>
<b>Essay Title</b>	<i>Antecedents and consequences of general manager successions in foreign subsidiaries: A mixed-methods approach</i>	<i>MNE attention and general manager succession in foreign subsidiaries</i>	<i>General manager successors in local-market-seeking subsidiaries of MNEs: A multiple-case analysis</i>
<b>Research Question</b>	Will multiple subsidiary GM successions accelerate or decelerate the momentum for further GM change, and improve or disrupt subsidiary performance?	How do strategic configurations that potentially affect MNE attention and foreign subsidiary GM power moderate the relationship between poor subsidiary performance and subsidiary GM change?	How are subsidiary GM succession decisions made by MNE decision makers, and how do the succession decisions link to subsidiary performance?
<b>Theoretical Foundation(s)</b>	Evolutionary theory of the MNE	The MNE attention perspective against the strategic contingencies perspective	The micro-foundational perspective on bounded reliability
<b>Methodology</b>	Mixed-methods (theory creation)	Mixed-methods (theory construction)	Multiple-case approach (theory justification)
<b>Empirical Setting</b>	Qualitative data based on 45 interviews with MNE and subsidiary managers; Quantitative data of subsidiary GM successors of Japanese MNEs	Qualitative data (background information and relevant quotes) based on interviews with MNE managers; Quantitative data of subsidiary GMs of Japanese MNEs	Qualitative data regarding GM succession decision-making in nine wholly owned local-market-seeking subsidiaries of four large, manufacturing MNEs

Essay 1: The **pace** and **path** of continual GM change



Essay 2: The **trigger** and **consequence** of individual GM change

Essay 3: The **microfoundations** of GM successor

## CONTRIBUTIONS

This dissertation aims to produce knowledge that can both advance the scientific enterprise and enlighten a community of practitioners (Van de Ven, 2007).

Essay 1 aims to call attention to the dynamic nature of foreign subsidiary GM staffing strategies (Belderbos & Heijltjes, 2005; Riaz et al., 2014). To the best of my knowledge this is among the first to investigate the longitudinal dynamics of subsidiary GM successions, thus improving our knowledge of the broader succession process (Berns & Klarner, 2017). Essay 1 leverages the distinctiveness of MNEs to address the inconsistencies in the extant succession literature and provides a more predictive theory of continual subsidiary GM change. Essay 1 also brings to the fore the parenting role of MNEs, which seems arguably more or less absent in evolutionary theory (Forsgren, 2017; Foss & Pedersen, 2019).

Essay 2 aims to challenge the performance–power–succession model by demonstrating the intriguing double effect of strategic configurations, which will lead to disparate succession consequences. Essay 2 extends the succession theory by using the MNE attention perspective as an alternative explanatory mechanism (Roth & Kostova, 2003) to explain more fully the performance–succession association in the unique context of MNEs. Also, Essay 2 addresses the call to empirically investigate the issue of negative headquarters’ attention (Bouquet & Birkinshaw, 2008). By using temporal progressions of activities as elements of explanation (Langley, Smallman, Tsoukas, & Van de Ven, 2013), Essay 2 shows the long-term gains of this attention.

Essay 3 produces detailed descriptions of succession decision making. Focusing on micro-processes enables this study to move away from the narrow category of expatriate managers to a more differentiated categorization (De Cieri, Cox, & Fenwick, 2007) and to re-examine the roles

of subsidiary GMs, which are often oversimplified or obscured by GMs' nationalities (Meyer et al., 2020). Moreover, Essay 3 addresses the call by Kano and Verbeke (2015) to examine the various expressions of BRel in large MNEs, focusing on both their antecedents and consequences. In so doing, Essay 3 corroborates the value of BRel as a standard micro-foundation in international management research, and makes a strong case for the need to consider the different facets of BRel in an *integrated* manner, because the succession strategy to address one BRel challenge may inadvertently lead to another BRel challenge.

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# **CHAPTER 1: ANTECEDENTS AND CONSEQUENCES OF GENERAL MANAGER SUCCESSIONS IN FOREIGN SUBSIDIARIES: A MIXED-METHODS APPROACH (ESSAY 1)**

## **INTRODUCTION**

Key personnel succession is a critical managerial issue in a firm's lifecycle (Friedman, 2017; Schepker, Kim, Patel, Thatcher, & Campion, 2017). Therefore, it has been subjected to great scrutiny (Berns & Klärner, 2017; Bilgili, Calderon, Allen, & Kedia, 2017; Farah, Elias, De Clercy, & Rowe, 2020; Giambatista, Rowe, & Riaz, 2005; Kesner & Sebor, 1994). But only modest attention has been paid to investigating changes in foreign subsidiary GMs of MNEs. Meanwhile, the theoretical development on the dynamic relationships between foreign subsidiary-level variables in general is also limited (Riaz, Rowe, & Beamish, 2014). I view it as a substantial gap in the literature, as the subsidiary GMs are crucial to subsidiary-level performance (Meyer, Li, & Schotter, 2020; O'Brien, Scott, Andersson, Ambos, & Fu, 2019) and changing these managers may materially impact subsidiary performance (Bebenroth & Froese, 2020; Beechler, Bird, & Taylor, 1998). The need for a systematic understanding of subsidiary GM successions is also pressing, given that the COVID-19 pandemic has spurred MNEs' strategic reorientation in many host countries at a time when sending managers on international assignments is difficult (Caligiuri, De Cieri, Minbaeva, Verbeke, & Zimmermann, 2020).

Concurrently, two competing lines of inquiry adopting a dynamic perspective have emerged in the organizational studies literature to investigate the factors contributing to GM change. First, some researchers highlight the recursive nature of organizational practices by arguing that organizational change is considered a self-reinforcing process (Amburgey & Miner, 1992), such that prior change reduces the marginal costs of making similar changes and thus

accelerates the momentum for further change (Amburgey, Kelly, & Barnett, 1993). In the present context, I call it the acceleration model. But more recently, other researchers have argued that organizational practices possess adaptive characteristics, as they are prone to learning and thereby refinement (Jarzabkowski, 2004). Accordingly, empirical evidence from this line of inquiry reveals that managers can learn to change by changing, therefore earlier changes in GMs decelerates the momentum for further change (Beck, Brüderl, & Woywode, 2008). I call it the deceleration model.

The distinctive features of MNEs, however, may render the preceding acceleration or deceleration models less directly applicable to the setting of foreign subsidiaries. The acceleration pattern may prevail because the environment facing MNEs is much more complex than that facing domestic firms (Cooke, Wood, Wang, & Veen, 2019; Kano & Verbeke, 2019), rendering bounded-rational senior MNE managers more prone to solutions with lower marginal costs (i.e., making similar changes). However, the deceleration pattern may also prevail when considering MNEs' superior capabilities in the creation and internal transfer of knowledge (Kogut & Zander, 1993). These brief considerations suggest that the acceleration-deceleration arguments warrant theoretical adaptations in order to inform subsidiary GM change.

Theoretical and empirical inconsistencies also exist among the organizational studies on the consequences of GM change (Giambatista et al., 2005; Hutzschenreuter, Kleindienst, & Greger, 2012; Kesner & Sebora, 1994). Common-sense theory, for example, suggests that managerial successions, as a reflection of the firm's adaptive nature, contribute to performance improvement (Allen, Panian, & Lotz, 1979; Grusky, 1963; Huson, Malatesta, & Parrino, 2004). In contrast, vicious cycle theory argues that successions disrupt routines (Grusky, 1960; Klarner & Raisch, 2013), thus worsening firm performance. Similarly, however, directly applying these

existing succession-performance theories to the setting of foreign subsidiaries may also present challenges, because these models were developed within a domestic setting, where no role exists for the nationality of the GM (Müllner, Klopff, & Nell, 2017). But for MNEs, the nationality of the subsidiary GM is crucial.

This essay addresses two questions: *Will subsidiary GM successions accelerate or decelerate the momentum for further GM change, and will this improve or disrupt subsidiary performance?* I first draw upon field research to juxtapose my empirical observations against the extant succession theories. Following the qualitative inquiry, I then ground this study in evolutionary theory (Kogut & Zander, 1993, 1995, 1996, 2003), central to which is that MNEs are social communities wherein knowledge can be efficiently created and internally transferred. It is also inherently dynamic. As the knowledge is routinized from past experiences and can be recombined with newly acquired knowledge for value maximization (Verbeke, 2003), this theory enables me to explore long-term issues in subsidiary GM deployment. I finally formulated hypotheses based on an expanded theory of subsidiary GM successions and draw on Japanese longitudinal data to test the hypotheses.

I argue that senior MNE managers can draw lessons from past succession experiences to refine succession routines in order to appoint an appropriate GM successor, thus decelerating the momentum for further GM change. Concurrently however, with every GM change the marginal costs of making succession decisions will also decline. This may increasingly result in subsidiary GM change, as a means of realigning with the external environments and with the interests of the board of directors (Friedman, 2017; Ocasio, 1999), more attractive (and yet more suboptimal). From a threshold onward, therefore, prior GM successions can accelerate the momentum for further subsidiary GM change. Exploring the pace of change then paves the way for a dynamic

investigation of the strategic value of subsidiary GM successions. I argue that the number of successions may show a curvilinear association with firm performance. Also, shocks associated with each implementation of the GM succession will accumulate and ultimately translate into lower survival likelihood. I suggest that MNEs can reduce the survival risk by appointing a PCN GM at subsidiary founding and change to HCN GMs in the later stage, because this specific sequencing logic maximizes the value creation potential of knowledge recombination.

This study aims to make the following contributions. I call attention to the dynamic nature of foreign subsidiary GM staffing strategies (Belderbos & Heijltjes, 2005; Riaz et al., 2014). By exploring the antecedents of subsidiary GM changes, it shows that the deceleration and acceleration momentum take place *sequentially* within the organization. By investigating the consequences of subsidiary GM changes, it shows that subsidiary GM successions can be *both* adaptive and disruptive, depending on the number and pattern of change. As such, it leverages the distinctiveness of MNEs to address the inconsistencies in the extant succession literature and provides a more predictive theory of foreign subsidiary GM successions. Next, I review the extant literature on GM successions, and juxtapose empirical observations in the setting of foreign subsidiaries against the existing succession theories. I then use an international business (IB) theory to theoretically re-ground this study and develop hypotheses. Following this, the data, the measures, and the empirical strategy are outlined. Finally, I present my results and their implications for theory and practice.

## **BACKGROUND**

The managerial succession problem has been studied widely in the organizational studies literature (Berns & Klarner, 2017; Bilgili, Calderon, Allen, & Kedia, 2017; Giambatista, Rowe, & Riaz, 2005; Hutzschenreuter, Kleindienst, & Greger, 2012; Kesner & Sebora, 1994; Schepker,



Kim, Patel, Thatcher, & Campion, 2017). In this body of work, several dynamic models inform continual GM change, which I will introduce next.

### **Succession Antecedent: Acceleration–Deceleration Debate**

Levitt and March (1988) conceive of organizations as learning systems where inferences are encoded from history into routines that independently guide future organizational actions. Within such a framework, scholars have established that repetitive momentum, defined as the tendency to adhere to the previous direction of actions in current behaviors (Kelly & Amburgey, 1991), can occur when organizations keep repeating a specific action (Amburgey et al., 1993; Amburgey & Miner, 1992). One reason for the acceleration tendency is that experiential learning processes are strongly path-dependent (Baum & Ingram, 2002; Sydow, Schreyögg, & Koch, 2009). The efficiency of any particular procedure increases with use, which then results in the more frequent use of the procedure, irrespective of whether or not the procedure is inferior (Levitt & March, 1988). Decisions are repeated simply because they were made before (March, Sproull, & Tamuz, 1991). As firms become more prone to following their own “wisdom,” repetitive momentum arises (Dobrev, Kim, & Carroll, 2003).

In support of this view, Ocasio (1999) found that as the rules of succession are established, momentum is created. As a result, organizations are likely to repeat CEO succession of the same type. Repetitive momentum also exists elsewhere (Greve, 2013). IB studies, for example, have shown that MNEs are likely to repeat the internationalization mode they have used previously (Oehme & Bort, 2015). Research has also revealed that multiple equity ownership structure changes inside IJVs will trigger more ownership structure changes (Chung & Beamish, 2010).

The key to the acceleration argument lies in the idea that accelerated activities may occur without considering consequences (Greve, 2013). In an IB context, this tendency might be even

stronger, given that some host countries have a legal requirement (e.g., maximum validity of work permits or intra-company transfer visa) to limit the terms of expatriate managers to three to five years. If the subsidiary GM is an expatriate, a change is required. However, this acceleration model builds on some assumptions that have been challenged. Specifically, it assumes away the facilitating role of the environment and implies the automaticity of learning. But when the context facilitates or encourages performance feedback and evaluation, learning behavior can also be “cognitively rich” (Posen, Keil, Kim, & Meissner, 2018).

Rooted in the same Carnegie School tradition (Cyert & March, 1963) as the foregoing acceleration argument, Beck et al. (2008) pointed out that as organizations learn to change by changing over time, the need to replace CEOs again should lessen. Therefore, prior changes decelerate the momentum for further change. Through the accumulation of experience in changing GMs, firms will refine their succession routines and aspirations, and modify search and attention rules. Cyert and March (1992) view such dynamics as one of the fundamental properties of organizations. Thus, this argument contrasts squarely with the acceleration model, but underneath this argument also lies some strong assumptions: e.g., that information is rich and available, and feedback is prompt and non-random. Realistically, however, when the organizational structure and environment are complex or when the decision makers pay only limited attention to the means-end relationships, key outcome information may remain unclear (Bazerman, 2006), rendering the refinement of the routines less likely. Within IB, there are also empirical observations illustrating the boundary conditions of the deceleration argument. For example, Hébert, Very, and Beamish (2005) argued that theoretically MNEs can learn from past cross-border merger and acquisition experience to improve their management of similar future actions (and thus economizing on bounded rationality). But what they found was the opposite.

### **Succession Consequence: Adaptation–Disruption Paradox**

The foregoing acceleration–deceleration models suggest different paces of change, and the pace of change is found to be a major contingency factor that moderates the succession–performance relationships (Klarner & Raisch, 2013; Rowe, Cannella, Rankin, & Gorman, 2005). Efforts to address the acceleration–deceleration debate, therefore, can also lay the theoretical and empirical foundation for examination of the consequence paradox—the intriguing double effect of GM successions. Results from two recent meta-analyses (Bilgili et al., 2017; Schepker et al., 2017), for example, primarily support the disruption perspective, which considers managerial succession as a destabilizing factor and associated with significant disturbances. Other research (e.g., common-sense theory and the succession-adaptation model), however, characterizes managerial succession as an adaptation mechanism (e.g., Grusky, 1963; Huson et al., 2004).

There have been efforts to resolve the inconsistency. For instance, Rowe et al. (2005) deal explicitly with the topic of time. It indicates that due to time compression diseconomies (Dierickx & Cool, 1989), new leaders will take time to accumulate organization-specific knowledge before they can take actions that will positively affect performance. Therefore, if firms give new leaders time to learn, it is more likely to result in a positive succession–performance relationship. Soebbing and Washington (2011) offered similar theorization and corroborative findings in the college football context. The authors noted that when new leaders are given time to turn around the program, performance will increase.

Underpinning this line of inquiry is a notion that too many changes are disruptive (Amburgey et al., 1993; Giambatista et al., 2005), thus time is primarily an opportunity. Yet time can also be portrayed as a threat (Berends & Antonacopoulou, 2014). Because changes in the external environment render the existing knowledge within the organization obsolete or even

irrelevant (Berends & Antonacopoulou, 2014), and because managers take time to learn in order to bring about the “real change” (Mitchell & James, 2001), the depreciation of knowledge may also ensue. Indeed, over time incumbent GMs might be unwilling or unable to make significant changes (Barner-Rasmussen, 2003; Shen & Cannella, 2002). Thus, to reduce the organizational inertia, MNEs may consider the subsidiary GM succession as a possible solution. The question which still remains, then, is how many successions subsidiaries should undertake. Klarner and Raisch (2013) conceptualize a curvilinear relationship to answer this question. They argued that strategic changes are beneficial at first but will become detrimental to the firm performance from a threshold onward. Their empirical analysis, however, did not support this argument.

### **Mixed-Methods Approach**

The theoretical and empirical inconsistencies indicate that more contingency thinking with respect to GM successions may be needed (Finkelstein, Hambrick, & Cannella, 2009). Given the inherent links between the acceleration–deceleration debate with the adaptation–disruption debate, I investigate these two theoretical inconsistencies simultaneously. However, considering the current theoretical puzzles, coupled with the complex context of this study, a narrow methodological approach might only reveal a small slice of the reality. I thus utilize a mixed-methods approach (Hurmerinta-Peltomäki & Nummela, 2006; Watkins & Gioia, 2015). First, I formulate a preliminary analytical framework based on the foregoing succession theories. I then collect qualitative data through interviews, and constantly go back and forth between theory and data to explore which theories can better explain the succession phenomenon in the setting of foreign subsidiaries. The goal in this stage of research is to strike a balance between rigor, creativity, and open-mindedness (Eisenhardt & Graebner, 2007). Through systematic combining and progressive focusing (Dubois & Gadde, 2002; Sinkovics & Alfoldi, 2012), the initial

qualitative inquiry reveals that the antecedents as well as consequences of GM successions within foreign subsidiaries hinge on the evolution of the MNEs' knowledge about successions and the combination of the knowledge brought into the subsidiary by GM predecessors and successors. In the second stage of the investigation, therefore, I ground the study in an evolutionary perspective (Kogut & Zander, 1993) and use quantitative hypothesis testing to better inform the subsidiary GM successions. I introduce the qualitative research first.

## **STAGE 1: EXPLORATORY STUDY AND QUALITATIVE FINDINGS**

### **Methods**

Within IB, while a sizeable body of literature on international human resource management in subsidiaries of MNEs exists in general (Delios & Björkman, 2000; Fang, Jiang, Makino, & Beamish, 2010; Gaur, Delios, & Singh, 2007; Gong, 2003; Tarique, Schuler, & Gong, 2006), little nuanced theoretical attention has been paid to subsidiary GM successions (for exceptions, see Bebenroth & Froese, 2019; Selmer & de Leon, 1997; Selmer & Luk, 1995; Sonkova, 2015). I thus first ground this study in empirical observations in the setting of foreign subsidiaries.

From a reflexivity perspective (Bansal & Corley, 2011; Van de Ven, 2007), it should be noted that I used to be a foreign subsidiary GM. I therefore developed the preliminary interview outline not only based on the extant literatures, but also on my personal experiences. Mentioning this is important, as I believe that, though grounded in extant theory, what I will observe is also a function of who I am and what I hope to see (Suddaby, 2006). I conducted 37 formal interviews (and eight follow-on interviews) with members of the top management team of foreign subsidiaries and their MNEs. Given my previous subsidiary GM experiences, I intentionally remained less predetermined during all the interviews in order to come across the “active” data which is associated with discovery (Dubois & Gadde, 2002). My informants are regional CEOs

that are supervising the subsidiary, subsidiary general manager successors, and other members of the top management team who witnessed the succession process. Similar to prior research (e.g., Gilbert, 2005; Schotter & Beamish, 2011b), the rationale to involve multiple informants (whenever possible) is to triangulate the data (Dubois & Gadde, 2002; Flick, 2014).

To gain access to the MNEs, I relied on my personal network of professionals working in these MNEs. Due to the COVID-19 pandemic, I was not able to conduct close-up field observations or to participate in management meetings on site. The main data source was semi-structured interviews, which are deemed suitable for interviewing managers who cannot be reached on many separate occasions (Bernard, 2000). The interview format is based on the foregoing interview outline, in which I have an open-ended sequence of questions. I promised confidentiality to motivate informants' accuracy and used the secondary sources such as annual reports, published cases, media reports, and subsidiary GM resumes from LinkedIn to cross-check information. I prepared the detailed interview notes after each interview following the "24-hour rule" (Eisenhardt, 1989). These notes, summarizing the interviews in a logical manner, can help me to bring the raw data into a manageable form. The length of each note was three to five pages. I also video- or audio-recorded most of the interviews, the length of which was 30 to 150 minutes. In order to preserve the specificity and meanings, I followed the approach of Caprar (2011) and transcribed all recorded interviews in the original language with no immediate translation. In total, I have over 650 pages of transcriptions, of which around one third are transcribed in English. In addition, I have over 140 pages of notes, which were taken in English.

My theorizing is an example of "disciplined imagination" (Gehman et al., 2018). Before the field work, I tentatively formulated a set of propositions based on both my emic views on subsidiary GM successions and the deductive reasoning based on extant literature. However, as

the qualitative exploration unfolded, my research questions were refined and I developed a new set of formally stated observations that were empirically grounded. Along with the continuous modifying and updating processes, my direction for data collection also evolved accordingly (Dubois & Gadde, 2002). Table 2 describes these data sources.

**Table 2: Summary of the Interviews Conducted and Respondent Characteristics**

<b>Respondent Type</b>	<b>Number of Interviews</b>	<b>Number of Respondent Nationalities</b>	<b>Number of Industries</b>	<b>Mean Interview Length (Minutes)</b>
Directors	3(1)	3	3	69
Regional CEOs	6(1)	2	2	64
Subsidiary GMs	9(2)	3	4	71
HR Managers	2	1	2	59
Sales Managers	4(2)	1	4	43
CFOs	2(1)	1	2	60
PR Managers	3(1)	1	1	56
Other functions	7	2	6	62
Global Leadership Experts	1	1	1	60

Note: The follow-on interviews are shown in parentheses.

Next, I present these observations, which reveal the inherent links among the extant literatures. Table 3 provides selective qualitative evidence from the field according to five themes. I then elaborate each theme respectively.

**Table 3: Qualitative Evidence from the Field**

<b>Theme</b>	<b>Host Country</b>	<b>Home Country</b>	<b>Representative Quotes</b>
Succession is a learning process	China	The US	HR manager 1: "No MNEs think that it is easy to find an appropriate GM for their subsidiaries."
	Asia	China	Regional CEO 4: "At the beginning, changing GMs is very difficult. We have very limited experience in doing so, and often times changing a GM will bring about many other complex issues."
	Asia	Israel	Regional CEO 2: "The succession success ratio is only 50%...I trust my own feelings...every succession is unique."
	APEC	Israel	Regional CEO 6: "I chose many wrong candidates before...My succession knowledge is improving."

Succession is a routinized practice	China	Singapore	PR manager 1: "Our president definitely thought about the succession lessons and adjusted his succession strategies over time."
	China	South Korea	Sales manager 2: "They changed GMs very frequently. One-year tenure, a KPI review, and then a succession if performance is suboptimal."
	China	The US	Sales manager 3: "Expatriate GMs normally have a pre-specified length of stay abroad, for example three years...So succession occurs when the assignment is due."
	Asia	China	Regional CEO 4: "Changing GMs now becomes a quite routinized process...We purposefully prepared a pool of internal GM candidates."
	Europe	China	Regional CEO 3: "We have a very close cooperation with executive recruiting companies in the local labor market...We have a systematic talent training and development system to prepare the GM candidate internally."
	General	The US	Subsidiary GM 8: "Every year, the HR Global and the HQs management will evaluate the performance of succession management by assessing the quality of the successor candidate and also the motivation of the candidate to be the subsidiary head in the future...the succession will occur smoothly."
The nationality of subsidiary GM successors matters to MNEs	China	The US	HR manager 1: "Our MNE managers prefer to use Americans, who understand the culture in the local market. They only localize their subsidiary gradually after 2-3 years."
	China	Israel	Regional CEO 1: "Before 2008, all GMs were from Israel. After 2008, all GMs in China were Chinese."
	Asia	China	Regional CEO 4: At the outset, we used HCN GMs...because many PCN managers lacked the management skills then...Now, all GMs are PCNs.
	China	Singapore	PR manager 1: "The two most recent GMs are local, as we gradually realized the value of using local managers in business development."
	China	The US	Sales manager 3: "Our MNE expatriated GM to lead the company. But gradually, they started to use local GMs... The reason for the change is that from the outset, we were very strong in terms of product and technology...So in the first period of time, internal control was way more important ...And localization only gained little attention then. However, as time went by, Chinese companies began to catch up. The competition in China became cut-throat. "
	China	Singapore	PR manager 3: "We don't use foreigners now. Only at the outset, we sent some foreigners from the HQs to establish



			and stabilize the operation first, and then they went back to the HQs once the operation was stabilized."
Successions can influence subsidiary performance and survival	China	South Korea	Sales manager 1: "Changing subsidiary GMs too quickly does not help. It may even worsen the problem. Now, the subsidiary has shrunk a lot. The more often they change managers, the worse the business becomes."
	China	Finland	Service manager 1: "The performance was not very good, and the GMs' tenures were too short for them to learn how to do business in China."
	Pakistan	China	Regional CEO 4: "After the first succession...the sales turnover increased three-fold ...and became profitable...After the second succession...ten-fold."
	China	Israel	Subsidiary GM 3: "My return to Israel accelerated the whole subsidiary exit process."
	The UK	China	Deputy GM 1: "The incumbent subsidiary GM took office 2 years ago, the performance got better now."
The tenure of the subsidiary GM can be both beneficial and detrimental.	China	South Korea	Sales manager 2: "While poor performance led to the change of the GM, the new GM made the performance even worse, and eventually led to the exit of the subsidiary."
	China	South Korea	Sales manager 1: "Often times, the manager knows what is going on and where the problem is, but they don't have time to fix the problem. It is a failure trap."
	China	Finland	Service manager 1: "At least 5 years tenure is needed for the GM to really understand how to do business in this specific context."
	China	South Korea	Sales manager 2: "They gave the general managers too little time to turn around the performance of the subsidiary."
	China	Israel	Regional CEO 2: "As time went by, the GM also became difficult to change."
	China	US	Sales manager 4: "At the beginning the trust was good...The relationship with the HQs deteriorated in the past two years. The GM is building her empire now."
	China	Israel	Deputy GM 2: "The GM stayed in China for too long...He really lost his passion in the market."
	China	Switzerland	Expert 1: "Long tenures would lead to fraud issues."

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Notes: the full list of quotes is available upon request.

### Subsidiary GM Successions as a Learning Process

Managerial successions will occur in the history of about every organization (Haveman,

1993). I therefore was not surprised that most respondents in this study have experienced or witnessed the change of the subsidiary GMs. However, the data confirm that many MNE decision makers still do not know where to find the best subsidiary GM successor candidates (Collings, Scullion, & Morley, 2007). Some informants told me that they learned how to manage subsidiary GM successions in a trial and error manner. When experience is limited, MNE decision makers rely more on their own feelings, and are concerned about complex issues associated with the successions. For these MNEs, successions are goal-based behaviors in the sense that different attempts are made to reach the goal (Rasmussen, 1983).

### **Subsidiary GM Successions as Routines**

Concurrently, however, the data also indicate a contrasting view where subsidiary GM successions can be best described as “routines” (Ocasio, 1999). In these observations, the change of subsidiary GMs seems to occur often, easily, and smoothly. One subsidiary has even changed GMs 17 times in the past 20 years. Successions may also take place for various reasons, such as when a new assignment is due, the performance is poor, or the GM did not follow the code of conduct. Some successions even occurred because the subsidiary GMs could not meet the expectations of the MNE managers, though they did turn around the subsidiary performance. Successions in these MNEs are rule-based in a sense that they are controlled by a set of stored rules. As noted by Rasmussen (1983), this kind of human activity will be more likely to occur in a familiar environment while goal-based behaviors are more likely to be observed in unfamiliar situations. In combination, therefore, the data sensitize me to maturity effects in social systems where time as a context can prompt nonlinear effects (Johns, 2006).

### **Nationality of Subsidiary GM Successors**

My data suggest that GM nationality is a crucial aspect of the subsidiary GM succession

decision making (Bebenroth & Froese, 2020). The informants see the value in the PCN's knowledge about the MNE and products, and the value in the HCN's local knowledge, but they do not evaluate the efficacy of each succession event in isolation. Rather, MNE decision makers also look at the sequencing logics underlying the continual change. In general, these MNEs are following several specific patterns. There are subsidiaries which never change the staffing strategies; gradual integrators which use an HCN GM first but change to PCN GMs gradually; and gradual localizers which employ a PCN GM initially but change to HCN GMs in the later stage. The implication of these patterns is that effective succession decision making needs to take into account the path-dependent nature of successions.

### **Successions and Subsidiary Performance**

The data reveal that GM successions will not only greatly influence subsidiary performance, but also the survival of the subsidiary. The nature of the effect, however, can be both adaptive and negative. While some informants viewed the continual GM change as a failure trap, or experienced the closure of the subsidiary after many successions, there are also some succession-adaptation cases in the data. For example, one subsidiary GM successor not only increased the sales volume three-fold relative to that of his predecessor, he even managed to enhance the company's profitability during the pandemic. However, the succession-adaptation link was not salient at the outset, as he spent the first one and half years of his tenure getting familiar with the subsidiary and the business environment.

### **Tenure of Subsidiary GM Successors**

The maximum validity of work permits or intra-company transfer visa seems to play a less important role here, as many PCN GMs' tenure in my sample can reach to over 10 years. There are also localized expatriates (Tharenou & Harvey, 2006). But as shown in Table 2, the interview

data include contrasting views on the effect of the subsidiary GM successor's tenure. Some informants believe that the subsidiary GM successor should be given enough time to learn. For them, patience is a virtue (Levitt & March, 1988). But others emphasized the negative impact of a long tenure, such as inertia, fraud, and loss of passion. Meanwhile, one subsidiary GM told us: *"No matter how long you have been there, you are still a foreigner"*, implying the upper bond of the knowledge acquisition.

In sum, what emerged out of my interview data are two overarching themes: the knowledge about successions; and the knowledge held by the subsidiary GM predecessors and successors. Both are path-dependent and evolve over time. To systematically investigate the inherent links between the foregoing coexisting logics, therefore, I adopt a knowledge-based view of the MNE. Next, I move to the second stage of the study and ground my work in an IB theory that informs knowledge transfer and creation.

## **STAGE 2: EVOLUTIONARY THEORY AND HYPOTHESIS DEVELOPMENT**

### **Evolutionary Theory**

The evolutionary theory of the MNE (Kogut & Zander, 1993) is rooted in the behavioral theory of the firm (Kano & Verbeke, 2019; Verbeke, 2003), sharing the same bounded-rationality behavioral assumption with the extant succession theories. In this tradition, MNEs are viewed as a value maximizing social community that serves as an efficient mechanism for knowledge creation, internal transfer, and recombination. This core theoretical underpinning suggests that there is a potential to adapt the deceleration model as well as the succession-adaptation model into the MNE contexts, because the knowledge creation aspect implies the possibility of routine refinement.

However, the knowledge transfer aspect in this line of inquiry seems to suggest the

opposite. Routinization through knowledge codification can lead to a repetitive momentum such that internal knowledge transfers will encourage more internal knowledge transfers (e.g., Kogut & Zander, 2003). But often times the knowledge transferred to the host country has been found to be inappropriate (Zander & Kogut, 1995). In effect, suboptimal knowledge transfer persists in many organizational practices (Kogut & Zander, 1996). As the value of such repetitive momentum primarily lies in the economizing on bounded rationality, the inertial qualities of routines (Nelson & Winter, 1982) are prevalent in this tradition. I extend this theoretical framing by arguing that prior knowledge, once translated into routines, can not only facilitate knowledge transfer across subsidiaries within an MNE, but can also facilitate future knowledge application within the subsidiary. Thus, if developing routines can mitigate bounded rationality problems in a *spatial* sense (Kano & Verbeke, 2019), I may presumably see the same effect of routines in a *temporal* sense. This implies that the logic of evolutionary theory can also incorporate the acceleration model as well as the succession–disruption model.

Meanwhile, it is important to note that the development of a path, along which routine is emerging, is embedded and connected with other developments (Sydow et al., 2009). Therefore, after exploring the knowledge creation and transfer activities that influence the forgoing momentum of successions, I will look at the knowledge recombination possibilities that GM successions can detail. Specifically, I consider the knowledge carried by GM predecessors and successors, an organic recombination of which will have strategic value. Through the knowledge recombination, MNEs evolve (Kogut & Zander, 1996). Indeed, the value of the existing knowledge base in the MNE can be enhanced by recombining it with location-specific factors in the host country (Verbeke, 2003). However, as I argue, there is also a sequencing logic underlying the recombination, which is crucial but remains unexplored.

### **The Number of Subsidiary GM Successions and Subsequent GM succession**

Beechler et al. (1998) pointed out that one of the most important decisions an MNE's decision makers can make is in the selection of subsidiary GMs. Indeed, the role of subsidiary GMs appears to be more intricate and challenging than the role of managers in a domestic setting (Bartlett & Beamish, 2018). O'Brien et al. (2019) note that there are at least three types of responsibilities that subsidiary GMs must assume: enabling embeddedness in the host country, facilitating adaptability in the subsidiary, and championing alternatives within the MNE. In sum, subsidiary GMs are at the forefront of many international management challenges (Meyer et al., 2020).

Therefore, the strategic importance of and challenges imposed on the GM role may also render GM succession a difficult task to manage. But if the management of MNEs can *correctly* draw lessons from past succession experiences in the focal subsidiary, they will be better able to maintain or modify search and attention rules, and refine aspirations about the availability of human capital and the needed capabilities of the candidates (Beck et al., 2008). As a result, the management of MNEs would be better able to find a GM whose skills would be a satisfactory match with the needs of the subsidiary. Thus, the need to change subsidiary GMs again declines. In this regard, continual subsidiary GM change can usefully be viewed as a knowledge creation process (Balogun & Jenkins, 2003; Feldman, 2000) or, in Greve's (2013) terms, a "feedback strategy" in that it extends current actions when they are associated with success and looks for other solutions when the outcomes are unsuccessful.

As already pointed out, to enable the refinement of succession routines requires an environment where information is rich and available, and feedback is prompt and non-random. Given that the environments facing MNEs are complex (Cooke et al., 2019; Kostova, Roth, &

Dacin, 2008) and the relationships between an MNE and its subsidiaries are characterized by separation through time, space, culture, and language (Ambos & Ambos, 2009), it follows that bounded-rational senior MNE managers will not be able to *always* attend to all GM changes in their subsidiaries. When there are no succession routines specific to that subsidiary in place yet, senior MNE managers might have to pay more attention to the choice of the subsidiary GM. In this stage, new routines are selected and carried out in a trial and error manner until a good enough solution is found (Rerup & Feldman, 2011). The new routine creation process can be viewed as a form of higher-level learning (Saka-Helmhout, 2010) because new beginnings are powerful incentives to establish or change the way work is accomplished (Feldman, 2000), and because in the beginning the path formation process is flexible (Sydow et al., 2009). When senior MNE managers attend to the details of the situation, the performative aspect of routines will prevail (Feldman & Pentland, 2003). Thus, I argue that MNE managers are more likely to materially refine succession routines based on the first few successions, which in turn will decelerate the momentum for further subsidiary GM succession events.

But there are also contexts that enhance self-reinforcing dynamics (Sydow et al., 2009). For instance, if the means-end relationships are ambiguous or the senior MNE managers only pay limited attention to such relationships, correctly drawing lessons from past succession activities will be challenging. I argue that this may occur when MNE managers gradually encode the subsidiary GM succession practices over time into processes and documents of succession planning and implementation by succession staff (Friedman, 2017) or a standing board committee (Dimma, 1999), as a means of economizing on the bounded rationality and costs of change. The routinization may also result in the concrete performance goals of GMs in a specific subsidiary (Tahvanainen, 2000). The codified processes, goals, documents and other artifacts can

then bring about an overarching action pattern, or in Feldman and Pentland's (2003) term, "an ostensive form of routines" to guide future subsidiary GM change. From then on, it can be argued that a lower-level learning (Saka-Helmhout, 2010) will tend to prevail, where routines will render the GM change easier (Ocasio, 1999).

Indeed, routinization can increase the competence in making specific kinds of changes, which in turn reduce the marginal costs of making these changes (Amburgey et al., 1993). Chung and Beamish (2010) argued that the reduction in marginal costs will result in two things. First, it will make changes with fewer benefits more attractive. Second, it will increase the likelihood that further, similar changes will be repeatedly enacted. But routinization as such has an inherent problem. That is, tacit knowledge is context specific (Balogun & Jenkins, 2003) and some of it is not amenable to systematic codification (Forsgren, 2017; Kogut & Zander, 1992). Thus, the established succession routines may become less likely to accommodate the current situations. Instead, self-reinforcing dynamics may lead to increasing simplicity (Sydow et al., 2009). As a consequence, changing a subsidiary GM may ultimately become an easier decision to make, but at the same time a less effective means of realigning the subsidiary with the environment and the MNE. As unsuccessful changes can lead to failure traps, in which failure leads to change, which leads to failure, which leads to change again (Levinthal & March, 1993), it follows that an accelerated pace of change may ultimately arise. Based on the "within-theorization" (Haans, Pieters, & He, 2016), I thus hypothesize:

***Hypothesis 1: The number of GM successions in the foreign subsidiary shows a curvilinear association (U-shape) with the likelihood of subsequent GM succession.***

### **The Number of Subsidiary GM Successions and Subsidiary Performance**

Along with the change of the role of succession routines, I expect the consequences of



succession activities may also change from functional, implied by the deceleration model, to dysfunctional, implied by the acceleration model. Specifically, I argue that GM successions can improve subsidiary performance when the number of GM successions is kept low, as they allow the MNE to find the appropriate candidate to improve the subsidiary's adaptability over time. Moreover, the decelerated momentum for further change can also offer the new GM the opportunity to incrementally learn suitable ways to "do things here" (Rowe et al., 2005). Therefore, reducing the number of changes is "often an aid to comprehension" (Levitt & March, 1988) not only to the senior MNE managers who make succession decisions but also to the newly appointed subsidiary GM who needs time to learn in order to achieve strategic renewal. This is critical because knowledge dispersion, as a basic attribute of MNEs (Tippmann, Scott, & Mangematin, 2012), may render the time compression diseconomies a much more serious problem to managers in MNEs than to managers in a domestic setting.

In contrast, too many GM successions can lead to failure traps as previously mentioned. It may accelerate the momentum for further change, which then indicates that the time between changes will become increasingly short for GMs to process information (Hale, Ployhart, & Shepherd, 2016; Kunisch, Bartunek, Mueller, & Huy, 2017). As a result, information overload and ineffective decision making may ensue (Klarner & Raisch, 2013). Moreover, given paucity of time, it is likely that there exists information asymmetry between the firm and the candidate, which may further lead to a less-than-optimal selection (Zhang, 2008). Consequently, using such a candidate might be detrimental to the adaptability of the organization. Taken together, I thus follow Klarner and Raisch (2013) to conceptualize a curvilinear relationship such that continual subsidiary GM change is beneficial at first but will become detrimental to the subsidiary performance from a threshold onward. Formally,

***Hypothesis 2:** The number of GM successions in the foreign subsidiary will have a curvilinear association (inverted U-shape) with the subsidiary performance.*

### **The Number of Subsidiary GM Successions and Subsidiary Survival**

As it takes time to transfer learning from individuals to the organization (Crossan, Lane, & White, 1999), too many GM succession events may render effective actions initiated by new subsidiary GMs difficult to integrate and institutionalize as formal rules, procedures or routines. Consequently, the larger part of the firm may remain the same while CEO changes become more frequent (Elosge, Oesterle, Stein, & Hattula, 2018). More importantly, too many changes can cause a flux in coordination (Hale et al., 2016). Here, I define flux as “an unstable, unbalanced, or changing pattern of interaction in a collective” (Summers, Humphrey, & Ferris, 2012: 315). The flux may take the form of short-term shocks which, through the creation of new routines, can decline over time. But forming new routines can be costly and time-consuming (Klarner & Raisch, 2013). Therefore, given too many GM changes, the short-term shocks that arise from each implementation of GM succession will be less likely to decline. Following the logic of Chung and Beamish (2010), one possible consequence is that these short-term shocks will accumulate and ultimately translate into higher likelihood of foreign subsidiary exit. Thus:

***Hypothesis 3:** The more frequently GM successions have occurred in the foreign subsidiary, the higher the likelihood of subsidiary exit.*

### **The Pattern of Subsidiary GM Successions and Subsidiary Survival**

Tarique et al. (2006) argue that PCNs may know more about the MNE’s culture, and thereby can more effectively facilitate communication with the headquarters and align the subsidiary’s operations with the interests of MNE headquarters. They are “value-seeking” connectors, distilling core knowledge to the subsidiary (Hébert et al., 2005). In contrast, HCNs

are viewed as being more familiar with the host-country environment, and hence more effective in localizing the subsidiary's operations (Gupta & Govindarajan, 1991). Based on these insights, I would anticipate that continued deployment of PCN GMs can facilitate knowledge transfer to the focal subsidiary, and strengthen knowledge exploitation. Yet it may discount the advantage of localization over time (Bebenroth & Froese, 2020). Continued deployment of HCN GMs, on the other hand, can help the subsidiary to localize the operation, but it may limit the subsidiary's capability to fully exploit the MNEs' firm specific advantages (FSAs).

Thus, to capture the upside potential of each staffing strategy, MNEs may design their succession strategies along two distinct trajectories: gradual localization or gradual integration, as I observed. This is in line with evolutionary theory, which highlights that the knowledge transfer process within an MNE is itself a learning process in which the MNE's existing knowledge base is combined with (host country) location specific factors, as one illustration of MNE's combinative capability (Verbeke, 2003). Although some non-location bound (i.e., can be exploited globally) FSAs can be transferred to the host country market by PCN GMs, without accessing complementary resources in the host country or without country specific advantages (CSAs), it is less likely that FSA exploitation leads to superior performance (Rugman, Verbeke, & Nguyen, 2011). I argue that although both paths appear to be capable of realizing the knowledge recombination goal, they are not *equifinal*. There are several reasons for this.

Because the history of a firm's strategic moves will affect the operational effectiveness of their subsequent moves (Tan & Mahoney, 2005), I anticipate that the initial conditions established by the PCN GM at subsidiary founding can work as a blueprint that guides subsequent actions. Collectively these factors constitute, in Bartlett and Ghoshal's (1987) terms, the subsidiary's administrative heritage. As such, my argument parallels research on the

dynamics of expatriate deployment (Riaz et al., 2014), which suggests that a higher proportion of expatriates deployed at subsidiary founding can enable knowledge transfer, coordination, and control between the subsidiary and the parent MNE (Belderbos & Heijltjes, 2005). The initial personnel decisions will then “provide the trigger for the path-building process by developing an organization’s combination of resources and capabilities” (Riaz et al., 2014: 2). Thus, I concur that deploying PCN GMs at subsidiary founding suggests a high level of administrative capacities available for knowledge transfer, control, and coordination (Sekiguchi, Bebenroth, & Li, 2011).

Administrative heritage can endure long after any structural change has been made and that over time the employees in the subsidiary will become socialized to the point where PCN GM control is less needed (Welch, 1994). Thus, I suggest that for gradual localizers, the close coordination between the subsidiary and the MNE and between the subsidiary and its peers can be sustained after the PCN GM’s departure. As a result, along with the improvement of the subsidiary’s local embeddedness facilitated by the HCN GM successor, the MNE can still leverage the administrative heritage built by the PCN predecessor to transfer knowledge, and maintain coordination. This succession pattern, therefore, may allow the subsidiary to simultaneously gain acceptance from the external environment in the local host country and acceptance from the MNE, both of which are needed for subsidiary survival (Kostova & Zaheer, 1999). As this is an effective way to develop MNEs into a harmonious social community (Kogut & Zander, 1996), I see gradual localization as a value maximization path.

I argue that this might not be the case with gradual integrators. Prior studies argued that using HCN GMs at subsidiary founding may reduce the subsidiary’s risks in a new environment (Delios & Björkman, 2000), thus offering a cost-minimization governance mechanism.

Accordingly, I view this succession pattern as a cost-minimization path. However, the critical distinction made by the evolutionary perspective is that the primary competitive advantage an MNE can bring to the host country is its possession of superior knowledge (Kogut & Zander, 2003). Here, value creation, not cost efficiency, is the core element (Forsgren, 2017). Employing an HCN GM at subsidiary founding, however, will be less likely to enable the subsidiary to fully take advantage of the MNE's superior knowledge during the HCN GM's tenure. Moreover, there are also enduring problems after the HCN GM's departure, as PCN successors who replace a HCN GM may encounter subtle and overt resistance by middle and lower HCN managers of the subsidiary (Bebenroth & Froese, 2020). The rationale is that the "glass-ceiling" may reduce morale and commitment among these managers (Hitotsuyanagi-Hansel, Froese, & Pak, 2016), leading to identity-based discordance (Kano & Verbeke, 2019). For gradual integrators, I thereby argue that the dynamic adjustment costs, incurred when hiring a new manager will disrupt current operations (Tan & Mahoney, 2005), to a greater extent than other patterns of succession. This will potentially temper the knowledge transfer benefit that the PCN successors can bring to the subsidiary. I thus hypothesize:

***Hypothesis 4:*** *The exit likelihood of gradual localizers is lower than that of subsidiaries that only deploy PCN GMs or only use HCN GMs.*

## QUANTITATIVE HYPOTHESIS TESTING

### Data

I use the Toyo Keizai NEEDS Merged Database (1991–2013) to quantitatively test my hypotheses. Toyo Keizai's overseas Japanese companies' database is the largest database in Japan about Japanese companies' overseas expansion. It is based on an annual questionnaire survey that Toyo Keizai has carried out for 40 years. Meanwhile, the Nikkei Economic

Electronic Databank System (NEEDS) offers over 50 years of financial and operating data on Japanese parent firms. Hundreds of prior studies have been published using this database (e.g., Shin, Hasse, & Schotter, 2017). To ensure the panel data's consistency, I restrict my attention to foreign subsidiaries in which there is no change in parent firm and have only one Japanese parent throughout their development. I do so in order to maintain the consistency of data and to control for influence due to conflicts within Japanese parent firms. Consistent with FASB protocols, I define a *foreign subsidiary* as a firm in which the Japanese parent has at least a 20 percent ownership stake.

Some of the subsidiaries were started 10 to 15 (or even more) years ago in the host countries before they were first recorded in the dataset. Obviously, in those subsidiaries I cannot examine the full process of continual GM change because I have no data about the subsidiaries' initial development stage. To ensure this study identifies the full process of MNE evolution (starting from the first possible GM change), I exclude subsidiaries that had already operated for more than two years in the host countries when they were first recorded in the dataset.

Further, I exclude subsidiaries that have never had more than nine employees to ensure the database does not include small representative offices or agencies. Ensuring the database does not include small representative offices or agencies has become a common practice for IB researchers leveraging this specific dataset (Beamish & Inkpen, 1998; Chakravarty, Hsieh, Schotter, & Beamish, 2017; Shin et al., 2017). In total, the treatments resulted in a dataset of 1,945 subsidiaries with 7,866 yearly observations.

## **Variables**

***Dependent variable.*** The data-set contains information on the names of subsidiary GMs. Therefore, for the succession antecedent model, I can use the same method as Beck et al. (2008)

to trace the managerial succession events at each observation. I use a binary variable, *Successions*, to denote the change in subsidiary GMs; 1 refers to the observation that a subsidiary GM succession occurs, and 0 means otherwise. Samples at the end of the observation period are viewed as censored data.

With respect to the consequences of subsidiary GM successions, in the Toyo Keizai database, there is a categorical variable representing the annual assessment of the subsidiary's financial performance, which is argued to be an appropriate measure (Delios & Beamish, 2001; Isobe, Makino, & Montgomery, 2000). As the measure has ordinal but not ratio-scaled properties (Dhanaraj, 2000), I recode this profit measure into a binary variable termed *Profitability*, where 1 is high performance, and 0 means otherwise.

Consistent with previous research (Delios & Beamish, 2001), a subsidiary that ceased to appear in a particular year's directory after being listed continuously for years, is regarded as an exit from the market. I use a dummy variable *Exit* to refer to a subsidiary's cessation of operation. Following Lu and Xu (2006), 0 is a subsidiary that remains in the market in a year, and 1 is a subsidiary that exits in that year. Subsidiaries that are listed at the end of the observation period are viewed as censored data. Toyo Keizai dataset also contains the address information of the subsidiaries. While I have subsidiaries that moved to different locations, the address change of the subsidiaries will not change the ID code of the subsidiaries. Thus, I do not code the observations as exit if the subsidiaries only changed the address. Meanwhile, in my coding process, I make sure that the observations coded as exit are not from those subsidiaries that ceased to appear but then reappeared in the dataset.

***Independent variables.*** *Prior Change* denotes a subsidiary's total number of managerial succession events up to the observation year. I use 0 to denote an observation that has never

changed their GM, 1 for an observation where only one subsidiary GM in previous years is not the same as the incumbent, 2 for a subsidiary where the GM successions have occurred twice, and so forth. I use the quadratic term of *Prior Change* to account for the non-linear effects of prior succession events on subsequent GM change and subsidiary performance.

I use the subsidiary GM's name to check for *PCN* identification (Bebenroth & Froese, 2020). Following prior studies (Bebenroth & Froese, 2020; Schotter & Beamish, 2011b), I use the classification as non-PCN to measure HCNs because Japanese companies use very few TCNs (0.5%) in their foreign subsidiaries (Tungli & Peiperl, 2009). On this basis, I create a categorical variable *Succession Patterns* to measure the patterns of subsidiary GM changes: *Unchanged* are subsidiaries that keep employing HCN GMs or only staff PCN GMs; *Gradual Integrators* use an HCN GM at subsidiary founding, but change to PCN GMs gradually; and *Gradual Localizers* employ a PCN GM at subsidiary founding, but change to HCN GMs in the later stage. As this variable is time-invariant, it is only analyzed in the survival model. To make sure that the survival model estimates the change dynamics, all observations in this particular model have experienced at least one succession event.

***Control variables in the succession antecedent model.*** First, following Beck et al. (2008), *Tenure* is the logarithm of the total number of years the subsidiary GM has been in office. Once a subsidiary appoints a new GM, it resets the tenure clock.

Second, as larger organizations may experience more succession occasions than smaller firms (Kesner & Sebor, 1994), I control for *Subsidiary Size*, which corresponds to the number of subsidiary employees. As log-transformation cannot be applied to zero values, I take the square root of this variable to reduce right skewness. I also control for the *MNE Size*. It is the logarithm of the total number of MNE employees.



Third, I control for the logarithm of *Subsidiary Age*, because older organizations might be less likely to engage in change (Mitsuhashi & Greve, 2004). I then use the quadratic term of *Subsidiary Age* to control for the non-linear effects of firm age on GM change. This is because at the start of a new organization, there is a fair degree of good will, resulting in a honeymoon period. During this period of time, the relationship can be relatively shielded from negative outcomes (Fichman & Levinthal, 1991).

Fourth, following Beck et al. (2008), I control for the performance of the subsidiary, as poor performance will likely lead to the change of GMs (Boeker, 1992; Kesner & Sebor, 1994). Also, because Frazee (1998) argued that with a local partner one may have a better chance of making the right GM choice in the beginning, I control for the ownership structure of the subsidiary. *Entry Mode* is a categorical variable denoting a firm's mode of entry. I use 1 to denote a wholly owned subsidiary (*WOS*), 2 as an MNE *Majority Owned IJV*, 3 as an *Equally Owned IJV*, and 4 as a *Minority Owned IJV*.

To further account for the effect of host-country attractiveness (Blumentritt & Nigh, 2002) on the likelihood of subsidiary GM turnover, I utilize *GDP Growth* data from World Bank National Accounts data and OECD National Accounts data files (World Bank, 2019). For the same reason, I use *Unemployment Ratio* data from the International Labour Organization's ILOSTAT database, *Human Capital Index* data from the Penn World Table (Feenstra, Inklaar, & Timmer., 2015), and *Tax Rate* data from TaxFoundation.org (Farah, Elias, Chakravarty, & Beamish, 2021).

I also account for the effect of competition in the host country on the likelihood of subsidiary GM change. *Competitors* is a variable referring to the number of country-of-origin competitors (with different parent firms) in the host country where the focal subsidiary operates.

These country-of-origin competitors share the same four-digit sector code with the focal subsidiary. This study takes the square root of the number of country-of-origin competitors to reduce right skewness. Relatedly, I also control for the inflow of foreign direct investment (FDI). Based on the definition from the World Bank, *FDI Inflow* refers to direct investment equity flows in the reporting country. It is the sum of equity capital, reinvestment of earnings, and other capital, and is reported in current U.S. dollars.

Meanwhile, I use a variable called *Expatriate Ratio* to represent the expatriate ratio in the focal subsidiary. This variable is used to control for the MNE's ability to find a GM candidate from within the subsidiary, which then potentially affect the probability of further GM change in the focal subsidiary. Relatedly, I also control for the number of *Sister Subsidiaries* in the host country. This is because when the MNE looks for a new subsidiary GM, it might be more willing and able to first look at whether there are candidates within their sister subsidiaries. This variable is the square root of the number of sister subsidiaries in the host country where the focal subsidiary operates. Also, because many PCN GMs are expatriates (Harvey & Moeller, 2009), who may have a pre-specified length of stay abroad (Takeuchi, Marinova, Lepak, & Liu, 2005), I control for the effect of the *PCN* identification on the change of the incumbent GM.

I use a categorical variable called *Strategic Motives*, which is coded into a series of (16) dummy variables, to account for the heterogeneous impact of FDI motives on the change probability of subsidiary GMs. Relatedly, I use a binary variable, *Regional HQs*, to control for the impact of being an RHQ on GM succession in the focal subsidiary.

Finally, I control for the period from *Year* 1991 to 2013. This variable is coded into a series of dummy variables to partial out the influence of aggregate time series trends on subsidiary GM succession.

***Control variables in the succession consequence model.*** The following control variables are used in the performance and survival models. I use *Subsidiary Age* to account for the effect of subsidiary's stage of development on its performance and survival probability (Josefy, Harrison, Sirmon, & Carnes, 2017). Following Bouquet and Birkinshaw (2008), I use the quadratic term of *Subsidiary Age* to account for the nonlinear effects of firm age on firm performance and survival.

Meanwhile, I control for the *Tenure* of the subsidiary manager, as long-tenured CEOs are found to be less likely to achieve the match between their organizations and the environment (Miller, 1991). I also control for the effect of the GM's *PCN* identification on subsidiary performance. Because the pattern of subsidiary GM changes is the key independent variable in the survival model, I do not control for the *PCN* identification in the survival model in order to avoid Type 1 error (Kalnins, 2018).

Furthermore, consistent with prior research on subsidiary performance (e.g., Dhanaraj & Beamish, 2004; Makino, Chan, Isobe, & Beamish, 2007), I control for the size of the subsidiary and the MNE. Meanwhile, given the mode of entry may influence the stability and performance of the subsidiary (Dhanaraj & Beamish, 2004; Murray, Ju, & Gao, 2012), I also control for *Entry Mode*.

As RHQs are expected to perform HQs functions (Chakravarty et al., 2017), they may receive more resources and support from the HQs. I therefore also account for the effect of being an *RHQ* on subsidiary performance and survival. Relatedly, I control for *Sister Subsidiaries* in the performance and survival models. I expect that the more sister subsidiaries operating in the host country, the less likely the focal subsidiary will gain the needed resources and support from the HQs. As a result, the performance of the focal subsidiary might be negatively influenced

(Ambos & Birkinshaw, 2010).

Following prior studies (e.g., Chung & Beamish, 2010; Farah et al., 2021), I account for the macro-level host country variables such as the human resource development, the labor market environment, and the economic environment by including *Unemployment Ratio*, *GDP Growth*, *Human Capital Index*, and *Tax Rate*. Also, I account for the impact of host country competitions by including *FDI inflows* and *Competitors*.

Finally, a series of *Year* dummy variables are used to partial out time-specific effects on firm performance and survival, and a series of *Strategic Motives* to account for the impact of FDI motives on firm performance and survival. The following descriptive statistics in Table 4 show the characteristics of these variables.

Table 4: Descriptive Statistics

	Mean	SD	1	2	3	4	5	6	7	8	9
1.Successions	0.25	0.44	1.00								
2.Profitability	0.58	0.49	0.00	1.00							
3.Subsidiary Exit	0.06	0.23	n.a <sup>a</sup>	-0.05	1.00						
4.Prior Change	1.20	1.48	0.08	0.11	0.02	1.00					
5.Succession Patterns (1=unchanged 2=gradual localizer, 3=gradual integrator)	1.34	0.66	0.05	-0.01	-0.03	0.16	1.00				
6.Entry Mode (1=WOS, 2=majority owned IJV, 3=equally owned IJV, 4=minority owned IJV)	1.64	1.08	-0.04	0.01	0.04	-0.09	0.10	1.00			
7.Expatriate Ratio (%)	0.13	0.18	0.02	-0.06	-0.04	-0.03	-0.08	-0.21	1.00		
8.MNE Size (log)	7.82	2.38	0.04	0.09	0.04	0.19	0.07	0.05	-0.11	1.00	
9.Subsidiary Size (sqrt)	9.47	10.20	0.02	0.10	0.00	0.11	0.02	0.06	-0.36	0.29	1.00
10.Tenure (log)	0.91	0.74	0.04	0.08	0.04	-0.15	-0.05	0.04	-0.12	-0.13	0.05
11.Subsidiary Age (log)	1.91	0.70	0.07	0.20	0.05	0.64	0.09	-0.05	-0.16	0.07	0.18
12.Competitors (sqrt)	5.09	3.12	0.01	0.03	-0.02	0.03	-0.03	-0.07	-0.07	-0.03	0.18
13.FDI Inflow (10 billion)	8.18	9.69	-0.01	-0.01	0.03	0.11	-0.02	-0.13	0.05	-0.04	0.00
14.GDP Growth (%)	5.75	4.11	-0.01	0.01	-0.01	-0.11	-0.02	0.07	-0.13	-0.05	0.09
15.Human Capital Index	2.75	0.54	0.03	-0.02	0.03	0.19	0.04	-0.20	0.20	0.03	-0.16
16.Unemployment (%)	4.88	2.46	0.01	-0.05	0.02	0.01	0.03	-0.14	0.08	0.06	-0.11
17.PCN	0.78	0.41	0.06	-0.01	-0.04	0.09	-0.26	-0.41	0.20	-0.03	-0.02
18.Tax Rate (%)	29.57	7.20	-0.07	-0.13	0.02	-0.15	0.03	0.01	0.05	0.02	0.00
19.Regional HQs	0.04	0.19	0.03	-0.01	-0.01	0.08	0.01	-0.09	0.19	0.14	-0.04
20.Sister Subsidiaries (sqrt)	1.35	0.66	0.06	0.01	0.06	0.07	0.06	0.14	-0.07	0.40	0.10

	10	11	12	13	14	15	16	17	18	19	20
10.Tenure (log)	1.00										
11.Subsidiary Age (log)	0.44	1.00									
12.Competitors (sqrt)	0.06	0.06	1.00								
13.FDI Inflow (10 billion)	0.08	0.14	0.45	1.00							
14.GDP Growth (%)	-0.02	-0.14	0.37	0.20	1.00						
15.Human Capital Index	0.05	0.23	-0.16	0.14	-0.57	1.00					
16.Unemployment (%)	-0.01	0.01	-0.19	0.01	-0.33	0.36	1.00				
17.PCN	-0.08	0.02	0.10	0.06	0.03	-0.03	-0.05	1.00			
18.Tax Rate (%)	-0.07	-0.17	-0.03	0.04	-0.15	0.21	0.33	-0.05	1.00		
19.Regional HQs	-0.04	0.02	0.00	0.07	-0.05	0.11	0.04	0.05	0.03	1.00	
20.Sister Subsidiaries (sqrt)	-0.09	-0.03	0.19	0.21	0.17	-0.08	-0.04	-0.04	0.08	0.05	1.00

Notes: a. When an observation exits, GM Change is viewed as censored data. Therefore, no correlation between *Successions* and *Exit* is calculated; b. *Year Dummies* and *Strategic Motive Dummies* are not included in Table 4

## Model

In line with Beck et al. (2008), I do not assume that recurrence times within each subsidiary are independent. To control for firm heterogeneity in the propensity to change (Haans et al., 2016), this essay employs the following fixed-effects logit regression to explore the antecedents of subsidiary GM succession (Allison, 2009):

$$\Pr(y_{it} = 1 | X_{it}, \beta, \mu_i) = \frac{1}{1 + e^{-X_{it}\beta - \mu_i}} \quad \text{with} \quad y_{it} = 1[X_{it}\beta + \mu_i + \varepsilon_{it} > 0]$$

where  $i$  denotes a subsidiary and  $t$  denotes time,  $Y_{it}$  is a change of subsidiary GM at each observation,  $X_{it}$  refers to the vector of independent variables and control variables, and  $\beta$  represents the coefficients associated with these variables. In the fixed effects model, the errors  $\varepsilon_{it}$  are assumed to be exogenous to all independent variables, whereas  $\mu_i$  is the time-invariant unobserved firm-specific variance (i.e., incidental parameter) that is assumed to be correlated to the independent variables. As I condition the density of  $Y_{it}$  on  $\sum_t Y_{it}$  (which is a sufficient statistic for the fixed effects) to derive the objective function of the estimator, I can eliminate the incidental parameters, thus yielding consistent estimators (Chamberlain, 1980).

Also, to control for the unobserved firm-specific variance in order to get consistent estimators, this study employs fixed-effects logit regression to explore the performance consequences of continual subsidiary GM change. Finally, with respect to the relationship between subsidiary survival and subsidiary GM succession, as the predictors were recorded annually, I can only assess exit on an annual basis. Therefore, continuous-time Cox models are not applicable. Furthermore, I cannot use the foregoing fixed-effects model due to the “complete separation” issue (Allison, 2009: 81). To calculate the continuous-time hazard rate, I apply a discrete-time event history model (Stern, Dukerich, & Zajac, 2014). Such model uses a complementary log-log function, which will allow me to account for both the continuous nature

of actual exit processes and the discrete nature of the data (Allison, 1995). In this model, I cluster the standard errors at the subsidiary level and use robust variances to address heteroscedasticity.

## RESULTS AND ROBUSTNESS CHECK

**Table 5: Empirical Results for Hypothesis 1**

	Model 1		Model 2		Model 3	
<i>Dependent Variable:</i>	Successions					
<i>Regressors:</i>						
Prior Change			-1.95	(0.000)	-3.63	(0.000)
Prior Change Squared					0.27	(0.000)
PCN	0.29	(0.043)	0.32	(0.034)	0.32	(0.034)
WOS	<i>Reference category</i>					
Majority Owned IJV	-0.02	(0.921)	-0.03	(0.902)	-0.06	(0.794)
Equally Owned IJV	0.25	(0.526)	0.20	(0.643)	0.23	(0.607)
Minority Owned IJV	0.70	(0.023)	0.48	(0.138)	0.39	(0.231)
Expatriate Ratio	0.07	(0.835)	-0.24	(0.485)	-0.01	(0.979)
MNE Size	0.08	(0.225)	-0.04	(0.599)	-0.03	(0.684)
Subsidiary Size	0.01	(0.259)	-0.00	(0.990)	0.00	(0.785)
Tenure	1.38	(0.000)	0.27	(0.000)	-0.24	(0.002)
Profitability	-0.05	(0.595)	-0.10	(0.255)	-0.09	(0.358)
Subsidiary Age	-0.72	(0.247)	0.77	(0.295)	1.07	(0.186)
Subsidiary Age Squared	-0.03	(0.930)	0.06	(0.883)	1.15	(0.008)
Competitors	-0.02	(0.542)	0.02	(0.622)	-0.00	(0.938)
FDI Inflow	-0.01	(0.338)	-0.00	(0.893)	-0.00	(0.870)
GDP Growth	0.01	(0.334)	0.02	(0.124)	0.01	(0.257)
Human Capital Index	0.38	(0.535)	1.55	(0.027)	0.79	(0.263)
Unemployment	-0.05	(0.120)	-0.05	(0.133)	-0.04	(0.176)
Regional HQs	-0.87	(0.086)	-1.22	(0.044)	-1.00	(0.087)
Tax Rate	0.02	(0.215)	-0.01	(0.480)	-0.01	(0.697)
Sister Subsidiaries	0.07	(0.762)	0.01	(0.964)	0.11	(0.678)
Strategic Motives	Yes		Yes		Yes	
Year Dummies	Yes		Yes		Yes	
Observations	8,864		8,864		8,864	
Number of subsidiaries	1,328		1,328		1,328	
Chi-squared	800.77		1412.72		1612.72	
McFadden's pseudo-R <sup>2</sup>	.122		.214		.245	

Notes: P-values in parentheses of coefficients; Meanwhile, it is important to note that the fixed-effects logit model is a conditional logit, thus estimating the marginal effects is not meaningful (because the marginal effects depend on the value of the fixed effects) (Allison, 2009). This suggests that I cannot simply follow the existing approach (e.g., Wiersema & Bowen, 2009) to graphically demonstrate the result, though the marginal plot in STATA did show a clear U-curve here. Based on Model 3, I also plotted the fitted values of the predicted probabilities of GM successions, where the predicted probability of GM change is conditional on one positive outcome (i.e., one succession event) within a subsidiary. I found a clear U-curve again, where the predicted probability of further GM change will decline by around 8% after the first succession and will further decline by another 5% after the second succession. The effect continues to decline along with every GM change and eventually the sign is shifted from the sixth succession onward. These plots are available upon request. Nonetheless, I can use a method to calculate the average elasticity using the consistent estimator of the parameter of interest and the average of binary dependent variable (Hoetker, 2007). This method was first brought to light mathematically by Kitazawa (2012). To apply this method, I applied the analytical program written by Kemp and Silva (2016) and found that the “turning point” (Haans et al., 2016) in this case is the global extremum at  $-\beta_1/2\beta_2$  where  $\beta_2$  is 0.22 and highly significant while  $\beta_1$  is -2.96 and highly significant. Thus, the results suggest that after the sixth successions, the momentum will shift from deceleration to acceleration. In a separate analysis, I did not transform *Tenure*, *Competitors*, *Sister Subsidiaries*, *Subsidiary Size*, and *MNE Size* in Model 3. Hypothesis 1 remained supported.

Models 1 to 4 in Table 5 examine the antecedents of subsidiary GM successions. Model 1 only uses control variables, where the McFadden's pseudo- $R^2$  is .122. In model 2, I added *Prior Change* into the regression and found that the McFadden's pseudo- $R^2$  went up to .214. Relative to the controls-only model, therefore, Model 2 represents a substantial improvement (Hoetker, 2007). Meanwhile, in Model 2, the coefficient of *Prior Change* is negative (Beta = -1.95) and highly significant (p-value < .001), supporting the deceleration argument that prior GM successions in the focal subsidiary reduce the likelihood of subsequent succession. In Model 3, however, I found that the coefficient of the quadratic term (i.e., *Prior Change Squared*) is positive (Beta = 0.27) and highly significant with a p-value below .001. Also, in Model 3, the McFadden's pseudo- $R^2$  went up to .245. The results lend strong support to the argument that from a threshold onward, prior subsidiary GM successions in the focal subsidiary operations will increase the likelihood of subsequent succession in the subsidiary, accelerating the momentum for further change. Taken together, Hypothesis 1 is supported.

Model 4 examines the performance consequence of subsidiary GM successions, and Model 5 tests the effects of subsidiary changes on the likelihood of subsidiary exit. Table 6 reports the results.



**Table 6: Empirical Results for Hypotheses 2-4**

	Model 4 (Fixed-Effects Logit)		Model 5 (Log-Logistic)	
<i>Dependent Variable:</i>	Profitability		Subsidiary Exit	
<i>Regressors:</i>				
Prior Change	0.34	(0.017)	0.42	(0.018)
Prior Change Squared	-0.05	(0.017)	-0.04	(0.189)
Gradual Localizer			-0.59	(0.003)
Gradual Integrator			-0.30	(0.085)
WOS		<i>Reference category</i>		
Majority Owned IJV	0.19	(0.456)	0.30	(0.129)
Equally Owned IJV	0.46	(0.332)	0.48	(0.062)
Minority Owned IJV	0.24	(0.513)	0.74	(0.000)
Expatriate Ratio	-1.05	(0.009)	-0.31	(0.456)
MNE Size	0.03	(0.661)	-0.07	(0.026)
Subsidiary Size	0.08	(0.000)	-0.01	(0.526)
Tenure	0.15	(0.068)	0.19	(0.058)
Subsidiary Age	1.75	(0.001)	-0.02	(0.985)
Subsidiary Age Squared	-0.16	(0.615)	-0.02	(0.953)
Competitors	0.01	(0.720)	-0.07	(0.007)
FDI Inflow	0.02	(0.015)	0.02	(0.105)
GDP Growth	0.04	(0.004)	0.00	(0.961)
Human Capital Index	0.34	(0.626)	0.20	(0.217)
Unemployment	-0.04	(0.303)	0.07	(0.033)
Tax Rate	0.04	(0.007)	0.00	(0.873)
Regional HQs	2.19	(0.005)	-0.20	(0.745)
Sister Subsidiaries	-0.18	(0.493)	0.54	(0.000)
PCN	0.16	(0.357)		
Profitability			-0.47	(0.000)
Strategic Motives	Yes		Yes	
Year Dummies	Yes		Yes	
Observations	5,836		7,866	
Number of subsidiaries	833		1,945	
Chi-squared	516.23		238.95	
McFadden's pseudo-R <sup>2</sup>	.110		n.a.	

Notes: P values in parentheses of coefficients; I led with the dependent variable *Profitability* in Model 4 by one year (the results remained consistent when all independent variables in Model 4 were lagged by one year). For ease of interpretation, I then used a linear probability model to test Model 4. The coefficient of *Prior Change* is 0.045 (p-value = 0.002) and the coefficient of *Prior Change Squared* is -0.006 (p-value = 0.003). Therefore, the findings remained consistent. In particular, the first succession event increases the subsidiary's probability of being profitable by 4% and the second succession event increases the subsidiary's probability of being profitable by 3%. The effect with every succession continues to decline and eventually its sign is shifted from positive to negative.

In Model 4, I found that the coefficient of *Prior Change* is positive and significant (p-value = .017) while its quadratic term is negative and highly significant (p-value = .017). This pattern supports Hypothesis 2. Based on the coefficients in Model 4, for example, the turning point suggests that from the fifth subsidiary GM onward, the subsidiary performance will be more

likely to disappoint. Meanwhile, the positive (Beta = 0.42) and significant (p-value = .018) coefficient of *Prior Change* in Model 5 lends a strong support to Hypothesis 3. In this case, by calculating the odds ratio, I found that the odds of subsidiary exit with every GM change will increase by a factor of 1.52. Taken together, I can conclude that the continual subsidiary GM change can improve subsidiary performance in the short term, but will be detrimental to firm performance and survival in the long term.

With respect to the strategic value of succession patterns, I found that the coefficient of *Gradual Localizers* is negative (Beta = -0.59) and significant (p-value = .003) in Model 5, lending support to Hypothesis 4 that the exit likelihood of gradual localizers is lower than that of subsidiaries only deploying HCN GMs or only using PCN GMs. Specifically, by calculating the odds ratio, the result shows that there is a 45 percent decrease in the odds of subsidiary exit with this specific succession pattern. Gradual integration does not provide the same result in terms of the effect size and *t* statistics, though it is still marginally meaningful in a statistical sense. To test the effect of succession patterns on subsidiary profitability, I changed Model 4 into a random-effects model and replaced *PCN* with *Succession Patterns*. The separate analysis showed that the coefficient of *Gradual Integrators* is negative (Beta = -0.50) and significant (p-value = .056). Taken together, these findings support that gradual integration and gradual localization are not equifinal.

## DISCUSSION

My analysis showed that the evolutionary perspective can be usefully extended to the subsidiary GM's value creation potential through a focus on the GM succession dynamics. In so doing, I develop a temporal model<sup>1</sup> that investigates long-term issues in subsidiary GM staffing.

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<sup>1</sup> Although this study primarily investigates the temporal issue of knowledge activities within MNEs, I recognize the

I therefore extend the extant research on foreign subsidiary GM staffing (e.g., Harzing, 2001; Peng & Beamish, 2007; Schotter & Beamish, 2011b) towards a dynamic perspective.

Concurrently, I also bring to the fore the parenting role of MNEs, which seems more or less absent in evolutionary theory (Forsgren, 2017; Foss & Pedersen, 2019), thus further enhancing evolutionary theory's relevance to practice.

I address two theoretical inconsistencies in current succession research and bring to light the intrinsic compatibility among them. The results showed that as decision makers in MNEs accumulate succession experience within a subsidiary, the probability of further GM change decreases. This empirically confirms that MNEs are adaptive and learning institutions, where changes initiate learning (Balogun & Jenkins, 2003) and (higher-level) learning in turn reduces the need for further changes (Cook & Yanow, 1993). But at the same time, the findings also showed the dynamic nature of learning within MNEs. As prior change within a subsidiary concurrently reduces the marginal costs of making similar change decisions, organizational learning can shift from higher-level to lower-level. As a result, the momentum for further change will be accelerated. Taken together, the results enabled me to address the call to investigate the direction of endogenous change (Feldman & Pentland, 2003), and empirically corroborate the supposition that as path dependence evolves, the positive dynamics continue until self-reinforcing process winds up in a lock-in trap (Sydow, Schreyögg, & Koch, 2020).

Meanwhile, my analysis links organizational learning and strategy research (Crossan & Berdrow, 2003) and provides a step forward in resolving the succession adaptation-disruption

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importance of the role of spatial dimension in knowledge creation and transfer (Kogut & Zander, 1995) and the behavioral implications (Foss & Pedersen, 2019). Empirically, I found that general succession experience accumulated outside the subsidiary but within the MNE will also accelerate the momentum for further GM change in the focal subsidiary. This further corroborates the notion that an integration scheme that overlooks context can be detrimental (Hébert et al., 2005).

paradox. On one hand, the results demonstrated that replicating a behavioral pattern can damage the organization in the future (Sydow et al., 2009) and continual GM change has a disruptive nature (Schepker et al., 2017). But I do not take an overly-negative stance here. Instead, the longitudinal analysis showed that there exists a middle ground where inertia is countered and learning is sustained.

The results also highlighted the importance of succession patterns. The findings revealed that the localization of an integrated subsidiary and the integration of a localized subsidiary are not equifinal. My theory is that the administrative heritage formed at subsidiary founding can be either a great asset or a significant liability, depending on both the initial subsidiary GM staffing decision and subsequent adjustments. In so doing, the analysis can simultaneously extend the study of Beamish and Inkpen (1998) by investigating “when” deploying HCN GMs is beneficial<sup>2</sup>; the work of Hébert et al. (2005) by furthering the contingency thinking on “when” using PCN managers can enhance subsidiary survival; the work of Sekiguchi et al. (2011) by providing longitudinal evidence for the advantage of using PCN GMs at subsidiary founding; and the work of Riaz et al. (2014) by differentiating the role of dynamically deploying high-level managers from that of other subsidiary employees in organizational performance.

### **Managerial Implications**

This study has several ramifications for practitioners. Increasingly, some new narratives seem to support the notion of boss-less organization (e.g., Hamel, 2011). To answer the question about whether leaders matter (Friedman, 2017), my answer is yes. However, in an era when the risk of selecting the wrong candidate is greater than any time in the past (Donatiello, Larcker, &

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<sup>2</sup> I concur that opportunism of HCN GMs is an important micro-foundational assumption (Müllner et al., 2017). But underpinning my theorizing is a premise that identity building can ultimately address it.

Tayan, 2018), overly relying on GM succession routines, though enabling MNE managers to economize on the costs of change, can be problematic. They may ultimately lock the focal subsidiary into a continual GM change process. MNEs thus need to know when associated problems will outweigh the benefits of relying on succession routines.

Understanding the succession momentum issue is crucial, as continual GM change can harm subsidiary performance and reduce the likelihood of subsidiary survival. To avoid the downside risk and capture the upside potential of successions, there are two possible solutions: keeping the number of succession events in the focal subsidiary low; or, following the gradual localization trajectory. Such a succession strategy is also timely, given that the COVID-19 pandemic renders the idea of an upward trajectory of international assignments highly unlikely (Caligiuri et al., 2020). Therefore, gradually shifting to HCN GMs makes good business sense.

### **Limitations and Future Research Opportunities**

This study is not without limitations, and therefore raises many new research issues. First, due to the COVID-19 pandemic, I am not able to conduct close-up field observations or to participate in management meetings on site. Future research may apply more refined and contextualized qualitative research methods to depict a fuller picture of succession decision making. Meanwhile, to continue with this line of inquiry quantitatively, I suggest that researchers could test how other contingencies moderate the factors underlying my conceptualization. Contingent factors, for example, might include the subsidiary GM's turnover reason, time horizon, entrepreneurial leadership, managerial discretion, and compatibility (Chen & Hambrick, 2012; Georgakakis & Ruigrok, 2017; Juravich, Salaga, & Babiak, 2017; Karaevli, 2007; Matta & Beamish, 2008; Sarabi, Froese, Chng, & Meyer, 2020). All of these are useful to address the limit of coarse-grained individual characteristics such as nationality which I used here in the

quantitative inquiry (Meyer et al., 2020). At a more macro level, future work can incorporate power and attention dynamics, the subsidiary's network structure and its content. All of these factors can facilitate or impede learning, and thus influence the change in routines (Bouquet & Birkinshaw, 2008; Gavetti, Greve, Levinthal, & Ocasio, 2012; Reagans & McEvily, 2003).

Second, this study assumes that exit from a foreign market is a manifestation of firm instability, as exit usually indicates a failure in achieving management's original goal for the business (Murray et al., 2012), where almost 90% of exits are unplanned (Makino et al., 2007). In some cases, however, non-survival does not indicate failure (Mata & Portugal, 2015). Therefore, it would be fruitful for future studies on this topic to investigate the micro-foundations underlying subsidiary exit and failure.

Third, the large-sample quantitative analysis only focused on a single home country, Japan. Similar to previous studies (Delios & Makino, 2003), the use of a single-nation sample may limit the generalizability of the findings. As a country with one of the oldest populations in the world, Japan is struggling with its ability to find sufficient numbers of expatriates (Beamish & Inkpen, 1998; Briscoe, Schuler, & Claus, 2009) and is reluctant to use TCNs (Tungli & Peiperl, 2009). Also, for some Japanese employees, the intended length of stay abroad can be longer than most expatriates stay abroad (McNulty & Brewster, 2017). Meanwhile, the nature of the employment relationship and the collectivist sociocultural orientation all result in much more incremental evolutionary changes within Japanese organizations (Beechler et al., 1998; Sakano & Lewin, 1999). This implies that the influence of previous GM successions may not be as strongly manifest as otherwise expected in the change of incumbent GMs.

## CONCLUSION

The need for a systematic understanding of subsidiary GM successions is pressing. In line

with Schepker et al. (2017), I concur that the theoretical fragmentation in current succession research is not problematic but an opportunity. In this spirit, I leveraged the distinctiveness of MNEs and a micro-foundational mixed-methods approach to address inconsistencies in the extant GM succession literature. I then took an evolutionary perspective to extend the theory of subsidiary GM successions and develop a process-based theoretical argument that links individuals in leadership with various subsidiary-level outcomes (Meyer et al., 2020). I found, first, the deceleration and acceleration momentum for further GM change can take place sequentially; and second, the continual GM change can be both adaptive and disruptive. The central message from these higher-order relationships is that the pace and path of foreign subsidiary GM successions matter, as they can affect the future succession dynamics in the subsidiary on one hand, and the subsidiary performance and survival on the other.

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## **CHAPTER 3: MNE ATTENTION AND GENERAL MANAGER SUCCESSION IN FOREIGN SUBSIDIARIES (ESSAY 2)**

### **INTRODUCTION**

The COVID-19 crisis has pushed senior managers in multinational enterprises (MNEs) to reconsider the key questions as to whether they have the right people in the right places (Caligiuri, De Cieri, Minbaeva, Verbeke, & Zimmermann, 2020). The pandemic exposed an old problem, that is, there are talented managers as well as poor performers in foreign subsidiaries remaining in “blind spots” (Mellahi & Collings, 2010), which in turn impacts the subsidiary competitive advantages (Meyer, Li, & Schotter, 2020; O’Brien, Scott, Andersson, Ambos, & Fu, 2019). One underlying cause of this problem is that an MNE is usually unable to attend to all of its foreign subsidiaries (Belenzon, Hashai, & Pataconi, 2019; Bouquet & Birkinshaw, 2008a), as the intra-organizational networks of the MNE are characterized by separation through time, space, culture, and language (Ambos & Ambos, 2009).

Gaining MNE attention, which is a reflection of foreign subsidiaries’ power (Bouquet & Birkinshaw, 2008a, 2008b) and more expansive roles (Ambos & Birkinshaw, 2010), enables foreign subsidiaries to obtain more resources (Andersson & Forsgren, 2000). On the other hand, however, gaining MNE attention may also increase headquarters’ monitoring (Andersson, Forsgren, & Holm, 2007; Mudambi & Pedersen, 2007). Here, monitoring refers to the implementation of routinized control mechanisms, such as replacing managers (Ambos, Andersson, & Birkinshaw, 2010) who are viewed as important attentional carriers (Ocasio, 2011). Indeed, anecdotal evidence indicates that the efforts of the foreign subsidiary to gain power and attention may lead to MNE intervention and the replacement of management when subsidiary performance is poor (Bouquet & Birkinshaw, 2008a).

Concurrently, however, considerable evidence in the strategic management literature exists that managerial power is one of the central elements in the succession decision-making process (Finkelstein, 1992). Specifically, researchers have shown that a downturn in performance may trigger GM turnover in domestic subsidiaries (Blackwell, Brickley, & Weisbach, 1994; McNeil, Niehaus, & Powers, 2004) and that power-dependence is a major source of indeterminacy that affects the performance–succession link (Boeker, 1992; Fredrickson, Hambrick, & Baumrin, 1988; Pfeffer & Salancik, 2003; Salancik & Pfeffer, 1980). The central argument in this line of research is that the existing GM in a poorly performing organization in a domestic setting can leverage strategic configurations in order to defer succession. Rooted in the strategic contingencies perspective of subunit<sup>3</sup> power (Hickson, Hinings, Lee, Schneck, & Pennings, 1971), Drazin and Rao (1999) term this the performance–power–succession model.

The foregoing inconsistency suggests that the extant models based on single-country studies may need adaptation in order to inform foreign subsidiary GM succession (Müllner, Klopff, & Nell, 2017). However, there is a lack of international examination of the power–succession link (Pi & Lowe, 2011). To develop a more predictive theory and better utilize the distinctiveness of the MNE context for theory building, I use a pluralistic methodology (Van de Ven, 2007) to contrast the MNE attention perspective (Ambos et al., 2010; Bouquet & Birkinshaw, 2008a; Monteiro, 2015) with the strategic contingencies perspective (Drazin & Rao, 1999; Hickson et al., 1971) to investigate the relationship between foreign subsidiary performance and subsidiary GM succession. Therefore, the question which guides this research is: *How do strategic configurations that potentially affect MNE attention and foreign subsidiary*

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<sup>3</sup> Subunit in this study refers to functional divisions, SBUs, and subsidiaries of purely domestic organizations.

*GM power moderate the relationship between poor subsidiary performance and subsidiary GM succession?*

International business (IB) scholars have stressed that one advantage that MNEs have over single country firms is that they can tap into a globally diverse pool of talent (Mellahi & Collings, 2010). This defining feature implies that the substitutability of incumbent subsidiary GMs is higher than that of general managers in a domestic setting. In actuality, however, not all senior MNE managers can leverage such substitutability advantage to facilitate GM successions in their foreign subsidiaries. Premised on the notion that knowledge is crucial for the exercise of power (Forsgren, Holm, & Johanson, 2005), I suggest that only MNEs that have effective monitoring channels may better exploit their hierarchical power to *outweigh* the moderation effect of subsidiary GM power on the performance–succession link. Following prior research (Bouquet & Birkinshaw, 2008a; Monteiro, 2015), I adopted a mixed-methods approach. In parallel with the literature review and deductive theorizing process, I conducted 39 formal interviews (and six follow-up interviews) with MNE decision makers, subsidiary GMs, and the members of the top management. This qualitative inquiry (described in Appendix) enabled me to use the deeper understanding of the phenomenon to better inform my hypotheses development.

I argue that while GMs of foreign subsidiaries may accrue power from their subsidiaries' relative strength within MNEs and the strategic significance of the host country market, the strong strategic position of the foreign subsidiary may also enhance MNE monitoring, which in turn facilitates subsidiary GM changes. I term this the performance–attention–succession model. This model can also be used to explain why the high expatriate ratio in a subsidiary strengthens the link between poor subsidiary performance and GM change. I show that only when there are conditions under which MNE monitoring proves challenging (O'Donnell, 2000), will the

performance–power–succession model work (but the effect size here appears to be small). I test the hypotheses, which are both theoretically derived and empirically informed, by using a fixed-effects longitudinal analysis of 1,153 Japanese subsidiary firms between 1991 and 2013. I also show that changing the GM in a poorly performing subsidiary can effectively turn around the subsidiary's performance.

This study aims to make the following contributions to research and practice. First, it challenges the performance–power–succession model by demonstrating the intriguing double effect of strategic configurations, which can lead to disparate succession consequences. Thus, it enables me to advance the theory by using an alternative explanatory mechanism (Roth & Kostova, 2003) to explain more fully the performance–succession association in the unique context of MNEs. Second, it addresses the call to theoretically and empirically investigate the issue of negative headquarters attention (Bouquet & Birkinshaw, 2008a). Also, by using temporal progressions of activities as elements of explanation (Langley, Smallman, Tsoukas, & Van de Ven, 2013), I show the long-term gains of this negative intervention.

Next, I first review the literature on GM succession. I then present my framework and hypotheses. After discussing the quantitative data, the measures, and the model, I present my quantitative analysis results and their implications for theory and practice.

## **THEORY BACKGROUND**

### **Performance–Power–Succession Model**

Poor organizational performance will likely lead to a change in corporate GMs (Boeker, 1992; Boeker & Goodstein, 1993; Kesner & Sebora, 1994; Li, 2018; Wiersema & Bantel, 1993) and to a change in GMs in domestic subsidiaries (Blackwell et al., 1994; McNeil et al., 2004). The research on this matter has been abundantly clear (Finkelstein, Hambrick, & Cannella,

2009), and firm performance maintains its heritage as a critical succession antecedent (Giambatista, Rowe, & Riaz, 2005).

However, the relationship between performance and succession is not as direct as it seems (Pfeffer & Salancik, 2003; Salancik & Pfeffer, 1980). The source of indeterminacy derives from a variety of sociopolitical forces that intervene between performance and the change of GM (Flickinger, Wrage, Tuschke, & Bresser, 2016; Fredrickson et al., 1988). Examples in this regard may include the entrenchment of the incumbent and the availability of candidates. In brief, when an incumbent controls critical resources, or candidates are not readily available, the GM can proactively accrue power in order to defer succession in a poorly performing organization (Boeker, 1992).

This performance–power–succession model has also been applied to the study of other types of executive roles. For example, Drazin and Rao (1999) explored the power bases of strategic business unit (SBU) managers. Specifically, the authors built their model around the strategic contingencies perspective of subunit power to highlight the implications for succession research at a subunit level (Hickson et al., 1971).

### **Strategic Contingencies Perspective Versus MNE Attention Perspective**

Hickson et al. (1971) focused on structural sources of intra-organizational power. Grounded in a power-dependence view (Emerson, 1962), the authors argued that the centrality of workflows, the substantiality of activities, and the ability to cope with critical uncertainties determine the variation in interdependence between subunits. In a sense, power is the ability of one subunit to affect organizational decisions in ways that lead to outcomes favorable to the subunit (Pfeffer & Salancik, 2003). Such subunit power can also result in more conservative behaviors (e.g., avoiding organizational changes) (Mitsubishi & Greve, 2004). Building on the

ideas advanced by Hickson and his colleagues, Drazin and Rao (1999) found that the critical contingencies (e.g., revenue or market share) controlled by the incumbent SBU manager interact with poor subunit performance to either increase or decrease the probability of GM succession.

The similar power bases have also been tested in studies of other political dynamics inside multiunit firms, such as the divestiture of formerly acquired subunits (Xia & Li, 2013). Along with the development of the interdependence-based approach, a market-dependence-based approach to identifying subunit power has begun to gain momentum (e.g., Xia, Yu, & Lin, 2019). In this new strand of research, the exchange of resources (Jacobs, 1974) is no longer viewed as a necessary condition for a subunit to shape its power base. Instead, the relative importance of the market in which the subunit operates suffices to determine its power (Xia et al., 2019).

Integrating the foregoing two approaches and in the setting of MNEs, Bouquet and Birkinshaw (2008a) pointed out that both the host-country market significance and the subsidiary's relative strength within the MNE can confer power to the subsidiary. In turn, this power can enable the subsidiary to gain parental attention. However, the authors also used the example of 3M Canada to stress that attention from headquarters is not always positive, as it may lead to drastic interventions from MNEs such as the replacement of management when a subsidiary's performance disappoints. Subsidiaries can also gain power and thus attention by taking initiatives (Bouquet & Birkinshaw, 2008b; Delany, 2000). But Ambos et al. (2010) stressed that MNEs might also be more likely to replace managers in the subsidiaries that took initiatives (and therefore are closely monitored by their MNEs). These arguments stand in sharp contrast with the predictions based on the performance–power–succession model. As I discuss in greater depth in the next section, one cause of this inconsistency may lie in the multi-faceted

influences of structural determinants, which will lead MNE attention and subsidiary GM power to co-vary. However, MNE attention and subsidiary GM power will result in different GM succession consequences in poorly performing foreign subsidiaries. To gain a more complete and accurate understanding of the performance–succession relationship in the setting of foreign subsidiaries, this study theorizes about these opposing mechanisms simultaneously. These two mechanisms share a same baseline, which I will introduce in the next section.

### **Foreign Subsidiary Performance and Subsidiary GM Succession**

IB scholars argue that the role of foreign subsidiary GMs is intricate and challenging (Bartlett & Beamish, 2018). To form routines that are the crucial determinant of firms aligning with a new environment, foreign subsidiary GMs should simultaneously understand the MNE's agenda in the host country and the local business culture (Elg, Ghauri, Child, & Collinson, 2017). The strategic value of foreign subsidiary GMs, coupled with the challenges imposed on the subsidiary GM role, may subject the performance of foreign subsidiary GMs to great scrutiny by MNEs. Indeed, decision makers at the headquarters are found to be more sensitive to subsidiary GM performance than board members are to CEO performance in standalone firms (McNeil et al., 2004).

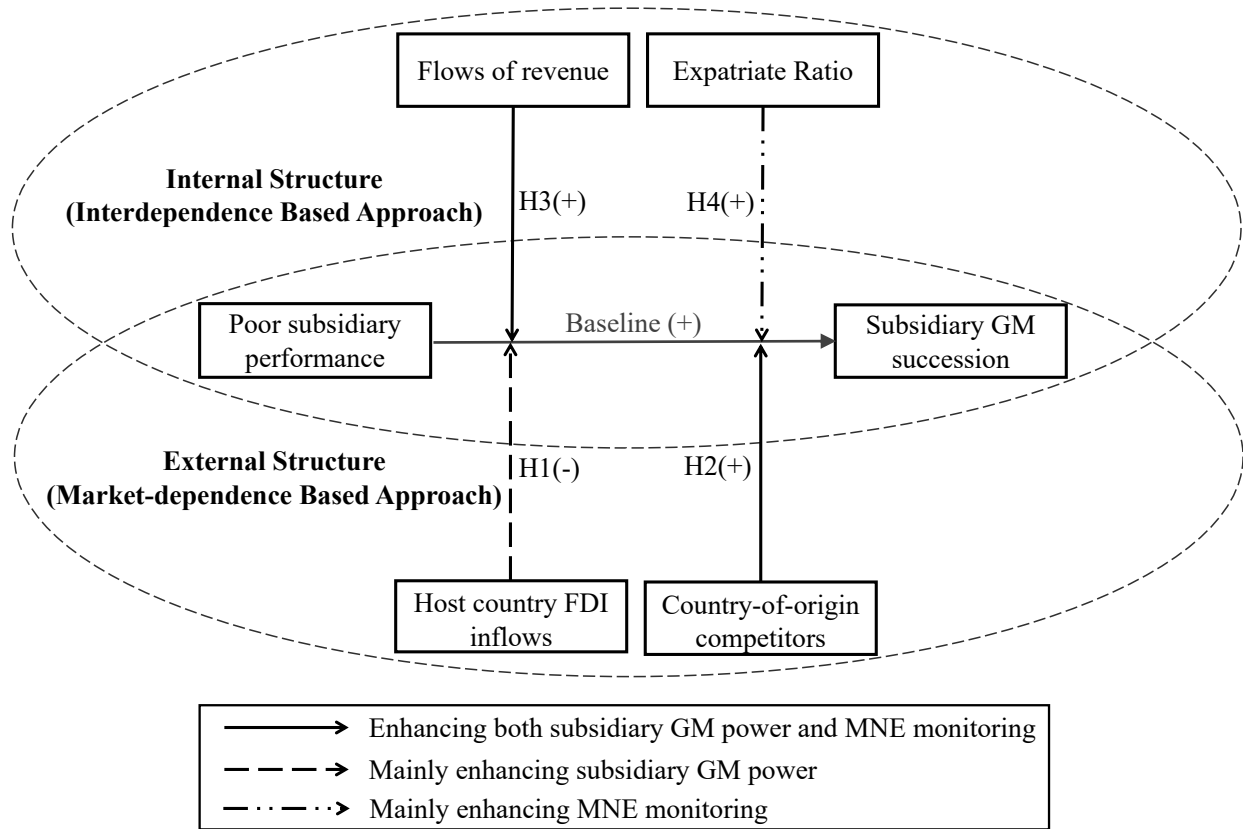
When the performance turns subpar, foreign subsidiary GM succession will offer the MNE a great opportunity to regain fit between the environment and the subsidiary and between the MNE and the subsidiary (Friedman, 2017; O'Brien et al., 2019; Ocasio, 1999). As regional CEO 2 of a large Israeli MNE explained: *"I use subsidiary GM successions as a way to grow."* At the same time the poorly performing subsidiary will be more vulnerable to pressure from the MNE to conform (Ferner, Edwards, & Tempel, 2012). Therefore, GM succession is found to be more likely to occur in a poorly performing foreign subsidiary (Sonkova, 2015). My interviews

reveal that poor subsidiary performance did lead to the change of the subsidiary GM in MNEs from Finland, Sweden, South Korea, The US, China, Israel, and Singapore. The director of the Singapore MNE said: *“The poor performance is the top reason to change the subsidiary GM.”* Also, the subsidiary HR manager from a US MNE told us: *“When performance was poor...it is normal that the GM would be changed.”* Taking previous empirical findings and the qualitative data as the starting point, therefore, I treat the higher GM succession probability in poorly performing foreign subsidiaries as the baseline going forward.

## **HYPOTHESIS DEVELOPMENT**

Following Bouquet and Birkinshaw (2008a), I integrate the market-based approach with the interdependence-based approach to argue that two types of structural factors may impact MNEs’ attention and subsidiary GM power, which will in turn affect subsidiary GM succession. They are the structure of the host-country market in which the subsidiary operates (hereafter, the external structure) and the structure of the MNE’s intra-organizational network (hereafter, the internal structure). Figure 1 demonstrates the organizing framework of this essay. Through a market-based lens, I investigate the external structure first.



**Figure 1: Organizing Framework**

The external part of the subsidiary network can be used to form the base for the subsidiary's influence within the MNE (Andersson & Forsgren, 2000; Andersson et al., 2007). By definition, an MNE "is an enterprise that engages in foreign direct investment (FDI) and owns or, in some way, controls value-added activities in more than one country" (Dunning & Lundan, 2008: 3). It has been established that FDI will be directed to host countries where the market is large, resources are rich, or assets are strategically important (Cuervo-Cazurra & Narula, 2015). The extent of capital flows from the MNE tend to be greater for subsidiaries operating in larger national markets (Gupta & Govindarajan, 1991), for which the MNE may have high hopes (Ambos & Birkinshaw, 2010). As criticality measures the organization's ability to continue functioning in the absence of the market (Pfeffer & Salancik, 2003), I would expect that host countries that have received the most FDI inflows *are* or *will* be a critical market for

MNEs. I concur that the MNE is likely to put more weight on subsidiaries that are currently operating in the most important markets (Xia et al., 2019), but this does not preclude the possibility that the MNE will keep a close eye on those subsidiaries operating in high-FDI countries, which hold great potential to develop into the new core of the MNE's portfolio. Bouquet and Birkinshaw (2008a) suggest that the presence of other foreign MNEs may signal an agglomeration effect that can enhance the MNE's competitiveness in the future or may signal the availability of critical location-specific advantages. On this basis, the strategic contingencies perspective may thus posit that a subsidiary GM can accrue power from the market criticality and thus be more likely to remain in office when the subsidiary performance disappoints.

At the same time, however, some MNEs in my data have developed a pool of subsidiary GM candidates over time. For example, subsidiary GM 8 said, *"When the next succession is needed and when we do have available and qualified candidates on hand, the succession will occur smoothly."* Occasionally MNEs also expatriate GM candidates internally. As Regional GM 3 noted, *"When internal candidates within the subsidiary are not readily available, we will transfer some GM candidates from other subsidiaries to the focal subsidiary."* Therefore, given the MNE's inherent advantage in tapping into a globally diverse pool of talent (Mellahi & Collings, 2010), the higher substitutability of the incumbent subsidiary GM relative to general managers in a domestic setting suggests that MNEs may possess the hierarchical power or a "parenting advantage" which outweighs the power of the subsidiary GM, facilitating subsidiary GM succession when the subsidiary performance disappoints. To successfully exercise such power, however, I argue that the means-end relationship needs to be clear and unambiguous.

But an MNE may encounter difficulties in monitoring the subsidiary's operation in a high-FDI country. If the MNE lacks a direct linkage with the host-country environment (Asakawa,

2001; Kano & Verbeke, 2019), the subsidiary as a knowledge broker can sustain its power by leveraging the market knowledge gap (Griffith & Harvey, 2001; Holm, Johanson, & Thilenius, 1995). This gap refers to the knowledge difference between the subsidiary and the MNE in relation to the host-country market and local business networks. As HR manager 1 explained: “*It is natural that GMs who have power, can prolong their tenures...The GM in China, though disengaged for quite a while, can still remain in office...because he has channel information that the HQs has no clue about.*” When MNE managers know little about the subsidiary’s local networks and its business environment, the MNE is not in a strong position to act hierarchically (Andersson et al., 2007; Vahlne, Schweizer, & Johanson, 2012). I therefore argue that when a subsidiary performs poorly in a host-country market that attracts a large amount of FDI, the existing subsidiary GM is less likely to be replaced and the MNE is more likely to attribute the subsidiary’s problems to market conditions. This is because high FDI inflows into a host country stimulate competition (Blomström & Kokko, 1998; Caves, 1971), which may result in three outcomes: the complexity of the host-country environment will increase, rendering local knowledge even more critical (Nohria & Ghoshal, 1994, 1997); the MNE will be more likely to receive noisy information, thus the ambiguity of the means–ends relationship will be greater; and more spaces are left for “skillful interpretations” by subsidiary GMs. Therefore:

***Hypothesis 1:*** *Host country FDI inflows will moderate (decrease) the performance–succession relationship such that GM succession is less likely to occur in the poorly performing subsidiary when the host country receives high FDI inflows.*

Implicit in the above theorizing is an assumption that decision makers with bounded rationality and limited attentional capacity may only be able to closely monitor a specific sub-environment (Birkinshaw, Bouquet, & Ambos, 2007; Porac, Thomas, & Baden-Fuller,

1989). Indeed, in the host country context, an MNE may pay more attention to the actions of other MNEs from the same nation (Chang & Park, 2005). MNEs from the same home country represent a distinct organizational population (i.e., country-of-origin agglomeration), as they share the same language, culture, and institutional background. The linkages lead to interorganizational effects, encouraging imitative behavior (Guillén, 2002) and inferential (or vicarious) learning (Jiang, Holburn, & Beamish, 2014; Yang, Li, & Delios, 2015). To illustrate how MNEs scan the host-country environment, Tan and Meyer (2011) found that the country-of-origin agglomeration, relative to the industry agglomeration, is more likely to provide an effective channel for the sharing of knowledge. Similarly, co-ethnic support (i.e., support from country-of-origin MNEs that operate in the same host country) is found to significantly affect MNEs' location choices, expansion speed, and survival (Kalnins & Chung, 2006; Stallkamp, Pinkham, Schotter, & Buchel, 2017). At a micro level, research has also shown that the concentration of same-nationality immigrants can influence an MNE's operations (Hernandez, 2014). The underlying mechanism shared by these studies is that homophily or affiliation ties resulting from a common nationality can facilitate knowledge exchanges (Lawrence & Shah, 2020; McPherson, Smith-Lovin, & Cook, 2001).

Meanwhile, many studies have found that the industrial background is the defining feature of reference groups in the business world (e.g., Chang & Park, 2005; Chen & Miller, 2007; Greve, 1998; Posen, Keil, Kim, & Meissner, 2018). Similarities in the industrial knowledge base can help the focal organization measure and value knowledge from other companies more effectively (Lane & Lubatkin, 1998). Combining this argument with the homophily mechanism, I thus argue that the number of country-of-origin competitors in the

host country (i.e., competitors sharing the same industry background and country of origin as the focal subsidiary) positively influences the MNE's ability to acquire critical knowledge about the host-country market situation and the relevant business networks (customers or suppliers). The reason is that the activities of these competitors collectively provide detailed information about the underlying reality. As supply chain manager 1 of a US MNE noted:

*"Our MNE mainly competes in China with other US companies. AD, TX...So, telling a false story about the China market is very difficult (for the subsidiary managers)."*

HR manager 2 also told me that her MNE focuses more on the country-of-origin competitors, because *"the technology started from the US...So there are similarities between us... Our (country-of-origin) competitor is number one in this field...and we are number two."* Similarly, the interview data show that an Israeli irrigation MNE chooses other Israeli companies to compare in the host country *"because Israeli products have high quality, we focus more on Israeli competitors, and then local ones."*

As a result, while the presence of country-of-origin competitors might also signal the criticality of the host country market from which the subsidiary GM can accrue power, it can simultaneously broaden the MNE's information channel that is used to monitor the subsidiary. This theoretically derived and empirically grounded argument is consistent with Foss and Pedersen's (2019) micro-foundational theorizing that stimuli embedded in the more proximal context have stronger behavioral implications. The second hypothesis reads,

***Hypothesis 2:*** *The country-of-origin competitors in the host country will moderate (increase) the performance–succession relationship such that GM succession is more likely to occur in the poorly performing subsidiary when the number of country-of-origin competitors in the host country is high.*

I turn my attention now to the internal structure of MNEs by adopting an interdependence-based approach. The relative strength of the foreign subsidiary compared to the rest of the MNE positively affects the subsidiary's ability to obtain resources from the environment (Andersson & Forsgren, 2000), as it increases the amount of the MNE's positive attention that follows in its direction (Bouquet & Birkinshaw, 2008a; Collings, Mellahi, & Cascio, 2019). As the stock of distinctive resources increases in the subsidiary, the relative power of the subsidiary further increases (Birkinshaw & Hood, 1998; Nohria & Ghoshal, 1997). In this regard, if I follow the logic of strategic contingencies perspective, I can then posit that the relative strength of the subsidiary in the form of revenue controlled by the subsidiary can be leveraged by the subsidiary GM to gain power in order to mitigate the turnover risks when the subsidiary performance becomes poor (Drazin & Rao, 1999).

However, my empirical observations suggest a different view. As subsidiary PR manager 1 of the Singapore MNE noted: *"Due to the importance of the market (because of the high revenue) and the company's role inside (the MNE)...our subsidiary's performance is under great scrutiny from HQs...The financial reports are reviewed (by the HQs) on a daily basis...We have changed 16-17 subsidiary GMs in the past 17 years."*

Indeed, prior studies have also shown that a large operation might increase the parent's influence over the subsidiary's personnel policies (e.g., Youssef, 1973). Given the interdependencies between powerful subsidiaries and MNEs (Gupta & Govindarajan, 1991), it seems likely that the flipside of possessing a conspicuous position within an MNE is that when the performance of the important subsidiary is poor, the MNE will also have a great deal at stake. Meanwhile, as powerful subsidiaries may engage in rent-seeking behaviors (Mudambi & Navarra, 2004), MNEs might be willing to increase monitoring of important subsidiaries in order

to undermine such subsidiaries' influence (Andersson et al., 2007), or to tap into the subsidiaries' store of specialized knowledge (O'Donnell, 2000). Also, it seems likely that the relative strength of the subsidiary will render its operations more observable, which will in turn facilitate the MNE's scrutiny. This suggests that subsidiary visibility has a double-edged nature (Yamin & Andersson, 2011). In contrast with Drazin and Rao (1999), I therefore argue that when the poorly performing subsidiary controls a high portion of the MNE revenue, the MNE will be more likely to replace the subsidiary GM in order to turn the subsidiary's performance around. Formally:

***Hypothesis 3: The foreign subsidiary revenue will moderate (increase) the performance–succession relationship such that GM succession is more likely to occur in the poorly performing subsidiary when the subsidiary controls a high portion of MNE revenue.***

The second factor in the internal structure dimension is the deployment of expatriate in the foreign subsidiary. Considering the role of expatriates in controlling the subsidiary on behalf of MNE headquarters (Collings, Scullion, & Dowling, 2009; Shin, Hasse, & Schotter, 2017), the relative use of expatriates might also indicate the importance of the subsidiary. As sales manager 1 explained: “*(The host country) is the largest overseas market for our T product... Expatriates can make up to 70 % of the staff.*” In contrast, the deputy GM based in the UK noted, “*This subsidiary used to be a small subsidiary (and thus had very few expatriates), so we just let it grow freely. We didn't have any requirements.*” In this case, then, the strategic contingencies perspective may posit that the power of the GM when the subsidiary has more expatriates might be higher than that of GMs when the subsidiary has fewer expatriates, thus potentially weakening the poor performance–succession link.

However, the deployment of expatriates can also directly strengthen MNE monitoring (O'Donnell, 2000; Plourde, Parker, & Schaan, 2014). Tarique et al. (2006) suggest that

expatriates may know more about the MNE's culture, and thereby can more effectively facilitate communication with the headquarters and align the subsidiary's operations with the interests of the MNE. Relatedly, prior studies have shown that expatriates as trusted informants can enable the MNEs' gathering of information and active learning (e.g., Plourde et al., 2014). My empirical observations support this view. As an expatriate explained, "*The subsidiary GM got involved in many fraud issues, which remained unnoticed until I was expatriated to the UK office.*" Similarly, as sales manager 1 of a Korean MNE noted, "*expatriates have direct communications with the HQs*", indicating the smooth flow of information. More than that, the accuracy of information is also enhanced with the use of expatriates. As Regional CEO 3 noted: "*If the outcome is poor, then the deputy GM (who is an expatriate) will check with the subsidiary CEO about whether the process follows the HQs' guidelines.*" Based on extant literature as well as my empirical data, therefore, I anticipate that the higher the expatriate ratio in the foreign subsidiary, the more effective the MNE monitoring can be. Derived from the MNE attention perspective, I hypothesize:

***Hypothesis 4:*** *The expatriate ratio in the foreign subsidiary will moderate (increase) the performance–succession relationship such that GM succession is more likely to occur in the poorly performing subsidiary when the subsidiary's expatriate ratio is high.*

## QUANTITATIVE HYPOTHESIS TESTING

### Data

For the quantitative analysis, I use the Toyo Keizai NEEDS Merged Database (1991–2013). Same as in Essay 1, to maintain the consistency of data and to control for influences due to conflicts within Japanese parent firms, I only study foreign subsidiaries in which there is no change in parent firm and have had only one Japanese parent throughout their development.



Consistent with FASB protocols, a *foreign subsidiary* here refers to a company in which the Japanese MNE has at least a 20 percent ownership stake. Some subsidiaries have operated in the host countries for many years before they first appeared in the dataset. Same as in Essay 1, I drop subsidiaries that had already operated in the host countries for more than two years when they first appeared in the dataset. Finally, I remove subsidiaries in which the number of employees has never exceeded nine to ensure the database does not include small representative offices or agencies.

### Model

Because recurrence times within each subsidiary should not be modelled as independent (Beck, Brüderl, & Woywode, 2008), I use a fixed-effects logit model<sup>4</sup> to partial out the unobserved subsidiary heterogeneity in the propensity to change the GMs. The succession of each subsidiary GM is assumed to follow the function below:

$$f(y_{it}|X_{it}, \beta, \alpha_i) = \frac{1}{1 + e^{-X_{it}\beta - \alpha_i}}^{y_{it}} \left(1 - \frac{1}{1 + e^{-X_{it}\beta - \alpha_i}}\right)^{1-y_{it}}$$

with

$$y_{it} = 1[X_{it}\beta + \alpha_i + \varepsilon_{it} > 0]$$

In the foregoing function,  $i$  represents a subsidiary,  $t$  refers to time. I use  $Y_{it}$  to mean a succession event in the subsidiary,  $X_{it}$  as the vector of independent variables and control variables, and  $\beta$  as the coefficients associated with these variables. In this model, the errors  $\varepsilon_{it}$  are assumed to be exogenous to all independent variables and  $\alpha_i$  is the time-invariant unobserved firm-specific variance that can be correlated to the independent variables, i.e.,  $\text{Cov}(\alpha_i, X_{it}) \neq 0$ . By using a fixed-effects model, I can partial out the unobservable variance  $\alpha_i$  (Allison, 2009).

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<sup>4</sup> The results from Hausmann test also support the choice of fixed effects model.

## Variables

**Dependent variable.** Same as in Essay 1, I follow the approach of Beck et al. (2008) to identify the successions at each observation. The binary variable, *Succession*, represents the change of subsidiary GMs. 1 means that a GM change takes place, and 0 otherwise.

**Independent variables.** The annual assessment of the subsidiary's financial performance is from *Kaigai Shinshutsu Kigyō Souran*. This variable is argued to be an appropriate performance indicator (Isobe, Makino, & Montgomery, 2000). I recode this profit measure into a binary variable termed *Subpar Performance*, where 1 means low performance, and 0 means otherwise.

*Competitors* is a discrete variable referring to the number of country-of-origin competitors (i.e., Japanese subsidiaries with different parents) in the host country where the focal subsidiary operates. These country-of-origin competitors use the same industry (four-digit) code as that of the focal subsidiary. Because log transformation cannot be applied to zero values this essay takes the square root of the number of country-of-origin competitors to reduce right skewness.

Following prior studies (e.g., Shin et al., 2017) and same as in Essay 1, *Expatriate Ratio* is the number of expatriates in a subsidiary divided by the total number of employees in the subsidiary. 0 means there is no expatriate in the subsidiary while 1 suggests that all employees in the subsidiary are expatriates.

I use the intensity of *FDI Inflow* as a proxy for the market dynamism in a host country. I utilize panel data on FDI inflows from the Balance of Payments Database (1991–2013) reported by the International Monetary Fund (IMF). This data has been supplemented by data from the United Nations Conference on Trade and Development and official national sources. The World Bank defines FDI inflow as direct investment equity flow in the reporting country. Specifically, FDI inflow (reported in current U.S. dollars) is the sum of reinvestment of earnings, equity

capital, and other capital. In order to provide a more straightforward interpretation, I divide the value of this variable by 10 billion.

Similar to the approach of Drazin and Rao (1999), the relative *Revenue Flows* controlled by the subsidiary is the revenue of the focal subsidiary divided by the total revenue received by all subsidiaries of the MNE. This measure denotes the strategic importance of the subsidiary within the MNE. The higher the value, the more important the subsidiary is deemed to be.

**Control variables.** First and as mentioned earlier, when given alternatives, an MNE can undercut the unique value of the subsidiary GM, and thus reduce the power of the subsidiary GM (Salancik & Pfeffer, 1977). The power of the incumbent will in part depend on the availability of suitable substitutes (Drazin & Rao, 1999), as power will not organize around abundant resources (Pfeffer & Salancik, 2003). Therefore, when there is a lack of supply of GM candidates, it is expected that incumbents will be less likely to leave office (Fredrickson et al., 1988; Pfeffer & Moore, 1980). Because MNEs may prefer to internally transfer rather than newly hire a subsidiary GM for the focal subsidiary (Kopp, 1994), and internal turnover is apparently more common in MNEs than in domestic firms (Naumann, 1992), I would expect that the number of subsidiaries belonging to the same MNE in a host country will influence the substitutability of the subsidiary GM. When the MNE looks for a new subsidiary GM to turn a poorly performing subsidiary around, it might be more willing and able to first look at whether there are candidates within the intra-firm subsidiary grouping. Logically, the larger the intra-firm subsidiary grouping, the more likely the MNE will find an internal successor. To measure the size of the intra-firm subsidiary grouping, I create a variable called *Sister Subsidiaries*, which is a discrete variable denoting the number of sister subsidiaries in the host country where the focal subsidiary operates. I take the square root of this variable to reduce right skewness.

Second, in line with Drazin and Rao (1999), I control for subsidiary GM's *Tenure*. It refers to how many years the subsidiary GM has been in office. I use this variable to control for the subsidiary GM's entrenchment, because new subsidiary GMs may face a higher risk of power contests in the early years of their tenure (Pi & Lowe, 2011; Shen & Cannella, 2002a), thus being more likely to leave office. In this essay, this variable is log-transformed.

Third, as mentioned in Essay 1, the mode of entry may affect the availability of GM candidates, and thus affecting GM succession. I control for *Entry Mode* which is a categorical variable denoting a firm's mode of entry. Same as in Essay 1, 1 here denotes a *WOS*, 2 is a *Majority Owned IJV* (i.e., MNE dominated IJV), 3 means an *Equally Owned IJV*, and 4 a *Minority Owned IJV*. I define a subsidiary as a majority owned IJV when the Japanese partner holds more than 50 percent of the IJV's equity ownership while the local partner holds more than 20 percent of the IJV's equity ownership. Consistent with FASB protocols, I define a subsidiary as a WOS when the MNE holds more than 80 percent of the subsidiary's equity ownership.

Fourth, the origin of the existing GM may influence the succession probability because the length of stay abroad of many expatriates has been specified *a priori* (Harvey & Moeller, 2009; Mesmer-Magnus & Viswesvaran, 2008). Therefore, I control for the subsidiary GM's origin. *PCN GM* is a binary variable, where 1 refers to a GM who is a Japanese, and 0 means otherwise.

Fifth, prior studies showed that the number of subsidiary employees might also influence the importance of the subsidiary (e.g., Birkinshaw & Hood, 1998). I thus use the number of subsidiary employees as a proxy for *Subsidiary Size* and take the square root of the variable to reduce right skewness. Similarly, I control for the size of the MNE. Based on the European Commission's definition, I regard a firm as a *Large MNE* if it has more than 500 employees.

Because older organizations might be less likely to engage in change (Mitsubishi & Greve,

2004), I control for the logarithm of *Subsidiary Age*. Meanwhile the quadratic term *Subsidiary Age Squared* is added here in order to identify the potential curvilinear relationship between subsidiary age and subsidiary GM change. As mentioned in Essay 1, both younger and older subsidiaries, albeit for different reasons, might be less likely to change the GMs. I also control for the period from *Year* 1991 to 2013. I code this variable into a series of dummy variables to account for the influence of aggregate time series trends.

I then use the categorical variable *Strategic Motives* to account for the heterogeneous impact of FDI motives on the change of subsidiary GMs. This variable is coded into 16 dummy variables. Relatedly, given that dedicated regional headquarters (RHQs) are also expected to perform HQ functions while exercising more extensive mandates (Chakravarty, Hsieh, Schotter, & Beamish, 2017), I anticipate that they would gain more attention from the MNE (Belenzon, Hashai, et al., 2019). I use a binary variable, *Regional HQs*, to control for the impact of being an RHQ on subsidiary GM succession.

Finally, to account for other macro-level factors of the host country, I utilize *Unemployment Ratio* data from the International Labour Organization's ILOSTAT database, the *Human Capital Index* data from the Penn World Table (1991-2013) (Feenstra, Inklaar, & Timmer., 2015), and *GDP Growth* data from World Bank national accounts data and OECD National Accounts data files (World Bank, 2019). Also, given that MNEs may shift profit from one subsidiary to another in order to reduce their overall tax burden, I account for the effect of host country corporate income tax on the subsidiary GM succession activities. Thus, I utilize the *Tax Rate* data from TaxFoundation.org (Farah, Elias, Chakravarty, & Beamish, 2021). Table 7 summarizes the characteristics of these variables.

**Table 7: Descriptive Statistics**

Variable	Mean	SD	1	2	3	4	5	6	7	8	9	10
1.Successions	0.25	0.43	1.00									
2.Subpar Performance	0.19	0.39	0.01	1.00								
3.FDI Inflow (10 billion)	6.10	8.43	0.02	0.01	1.00							
4.Competitors (sqrt)	4.98	2.80	0.01	-0.01	0.39	1.00						
5.Revenue Flows	0.21	0.31	-0.03	0.02	0.08	0.09	1.00					
6.Expatriate Ratio	0.14	0.19	0.03	-0.02	0.08	-0.03	-0.01	1.00				
7.WOS	0.71	0.46	0.00	0.01	0.17	0.07	0.08	0.27	1.00			
8.Majority Owned IJV	0.11	0.31	0.00	0.01	-0.09	0.00	-0.05	-0.14	-0.55	1.00		
9.Equally Owned IJV	0.04	0.20	0.00	-0.01	-0.01	0.02	-0.02	-0.10	-0.33	-0.08	1.00	
10.Minority Owned IJV	0.14	0.35	-0.01	-0.02	-0.14	-0.10	-0.04	-0.17	-0.62	-0.14	-0.09	1.00
11.PCN GM	0.81	0.40	0.02	0.00	0.06	0.09	0.06	0.21	0.38	-0.01	-0.17	-0.39
12.Tenure (log)	0.90	0.69	0.13	-0.07	0.03	0.02	0.04	-0.09	-0.03	0.01	0.00	0.03
13.Subsidiary Age (log)	4.48	0.53	-0.03	-0.23	0.17	0.06	0.04	-0.13	0.03	-0.02	-0.02	-0.01
14.Subsidiary Size (sqrt)	10.05	10.51	-0.01	-0.02	-0.06	0.13	0.03	-0.40	-0.10	0.04	0.07	0.04
15.Large MNE	0.75	0.43	0.01	-0.06	0.00	0.04	-0.61	-0.11	-0.05	0.03	0.03	0.02
16.GDP Growth (%)	5.00	3.96	0.01	-0.01	0.07	0.25	-0.03	-0.15	-0.12	0.10	0.07	0.04
17.Unemployment Rate (%)	5.03	2.49	0.01	0.07	-0.02	-0.21	-0.06	0.09	0.14	-0.04	0.02	-0.17
18.Human Capital Index	2.80	0.56	0.00	0.03	0.36	-0.04	0.06	0.24	0.31	-0.17	-0.05	-0.22
19.Sister Subsidiaries (sqrt)	1.17	0.35	0.03	0.00	0.18	0.16	-0.19	-0.10	-0.13	0.06	0.10	0.06
20.Regional HQs	0.03	0.17	0.00	-0.02	0.10	0.03	-0.05	0.16	0.10	-0.06	-0.04	-0.05
21.Tax Rate	31.82	7.16	-0.02	0.13	0.22	-0.03	0.06	0.01	0.03	-0.04	0.04	-0.02

	11	12	13	14	15	16	17	18	19	20	21
11.PCN GM	1.00										
12.Tenure (log)	-0.08	1.00									
13.Subsidiary Age (log)	0.02	0.27	1.00								
14.Subsidiary Size (sqrt)	-0.04	0.07	0.15	1.00							
15.Large MNE	-0.05	0.03	0.10	0.22	1.00						
16.GDP Growth	-0.02	-0.02	-0.10	0.12	0.02	1.00					
17.Unemployment Rate (%)	-0.06	-0.01	-0.03	-0.11	0.03	-0.28	1.00				
18.Human Capital Index	0.03	0.02	0.19	-0.23	-0.01	-0.46	0.39	1.00			
19.Sister Subsidiaries (sqrt)	-0.07	-0.04	0.02	0.16	0.17	0.18	-0.04	-0.06	1.00		
20.Regional HQs	0.04	-0.02	0.02	-0.06	0.07	-0.05	0.00	0.12	0.02	1.00	
21.Tax Rate	-0.07	0.00	-0.12	-0.02	-0.03	-0.14	0.34	0.39	0.08	0.04	1.00

Notes: Based on observations in Model 1; *Year Dummies* and *Strategic Motive Dummies* are not included in Table 7

## RESULTS AND ROBUSTNESS CHECK

To detect Type 1 errors (Kalnins, 2018), I reran Models 2 to 5 by excluding the *Competitors* variable. The sign and magnitude of the interaction term between *Subpar Performance* and *FDI Inflow* remained consistent. It is thus unlikely that multicollinearity is distorting results.

As the key independent variables are introduced into the models hierarchically, I found consistent empirical supports to my Hypotheses. Table 8 shows the regression results. In models 1 to 5, all beta coefficients are odds ratios. An odds ratio of 1 means there is no increase in the odds of an outcome with a given exposure, 2 means there is a 100 percent increase in the odds of an outcome with a given exposure, and 0.8 means there is a 20 percent decrease in the odds of an outcome with a given exposure.

**Table 8: Empirical Results for Hypotheses 1–4 (odds ratio)**

	Model 1 (Baseline)		Model 2 (H1)		Model 3 (H2)		Model 4 (H3)		Model 5 (H4)	
<i>Dependent Variable: Successions</i>										
<i>Regressors:</i>										
<u>Control Variables:</u>										
WOS	<i>Reference category</i>									
Majority Owned IJV	1.07	(0.755)	1.00	(0.990)	0.99	(0.970)	0.99	(0.973)	0.99	(0.982)
Equally Owned IJV	1.45	(0.329)	1.47	(0.368)	1.49	(0.357)	1.50	(0.342)	1.53	(0.325)
Minority Owned IJV	2.10	(0.015)	2.26	(0.022)	2.26	(0.023)	2.31	(0.019)	2.34	(0.017)
PCN GM	1.26	(0.100)	1.24	(0.170)	1.23	(0.195)	1.24	(0.175)	1.24	(0.165)
Tenure	4.01	(0.000)	3.98	(0.000)	3.99	(0.000)	4.00	(0.000)	4.00	(0.000)
Subsidiary Age	0.70	(0.873)	0.01	(0.091)	0.01	(0.096)	0.00	(0.086)	0.01	(0.108)
Subsidiary Age Squared	0.93	(0.828)	1.92	(0.148)	1.90	(0.155)	1.93	(0.143)	1.84	(0.175)
Subsidiary Size	1.01	(0.218)	1.00	(0.676)	1.00	(0.669)	1.00	(0.637)	1.00	(0.655)
Large MNE	1.13	(0.474)	1.26	(0.234)	1.26	(0.227)	1.29	(0.192)	1.29	(0.194)
GDP Growth	1.01	(0.472)	1.02	(0.172)	1.02	(0.163)	1.02	(0.164)	1.02	(0.156)
Unemployment Rate	0.95	(0.080)	0.95	(0.098)	0.95	(0.114)	0.95	(0.110)	0.95	(0.121)
Human Capital Index	1.74	(0.342)	0.94	(0.928)	0.93	(0.912)	0.91	(0.892)	0.94	(0.924)
Sister Subsidiaries	1.21	(0.396)	1.33	(0.275)	1.36	(0.241)	1.35	(0.241)	1.34	(0.258)
Regional HQs	0.43	(0.080)	0.34	(0.053)	0.32	(0.042)	0.31	(0.037)	0.30	(0.035)
Tax Rate	1.01	(0.275)	1.01	(0.391)	1.01	(0.389)	1.01	(0.372)	1.01	(0.411)
<u>Key Predictors:</u>										
Subpar Performance	1.21	(0.049)	1.31	(0.037)	0.90	(0.624)	0.80	(0.301)	0.70	(0.112)
FDI Inflows			1.00	(0.712)	1.01	(0.472)	1.01	(0.472)	1.01	(0.470)
Competitors			0.95	(0.220)	0.94	(0.158)	0.94	(0.156)	0.94	(0.139)
Revenue Flows			1.58	(0.153)	1.61	(0.133)	1.31	(0.410)	1.29	(0.434)
Expatriate Ratio			0.95	(0.886)	0.93	(0.848)	0.94	(0.870)	0.64	(0.253)
Sub Performance × FDI Inflows			0.97	(0.025)	0.97	(0.004)	0.96	(0.003)	0.97	(0.004)
Sub Performance × Competitors					1.09	(0.025)	1.08	(0.040)	1.07	(0.067)
Sub Performance × Rev Flows							2.31	(0.011)	2.35	(0.009)
Sub Performance × Expat Ratio									3.83	(0.015)
Strategic Motives	Yes		Yes		Yes		Yes		Yes	
Year Dummies	Yes		Yes		Yes		Yes		Yes	
Observations	9428		7412		7412		7412		7412	
Number of Subsidiaries	1,386		1,153		1,153		1,153		1,153	
Chi-squared	849.86		673.61		678.69		685.12		691.00	

Notes: All coefficients are odds ratios; P values in parentheses; Sub Performance refers to Subpar performance; Rev Flows refers to Revenue Flows; Expat Ratio refers to Expatriate Ratio



In Model 1, the coefficient of the *Subpar Performance* variable is 1.21 and significant (p-value = .049), supporting the baseline that when the subsidiary's performance disappoints, the probability of changing the subsidiary GM will increase. In this case, the odds of GM succession will increase by a factor of 1.21. From Model 2 onward, the interaction term between *Subpar Performance* and the *FDI Inflow* remains below 1 and highly significant, supporting Hypothesis 1—that GM successions becomes less likely to occur in the poorly performing subsidiary when the host country receives high FDI inflows. Taking Model 2 as an example, the beta coefficient of the interaction effect is 0.97 (p-value = .025), suggesting that there will be a three percent decrease in the odds of subsidiary GM succession with every US\$ 10 Billion increase in FDI inflows. However, findings from Model 3 onward show that when there are many country-of-origin competitors in the host country, subsidiary GM succession becomes more likely in the poorly performing subsidiary. In Model 3, for example, the interaction term between *Subpar Performance* and *Competitors* is above 1.09 and highly significant (p-value = .025), suggesting that even if there was only one country-of-origin competitor in the host country, the odds of GM succession in the poorly performing subsidiary would increase by a factor of 1.09, strongly supporting Hypothesis 2.

With respect to the moderation effect of *Revenue Flows*, I found consistent support for Hypothesis 3—that GM succession is more likely to occur in the poorly performing subsidiary when it controls a high portion of MNE revenue. The beta coefficient of the interaction term between *Subpar Performance* and *Revenue Flows* in Model 4 is 2.31 and highly significant (p-value = .011). In Model 5, the effect is even more significant and the effect size becomes slightly larger.

Finally, I tested the moderation effect of *Expatriate Ratio*. The beta coefficient of the

interaction term between *Subpar Performance* and *Revenue Flows* in Model 5 is 3.83 and highly significant (p-value = .015), lending strong support to Hypothesis 4—that the higher the expatriate ratio, the more likely the subsidiary GM succession will occur in the poorly performing subsidiary<sup>5</sup>. However, in Model 5, the interaction effect between *Subpar Performance* and *Competitors* is only marginally meaningful in a statistical sense (p-value = .067)<sup>6</sup>.

It is important to note that I cannot use the method of Flickinger et al (2016) or of Huang and Shields (2000) to evaluate the interaction terms as my model is a *conditional* logit (thus estimating the marginal effects is not meaningful here as the marginal effects depend on the value of the fixed effects) (Allison, 2009). However, I can use a recentering approach (Jeong, Siegel, Chen, & Newey, 2020) by subtracting from every value of *Subpar Performance* the data point of interest (i.e., 1 in this case). I then reran Model 5 and found that the coefficient of *FDI Inflow* is 0.97 (p-value = .020), the coefficient of *Revenue Flows* is 2.35 (p-value = .009), and the coefficient of *Expatriate Ratio* is 2.43 (p-value = .089). The coefficient of *Competitors*, however, was statistically insignificant.

Replacing foreign subsidiary GMs potentially impacts subsidiary performance (Bebenroth & Froese, 2020; Beechler, Bird, & Taylor, 1998). My qualitative data support this view, as regional CEO 4 told us: “*The sales turnover has increased three-fold after 3 years (since the change of the subsidiary GM)...and has become profitable.*” Also, subsidiaries that receive MNE

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<sup>5</sup> As the cultural distance may also influence the staffing strategy of MNEs (Shin et al., 2017), I follow Kogut and Singh (1988) to calculate the cultural distance between Japan and other host countries by using Hofstede’s indices. However, my fixed-effects model will drop this variable due to the variable’s time-invariant nature. I thus reran Model 5 by excluding host countries, of which the cultural distance from Japan is one standard deviation (4.03) above the mean (12.82). The results of the analysis support all my Hypotheses and are available upon request.

<sup>6</sup> I used non-parametric bootstrapping (100 times) to estimate the standard errors in Model 5, the p-value of the interaction effect between *Subpar Performance* and *Competitors* is .058.

attention are found to perform better than their peers (Ambos & Birkinshaw, 2010). To explore whether changing the GM in a poorly performing foreign subsidiary can turn around the subsidiary's subpar performance, I trace the performance of the focal foreign subsidiary during the successor's tenure. I do so by employing a fixed-effects logit model based on the same model structure as the full model used in Table 8. Specifically, I tested two dependent variables. The regression results are reported in Table 9.

**Table 9: Empirical Results of the Performance Model**

	Model 6 (Turnaround)		Model 7 (Continual Profitability)	
<i>Dependent Variable:</i>	Subpar Performance		Two-Year Consecutive Gain	
<i>Regressors:</i>				
<u>Control Variables:</u>				
WOS		<i>Reference category</i>		
Majority Owned IJV	-2.11	(0.032)	0.92	(0.169)
Equally Owned IJV	-2.65	(0.013)	0.02	(0.985)
Minority Owned IJV	-2.91	(0.049)	1.29	(0.187)
PCN GM	0.91	(0.046)	-0.49	(0.299)
Subsidiary Age	14.76	(0.375)	-12.41	(0.399)
Subsidiary Age Squared	-2.50	(0.273)	2.12	(0.291)
Subsidiary Size	-0.15	(0.000)	0.12	(0.000)
Large MNE	-0.28	(0.591)	-0.50	(0.231)
GDP Growth	0.01	(0.885)	-0.02	(0.551)
Unemployment Rate	0.04	(0.588)	0.12	(0.100)
Human Capital Index	-1.44	(0.439)	0.04	(0.980)
Sister Subsidiaries	0.90	(0.208)	0.25	(0.677)
Regional HQs	0.65	(0.629)	4.20	(0.003)
Tax Rate	-0.02	(0.663)	-0.07	(0.045)
FDI Inflows	-0.05	(0.005)	0.02	(0.264)
Competitors	0.22	(0.119)	-0.22	(0.013)
Revenue Flows	0.29	(0.745)	2.58	(0.001)
Expatriate Ratio	-0.30	(0.709)	-0.79	(0.440)
<u>Key Predictors:</u>				
Successor	1.66	(0.000)	-4.26	(0.000)
Successor's Tenure	-0.03	(0.651)	-0.07	(0.144)
Successor × Successor's Tenure	-0.45	(0.000)	0.57	(0.000)
Strategic Motives	Yes		Yes	
Year Dummies	Yes		Yes	
Observations	1,334		1,882	
Number of Subsidiaries	206		276	
Chi-squared	224.81		421.03	

Notes: P values in the parentheses.

In Model 6, the dependent variable is *Subpar Performance* and the key independent

variable is *Successor*, which is a binary variable, where 1 refers to a successor whose predecessor left office when the subsidiary performance was poor, and 0 means otherwise. Prior studies (e.g., Ma & Seidl, 2018; Rowe, Cannella, Rankin, & Gorman, 2005) showed that due to time compression diseconomies (Dierickx & Cool, 1989), new leaders need time to make sense of the problem, develop organization-specific knowledge, configure the executive team, and take charge. My empirical observations also indicate the importance of time. As noted by Service manager 1, “*At least five years tenure... is a precondition for the GM to really understand how to do business in this specific context.*” When the tenure is too short, it is likely that I may not observe the performance turn-around. As Sales manager 2 explained: “*They gave the subsidiary general managers too little time to turn around the performance of the subsidiary.*” I therefore investigate the interaction effect between *Successor* and the *Successor's Tenure*. In Models 7, I change the dependent variable to the consecutive years of gain. It is coded as a binary variable. If the annual assessment of the subsidiary's financial performance has shown a gain for two consecutive years, I code it as 1. I use 0 otherwise.

The interaction term between *Successor* and the *Successor's Tenure* in Model 6 has a beta coefficient -0.45 and is highly significant (p-value < .001) while the main effect of *Successor* is 1.66 and highly significant (p-value < .001). The results suggest that new subsidiary GMs whose predecessor left office when the performance was subpar will likely experience a similar downturn in subsidiary performance initially. Two mechanisms can explain this phenomenon. First, given the strong organizational inertia developed during the predecessors' time in the subsidiary (Shen & Cannella, 2002b), organizational change would not take place easily in this case (Hambrick, 2007). Second, if I observe performance too quickly after a succession event, I am also likely to see a performance downturn (Rowe et al., 2005), as vicious cycle theory holds

that successions disrupt routines, thus worsening firm performance (Grusky, 1960).

Nevertheless, the results showed that new GMs, when given time, can turn around the poorly performing subsidiaries. For ease of interpretation of the estimated interaction effects, I reran Model 6 by using a fixed-effects linear probability model (LPM) while trimming the observations that violate the rule  $\hat{y}_{it} \in [0,1]$  (Damaraju & Makhija, 2018; Horrace & Oaxaca, 2006; Wooldridge, 2016). The results show that new GMs can turn around the poorly performing subsidiaries after the third year of their tenure. I then reran Model 7 by using LPM and found that the foreign subsidiaries can even make consecutive years of gain after seven years since the successors took office.

## DISCUSSION

By adopting a mixed-methods methodology, this study develops a more elaborated framework to systematically explain how strategic contingencies in the context of MNEs moderate the relationships between poor foreign subsidiary performance and subsidiary GM change. By integrating a market-based approach with an interdependence-based approach, my analysis, rooted in a critical realism view (Van de Ven, 2007), showed that the link between subpar subsidiary performance and subsidiary GM turnover is indeed not as direct as it seems, but it does not follow the predictions of the performance–power–succession model (Drazin & Rao, 1999). I found that in the presence of structural factors that can increase the level of MNE monitoring, the poor performance–GM succession relationship will be strengthened (though *Competitors* became only marginally significant in Model 5). In the presence of structural factors that can enhance the subsidiary GM power, however, the performance–succession relationship will not be necessarily decreased. Therefore, by examining the roles of MNE attention in the subsidiary GM changes, my theory, relative to the strategic contingencies perspective, provides a

more cohesive understanding of GM successions in the setting of foreign subsidiaries.

Meanwhile, this study improves our knowledge of the broader succession process. Extant studies tend to use longitudinal models to explore the *continual* GM change from *within* the organization (e.g., Amburgey, Kelly, & Barnett, 1993; Amburgey & Miner, 1992; Beck et al., 2008). My analysis complements these works, firstly, by accounting for the triggering event that is likely to set the path-building process in motion (Sydow, Schreyögg, & Koch, 2009); and secondly, by showing that both the internal structure of organizations and the external environment can influence organizational decision making (Argote & Greve, 2007) in relation to GM successions.

Also, I address the call by Bouquet and Birkinshaw (2008a) to explore the issue of negative headquarters' attention. Although occasional anecdotal evidence has suggested that MNE attention may lead to an adverse effect for the subsidiary GM, to the best of my knowledge, the analysis is among the first to provide a theoretical angle on this issue. To develop the proper analytic tools, this study utilizes the distinctive MNE context and provides a more nuanced contextualization (Roth & Kostova, 2003). Although the level of FDI into a host country may correlate with the presence of country-of-origin competitors in the host country with respect to subsidiary GM power, the findings showed that these factors can produce opposite effects on subsidiary GM changes. My empirical observations and theory revealed that the former can impede MNE monitoring while the latter facilitates MNE monitoring, which then influence MNEs' exploitation of hierarchical power.

Furthermore, I theoretically and empirically contribute to the literature on the role of expatriate deployment in affecting MNEs' attention. Plourde et al. (2014) found that expatriates can bring signs of subsidiary growth to the (positive) attention of headquarters. My analysis

extends their work by accounting for instances where expatriates can also enable the negative MNE attention in the subsidiary when the subsidiary encounters difficulties in sustaining a high subsidiary performance.

At the same time, this study, based on two separate performance measures, presents a more promising picture of the role of subsidiary GM successors in turning around the poor performance of an ailing subsidiary. Changing subsidiary GMs is a strong form of managerial intervention, but the findings here showed the positive economic significance for this kind of intervention. Therefore, my analysis extends the line of inquiry on the benefit of headquarters' involvement in general (e.g., Tran, Mahnke, & Ambos, 2010) and the benefit of gaining MNE attention (from the subsidiary's perspective) in particular (e.g., Ambos & Birkinshaw, 2010).

### **Managerial Implications**

This study offers several implications relevant to practitioners. First, in an era when the risk of selecting the wrong candidate is greater than any time in the past (Donatiello, Larcker, & Tayan, 2018), lack of sufficient information on what the subsidiary is doing may introduce additional complexities into GM succession processes. As one informant from a large manufacturing MNE emphasized, *"A lot of information we collected (from the subsidiary GM in the UK) might be wrong, so we have to ensure we have multiple sources of information."* I therefore suggest that senior MNE managers should be acutely aware of succession resistance. Two richer sources of information for MNE managers include the country-of-origin competitors in the host country and the expatriates within the subsidiary.

Second, changing the GM in a poorly performing subsidiary can be an effective turnaround strategy. However, the successor needs time to take charge. MNE managers can thus be more confident in using subsidiary GM succession to improve subsidiary performance on one hand,

but they also need to be patient on the other because managerial interventions as such will not lead to immediate payoffs. One informant (i.e., Director 3) told me that they normally give a “*honeymoon period*” (which is not simply a probation period) to the subsidiary GM successors. But many MNEs do not give subsidiary GMs more than three years to turn around their subsidiaries, as evidenced by the informants from several South Korean MNEs. One informant used the term “failure trap” to express his dissatisfaction with the HQs’ impatience. A sales manager from a US MNE similarly noted, “The subsidiary GMs here are only given two to three years...Immediately upon getting aboard they started to make strategic plans... and then they spent the other half of the time in planning to return home...This will never work.”

Third and from the subsidiary GM’s perspective, receiving attention from HQs is not always desirable. To capture the upside potential of gaining MNE attention (Ambos & Birkinshaw, 2010; Bouquet & Birkinshaw, 2008a), it is critical that subsidiary GMs should also find ways to avoid the downside risk associated with MNE attention. One possible way to do so, as suggested by subsidiary GM 6 in Brazil and subsidiary GM 7 in China, is that they should never “*cover up problems*” and communicate with the HQs frequently, transparently, and honestly.

### **Limitations and Future Research Opportunities**

While this study identifies the performance–succession link unique to foreign subsidiary GMs, it clearly needs further exploration and validation. First, due to the COVID-19 pandemic, I am not able to have close-up observations on site. I thus hope future work can utilize more refined qualitative approaches to produce more contextualized descriptions of succession decision making. Also, as headquarters may increase their monitoring efficacy through coordination and control (Andersson & Holm, 2010) or by being active in host countries (Vahlne



et al., 2012), it would be interesting to delineate how these monitoring mechanisms influence the process of changing subsidiary GMs. Future studies could also draw on the upper echelons perspective to explore how other micro-level conditions moderate the factors underlying my conceptualization. These conditions may include the predecessor and/or the successor's human capital, religion, age, time horizon, social status, and origin (Belenzon, Shamshur, & Zarutskie, 2019; Chen & Hambrick, 2012; Damaraju & Makhija, 2018; Flickinger et al., 2016; Georgakakis & Ruigrok, 2017; Karaevli, 2007; Matta & Beamish, 2008).

Meanwhile, researchers should engage in more comparative cross-cultural studies of this topic (Bettis, Helfat, & Shaver, 2016). Although my qualitative inquiry probed into the process of subsidiary GM succession decision making in multiple home and host countries, the quantitative analysis only focused on a single home country, which may limit the generalizability of the findings. For example, as the Japanese firms have a preference for group structures both at home and abroad (Xu, Huang, & Pan, 2019), the effect of country-of-origin competitors on MNE monitoring might be stronger than that of MNEs from other home countries. But this speculation might be questionable, because some studies also pointed out that Japanese MNEs are not necessarily a passive recipient of the home-country "management practice model" (Meardi & Tóth, 2006; Milkman, 1991). Another limitation is that due to aging populations, finding sufficient numbers of expatriates is difficult for Japanese MNEs (Beamish & Inkpen, 1998; Briscoe, Schuler, & Claus, 2009), which may render the change of subsidiary GMs less likely. Finally, the nature of the employment relationship in Japan (Sakano & Lewin, 1999), the deinstitutionalization tendency of permanent employment in Japanese companies (Ahmadjian & Robinson, 2001), and the lack of independent boards (Nakauchi & Wiersema, 2015) may further complicate the picture.

## CONCLUSION

There is need for a more cohesive and contextualized theory to inform the change of subsidiary GMs. During challenging times (e.g., the COVID-19 Pandemic), the need becomes even more pressing. Adopting a multi-lens approach, this study provided a fresh look at the relationship between subsidiary performance and subsidiary GM succession. I juxtapose the empirical evidence and the MNE attention perspective against the strategic contingencies perspective to demonstrate how the MNE context necessitated a change in the underlying explanatory mechanism (Roth & Kostova, 2003). While extant literature has held that subsidiary GMs can accrue power from some strategic configurations to weaken the performance–succession link, my framework, which is theoretically derived and empirically informed, demonstrated that senior MNE managers can also exploit the strategic configurations to strengthen the performance–succession link, which then results in the subsidiary’s positive economic significances. I conceptualize this as the performance–attention–succession model, which has the potential to provide a more complete and accurate account of subsidiary GM successions when subsidiary performance disappoints.

## APPENDIX

### Field Research

Along with the literature review and hypotheses formulation process, I conducted semi-structured interviews with members of the top management team of each subsidiary. In this process, I adopted a participant frame of reference in order to gain a better understanding of the underlying reality through discourse with various stakeholders (Van de Ven, 2007). I remained less predetermined during all the interviews. The aim is to get the more *active* data which are associated with discovery (Dubois & Gadde, 2002). The goal is to strike a balance between rigor, creativity, and open-mindedness (Eisenhardt & Graebner, 2007). Same as in Essay 1, the informants are regional CEOs that supervise the subsidiaries, subsidiary general manager successors, and other members of the top management team who witnessed the succession process such as director corporate marketing from the HQs, corporate affairs managers based in the foreign subsidiaries. The reason to have interviews with multiple informants whenever possible is to triangulate the data (Dubois & Gadde, 2002; Flick, 2014; Schotter & Beamish, 2011). I developed the interview outline based on both the extant succession theories and my own experience, as I previously worked as a subsidiary GM. Bringing to light this point is important, as I believe that it is impossible to conceal the researcher's voice (Suddaby, 2006).

Interviews with members of the top management team of each subsidiary are the main data source. My secondary data sources, for the purpose of cross-checking information (Yin, 1994), were GMs' resumes from LinkedIn, published cases, annual financial reports and media reports. Immediately after each interview, I prepared the extensive interview notes (Eisenhardt, 1989), the length of which was three to five pages. Following the approach of Caprar (2011), I transcribed all recorded interviews in the original language with no immediate translation (if it

was not in English) in order to preserve the specificity and meanings. Most of the interviews were video- or audio-recorded. The length of the recordings was 40 to 150 minutes.

As the exploration unfolds, I gained critical background information and relevant quotes with respect to the subsidiary GM succession phenomenon. As a result, I believe this better informed the hypotheses development.

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## **CHAPTER 4: GENERAL MANAGER SUCCESSORS IN LOCAL-MARKET-SEEKING SUBSIDIARIES OF MNEs: A MULTIPLE-CASE ANALYSIS**

### **(ESSAY 3)**

#### **INTRODUCTION**

Multinational enterprises (MNEs) that excel in managing talent are likely to retain a competitive edge (Stahl et al., 2012). Yet understanding how to manage employees in foreign subsidiaries of MNEs has become increasingly critical (Björkman, Fey, & Park, 2007; Collings, Mellahi, & Cascio, 2019). Among foreign subsidiaries' human assets, subsidiary general managers (GMs), whose role is intricate and challenging (Bartlett & Beamish, 2018), are growing in importance (e.g., Beechler, Bird, & Taylor, 1998; Dowling, Welch, & Schuler, 1999; O'Brien, Scott, Andersson, Ambos, & Fu, 2019; Schotter & Beamish, 2011). However, despite the fact that changing key managers will occur at some point within every organization (Haveman, 1993), decision makers in many MNEs do not know where and how to find the best subsidiary GM successors (Collings, Scullion, & Morley, 2007). The need for a better understanding of subsidiary GM change is pressing in this ever-changing climate.

Although a substantial body of literature on international human resource management (IHRM) exists in general (for a review, see Collings, Scullion, & Dowling, 2009; see also Cooke et al., 2019), the topic of subsidiary GM succession has only received modest attention (For exceptions, see Bebenroth & Froese, 2019; Pitcher, Chreim, & Kisfalvi, 2000; Selmer & de Leon, 1997; Selmer & Luk, 1995). One thematic focus in the existing IHRM literature is the critical issues faced by MNEs with regard to the employment of parent-country nationals (PCNs), third-country nationals (TCNs), and host-country nationals (HCNs) in filling key positions in their subsidiary operations (Colakoglu, Tarique, & Caligiuri, 2009; Scullion &

Collings, 2006). Arguably, nationality-based staffing decisions mainly reflect the attitude of MNE decision makers on subsidiary control and coordination (Harzing, 2001) and towards knowledge creation and transfer (Belderbos & Heijltjes, 2005). For example, researchers argue that HCNs can better respond to local demands and PCNs are better at integration (Harzing, 2001; Harzing, Pudelko, & Reiche, 2016; O'Donnell, 2000; Tarique, Schuler, & Gong, 2006). Based on the broader IHRM literature, it thus follows that for foreign subsidiaries with a local-market-seeking motive (Dunning & Lundan, 2008), an essential succession strategy would be to use an HCN GM to deal with host country business practices and cultures that may contrast markedly with those of the home country.

However, the nationality-based terminology may be overly simplistic (Meyer, Li, & Schotter, 2020; Meyer & Xin, 2018; Rickley, 2019). An HCN GM successor can be either internally promoted from within the subsidiary, expatriated from the headquarters/other peer subsidiaries (Thite, Srinivasan, Harvey, & Valk, 2009), or externally hired (Morris, Snell, & Björkman, 2016). Their capabilities to respond to local market demands and their identifications with the MNE and the subsidiary may thus vary. Along this line, subsidiary GM succession decisions might not be only about the candidate's nationality but also about whether the candidate comes from outside or inside the organization. However, we still know little about how MNE decision makers choose internal or external subsidiary GM successors. The lack of theoretical arguments and empirical evidence is surprising, given that whether to fill job openings through internal or external hires "is one of the most fundamental staffing decisions organizations must make" (DeOrtentiis, Van Iddekinge, Ployhart, & Heetderks, 2018: 916).

As "the risk of selecting the wrong candidate is greater than any time in the past" (Donatiello, Larcker, & Tayan, 2018: 303), potentially putting subsidiary performance and even

subsidiary survival at stake, there is need for a more granular theory to inform the choice of subsidiary GM successors. In this paper, I adopt the theory building from cases approach<sup>7</sup> (Eisenhardt, 1989a; Eisenhardt & Graebner, 2007; Gehman et al., 2018) to address two questions. *First, how are subsidiary GM succession decisions made by MNE decision makers?* *Second, how do the succession decisions link to subsidiary performance?* By considering the nationality-based strategy and the origin-based strategy *together*, this paper aims to yield a more interpretable and theoretically intriguing pattern than either strategy would show us in isolation (Johns, 2006; Rousseau & Fried, 2001). To that end, I draw upon bounded reliability (BRel) (Kano & Verbeke, 2015, 2019; Lumineau & Verbeke, 2016; Verbeke & Greidanus, 2009) as both the micro-foundation and the theoretical thread throughout the theory elaboration process. Here BRel refers to economic actors being reliable, but only boundedly so.

Based on theoretical sampling (Eisenhardt, 1989a), the setting is nine wholly owned local-marketing-seeking foreign subsidiaries of four large manufacturing MNEs. Selecting cases with the same strategic motive allows me to control for the rival explanations (Luo, 2003) and better focus on the less-explored succession decision-making process. More importantly, I treat a local-market-seeking motive as the context analytically rather than descriptively. The underlying logic is that because human capital is strategic only when it provides value to the firm and does so in a unique way (i.e., what makes human capital valuable for the firm is its alignment with strategic orientation) (Chung, Park, Lee, & Kim, 2015; Wright, Coff, & Moliterno, 2014), the findings

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<sup>7</sup> To avoid confusion and philosophical pitfalls, it is noteworthy that when inducting theory from cases, I subject them to critical realist assumptions and take a more pluralist stance. I am aware of the objective and positivist stance of the approach of Eisenhardt and colleagues (Eisenhardt & Graebner, 2007; Gehman et al., 2018), which is different from the grounded theory building stemming from the treatises of Glaser and Strauss. But I don't think that total objectivity on the part of the researcher is possible. Therefore, I do not conceal the role of the researcher (and my emic view) and the context (i.e., the strategic motive of the subsidiary in the host country).

here can be best described as a contextualised explanation. To test the analytical generalizability of the findings based on the selected cases, I proceeded to interview managers from another 11 foreign subsidiaries, following both the theoretical and literal replication logic (Yin, 1994).

The results reported here are six propositions complementing and challenging the traditional views of the nationality-based staffing decision. Moderated by the internal-external origin of the subsidiary GM successor, the empirical evidence shows that using HCN GMs is not always the best strategy for local-market-seeking subsidiaries. When the HCN GMs are hired from within the subsidiary, they are more likely to be given to opportunism which makes provision for self-interest seeking with guile (Williamson, 1981), thus worsening subsidiary performance. But this is not opportunism *ex ante*. Rather, it emerges gradually due to the joint effects of the HCN GMs' deep understanding of the local business practices, the dual identification challenge, and the dark side of trust (Anderson & Jap, 2005). I follow Kano and Verbeke (2015) to call it *ex post opportunism* as intentional deceit, which is viewed in the present context as relevant in only well-defined circumstances.

To economize on ex post opportunism, the empirical observations show that MNE decision makers usually appoint an HCN GM from outside the local-market-seeking subsidiary or expatriate a PCN subsidiary GM. These solutions, however, may give rise to other facets of BRel: i.e., *divided engagement* resulting from the identity-based discordance; and *right-minded regression*, i.e., a strong attachment to existing practices due to the force of old habit (Kano & Verbeke, 2015). The data uncovered that these two BRel facets, rather than ex post opportunism, are more common reasons for the succession failure, but there exist effective managerial tools to manage these challenges. Specifically, MNE decision makers use *ex ante socialization* to ensure the common goals are in place when the successor takes office, thus economizing on divided



engagement. To address the challenges posted by right-minded regression, subsidiary GM successors are encouraged to use *balanced local empowerment* to motivate local managers in order to better harness market-seeking opportunities. These safeguards enable MNEs to leverage the human ability to take initiative and to cooperate, leading to good subsidiary performance.

## **THEORETICAL BACKGROUND**

### **Nationality-Based Staffing Strategy**

Some scholars suggest that when staffing managerial positions in foreign subsidiaries, MNEs can choose between HCNs, PCNs, and TCNs (Gaur, Delios, & Singh, 2007). Each of these nationality-based staffing strategies is argued to be associated with a unique set of strategic purposes (Belderbos & Heijltjes, 2005). Tarique et al. (2006), for example, argue that PCNs may know more about the MNE's culture, and thereby can facilitate communication with the headquarters and align the subsidiary's operations with the interests of the MNE. The role of PCNs in controlling the subsidiary on behalf of the headquarters is also gaining increasing prominence in the literature (Collings et al., 2009; Shin, Hasse, & Schotter, 2017). In contrast, HCNs are viewed as being more familiar with the host-country environment, and being more effective in localizing the subsidiary's operations (Gupta & Govindarajan, 1991).

More recently, researchers have begun to fine-tune the nationality-based staffing framework by either expanding the category of subsidiary GMs or bringing to the fore the importance of organizational and environmental contingencies (for a detailed list, see McNulty & Brewster, 2017). Examples demonstrating the former endeavor include studies on expatriates of host-country origin (Thite et al., 2009), the local employment of ex-HCNs (Tung & Lazarova, 2006), the localization of expatriates (Tharenou & Harvey, 2006), and the employment of migrants (Ariss, 2010); whereas the latter is mainly manifested in studies on the moderating

effects of institutional distance, cultural difference, headquarters and subsidiary characteristics, and intraorganizational relationships on the utilization of various nationality-based staffing strategies (e.g., Gaur et al., 2007; Gong, 2003; Peng & Beamish, 2014; Rickley & Karim, 2018; Schotter & Beamish, 2011a). There are also some studies undertaking these two tasks simultaneously (e.g., Tarique et al., 2006). Of particular relevance to this study is the work of Chung et al. (2015), which proposes a strategic human resource alignment framework. The authors found that HCNs can more effectively maximize the performance-enhancing potential of a local-market-seeking strategy, while also finding positive utility functions of PCNs in export-oriented subsidiaries.

This research agenda has been established as one of the cornerstones of the field of IHRM (Thomas, Lazarova, & Inkson, 2005). But as noted earlier, the subsidiary GM successors' nationality only tells half of the story, and the internal-external origin of GM successors has been largely neglected in IHRM. In contrast, the origin-based succession strategy has become a prominent issue on the agenda in strategic leadership research. A brief overview of this body of work follows.

### **Internal Versus External Successor Type**

As the selection of a new GM offers a great opportunity for decision makers to align their organization with the environment and with the interests of the board of directors (Friedman, 2017; O'Brien et al., 2019; Ocasio, 1999), GM successor origin represents a well-researched topic in the field of strategic leadership. Considerable evidence exists that decisions on whether the new GM comes from outside or inside the organization can impact organizational performance significantly (Finkelstein, Hambrick, & Cannella, 2009). The underlying mechanisms of this impact are threefold. First, outsiders are normally viewed as change agents

such that external successors tend to pursue paths of strategic change (Wiersema, 1992). They bring new ties to the environment, new competencies and skills, and fresh strategic perspectives (Kesner & Sebor, 1994; Schepker, Kim, Patel, Thatcher, & Campion, 2017). But at the same time, outsiders often find it harder to get support from other executives within organizations (Zhang & Rajagopalan, 2004). In contrast, internal promotion may indicate the board's desire to maintain the current strategic thrust (Finkelstein et al., 2009). Second, insiders have more established social ties to employees (Berns & Klarner, 2017) and have successfully managed political coalitions (Wiersema, 1992). Insiders possess more firm-specific knowledge and are more socialized into the organization's culture (Schepker et al., 2017). These superior relationships, information, and power bases imply that insiders, relative to external successors, can leverage organizational resources more effectively. Third, to the extent that the board has more detailed information about insider successors, information asymmetry—and thereby the principal–agent problem—will be less severe (Zajac, 1990).

These mechanisms have also been successfully applied to the study of other types of executive roles. Of particular interest is the study of DeOrtentiis et al. (2018) on subunit managers in domestic firms. Their results showed that internal candidates demanded lower starting salaries, even though their performance ratings were higher and their probability of promotion was lower. Consequently, the authors suggested that firms staff the subunit manager position with internal candidates whenever possible.

These and related studies add greatly to our knowledge of GM successor's origin. However, insights from this body of work might be too coarse to be directly applicable to foreign subsidiary GM successions in that the role of foreign subsidiary GMs is more intricate than the role of managers in a domestic setting (Bartlett & Beamish, 2018). O'Brien et al. (2019) note

that there are at least three types of responsibilities that foreign subsidiary GMs must assume: enabling embeddedness in the host country, facilitating adaptability in the subsidiary, and championing alternatives within the MNE. Meanwhile, in the setting of MNEs there is a notion of nestedness of agency relationships (Hoenen & Kostova, 2015). There are two types of insider GM successors, one is from within the subsidiary and the other expatriated from within the MNE but outside the subsidiary. Therefore, the subsidiary GM successors might be closer to the subsidiary or closer to the HQs depending on where they are from.

## **METHODS**

The foregoing elaboration of theoretical underpinnings enabled me to formulate a preliminary analytical framework. But this framework was not fully stipulated and was subject to future refinement. The initial process can be best described as “abductive” (Gehman et al., 2018) because the propositions formulated then were primarily based on both my subjective view on subsidiary GM successions and were derived from the prior literature. Given the iterative nature of explanation-building (Yin, 1994), I constantly went back and forth between theory and data. As a result, the propositions evolved, which, in turn, directed my search for new theories as well as new empirical observations. In this continuous process of systematic combining (Dubois & Gadde, 2002) or progressive focusing (Sinkovics & Alfoldi, 2012), I developed theoretical arguments from cases (Eisenhardt, 1989a; Eisenhardt & Graebner, 2007).

### **Research Setting**

I adopt a multiple-case design and treat each case as an experiment (Yin, 1994). I then use the series of cases, collected in a theoretical sampling manner (Eisenhardt, 1989a), to test the observations. The underlying logic, therefore, is literal replication within groups of cases and theoretical replication across groups of cases (Yin, 1994). The core interest of this approach, as

noted by Eisenhardt et al. (2016), is to enable meaningful comparisons. My unit of analysis is nine wholly-owned foreign subsidiaries with a local-market-seeking motive. These subsidiaries are from four large, established manufacturing MNEs that are technical and market leaders. I named these subsidiaries and their MNEs for their primary technological area (e.g., Electronics).

The characteristics of these foreign subsidiaries and the MNEs are shown in Table 10.

**TABLE 10: Descriptions of Manufacturing MNEs**

<b>Subsidiary</b>	<b>MNE</b>	<b>Home Country</b>	<b>Host Country</b>	<b>Number of Employees (MNE)</b>	<b>Number of Employees (Subsidiary)</b>	<b>Number of Informants</b>
Water A	Water	Israel	China	>500	~100	3
Water B	Water	Israel	India	>500	~30	2
Water C	Water	Israel	Brazil	>500	~90	2
Agriculture A	Agriculture	Israel	China	>500	~200	4
Agriculture B	Agriculture	Israel	Brazil	>500	~150	3
Paper A	Paper	Singapore	China	>500	>500	4
Paper B	Paper	Singapore	China	>500	>500	4
Electronics A	Electronics	China	UK	>500	~600	2
Electronics B	Electronics	China	Pakistan	>500	>500	2

Note: In line with the *Letter of Information*, the number of employees illustrated in this table is intended to be vague in order to keep the MNEs unidentifiable.

I chose these foreign subsidiaries for three reasons. First, for foreign subsidiaries whose mandate portfolios are primarily local-market-seeking, the need to be responsive to local demands will be higher (Benito, 2015; Dunning & Lundan, 2008), which may increase the importance of subsidiary GM successors' local knowledge and networks. Yet, for these same subsidiaries, their dependency upon resource support from the MNEs may also increase in order to overcome the liability of foreignness (Lee, Chung, & Beamish, 2019). This suggests that the subsidiary GM successors' internal relationship with the MNEs will also be critical. Therefore, these are precisely the research conditions that may hinge on both the nationality-based staffing strategy and the origin-based succession strategy. Second, as the strategic motives contextualize

the role of subsidiary GM successors<sup>8</sup>, singling out one motive enables me to partial out variations that are nonessential to this inquiry and consequently to focus attention on the variation of interest (Gehman et al., 2018; Luo, 2003). Third, given the multiple sources of identity in the context of international joint ventures (IJVs) (Salk & Shenkar, 2001), the organizational culture and the succession decisions may emerge differently in IJVs vis-à-vis in wholly owned subsidiaries. The unique IJV microprocesses, albeit intriguing, is not essential to my inquiry here and thus should be patriated out.

### **Data Sources and Analysis Process**

Because I collected and analyzed data simultaneously (i.e., constant comparison) (Eisenhardt, 1989a), I report data sources and the data analysis process in the same subsection as well. But I present them in a sequential manner here only for the sake of clarity. Meanwhile, to make the researcher voice more explicit here (Bansal & Corley, 2011), it should be noted that I previously worked as a foreign subsidiary GM (an HCN GM who was internally promoted from within the subsidiary). I therefore developed the preliminary interview outline not only based on the prior literature, but also on my personal experiences (i.e., subjectivist worldview). Mentioning this is important, as I believe that, though grounded in extant theory, what I will observe is also a function of who I am and what I hope to see (Suddaby, 2006). In this sense, therefore, the philosophical underpinning of my methodology is not positivism, but critical realism (Van de Ven, 2007; Welch, Piekkari, Plakoyiannaki, & Paavilainen-Mäntymäki, 2011).

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<sup>8</sup> As this essay is part of a larger research program on foreign subsidiary GM successions, it should be noted that I conducted many other interviews with subsidiaries that are not local-market-seeking. Compared with those interviews that are excluded from this study, I can conclude that the strategic motive can significantly influence the succession decision making. Therefore, controlling for this extraneous variation is warranted. Nevertheless, I also acknowledge that the local embeddedness can be critical to some subsidiaries with other strategic motives. Therefore, I encourage future research to test the analytical power of my model in the settings other than local-market-seeking subsidiaries.

To gain access to the MNEs, I relied on my personal network of professionals working in these MNEs. I conducted interviews with members of the top management team of each subsidiary and the HQs. Given my decade long subsidiary GM experiences, I intentionally remained passive and less predetermined during all the interviews in order to come across the “active” data which is associated with discovery (Dubois & Gadde, 2002). My informants are Vice Presidents, Regional CEOs, subsidiary GMs, and other members of the top management team who were well-positioned to offer detailed knowledge of the succession process such as director corporate marketing from the HQs, sales manager and corporate affairs managers in the foreign subsidiaries. Following prior research (e.g., Gilbert, 2005; Schotter & Beamish, 2011b), the rationale to involve multiple informants is to triangulate the interview data (Dubois & Gadde, 2002; Flick, 2014). Meanwhile, to motivate informants’ accuracy, I promised confidentiality.

Same as in the previous essays, the main data source is semi-structured interviews, which are deemed suitable for interviewing managers who cannot be reached on many separate occasions (Bernard, 2000). I used the secondary sources such as annual reports, published cases, media reports, and subsidiary GM resumes from LinkedIn to cross-check information. The information about subsidiary performance is based on the informants’ subjective assessments (i.e., comparing the post-succession performance to their expectations) (Slangen & Hennart, 2008). I do so in order to ensure the dependent variable is contextually sensitive (Johns, 2006), as different informants define unsatisfactory subsidiary performance differently and these managers (e.g., Regional CEOs of Electronics, Water, and Agriculture; Directors of Paper and Agriculture, among others) told me that they have to tease out the factors (e.g., time trend, macro-economy, political changes) that influence subsidiary performance but have nothing to do with the succession events. Also, where possible, I use the secondary sources to verify the

performance information. I also had one interview with a global leadership expert in order to investigate the subsidiary GM succession issues from the outsider perspective.

I took copious notes during the interviews. Immediately after each interview, I then prepared the detailed and extensive interview notes in the form of an electronic document, following the “24-hour rule” (Eisenhardt, 1989b). The length of each final note was three to five pages. I also video- or audio-recorded most of the interviews, the length of which was 40 to 150 minutes. Following the approach of Caprar (2011), I transcribed all recorded interviews in the original language with no immediate translation (if it was not in English) in order to preserve the specificity and meanings. In total, I have prepared over 400 pages of transcriptions, and over 110 pages of notes in the form of an electric document. Similar to prior research (e.g., Gilbert, 2005), I also conducted nine follow-on telephone interviews (20-40 minutes each) to further expand on the specific research questions that were not completely emerged during the initial interviews. The purpose of this interview data collection stage is to generate a more parsimonious theory.

Along with the fluid and nonlinear process, I conducted additional interviews with managers from 11 other subsidiaries to assess the analytical power and the external validity of my model (Yin, 1994). Table 11 describes the data sources. Finally, as a validating procedure, I discussed the initial findings with my informants to evaluate the accuracy of the study (i.e., member checking) (Yin, 1994). More than 90 percent of informants during the follow-on interviews told me that my conclusions were entirely accurate. For instance, the Regional CEO of Agriculture responded, *“I must tell you that from my experience, all the points that you mentioned, I really connected.”*



**Table 11: Sources of Data**

<b>Subsidiary</b>	<b>Interviews</b>			<b>Secondary Documents</b>		<b>Successions</b>
	<b>MNE</b>	<b>Subsidiary</b>	<b>Total</b>	<b>Number</b>	<b>Examples</b>	<b>Number</b>
Water A	1	1	2	1	Resumes on LinkedIn	2
Water B	1	1(1)	2(1)	2	Resumes on LinkedIn; D&B Reports	3
Water C	1	1	2	2	Resumes on LinkedIn; D&B Reports	3
Agriculture A	3(1)	1	3(1)	1	Resumes on LinkedIn	4
Agriculture B	2(1)	1	2(1)	2	Resumes on LinkedIn; D&B Reports	3
Paper A	3(1)	1	4(1)	2	Resumes on LinkedIn; Media Reports	5
Paper B	3	1	4	3	Resumes on LinkedIn; Media Reports	3
Electronics A	1	1(1)	2(1)	4	Resumes on LinkedIn; Annual Reports	5
Electronics B	1	1(1)	2(1)	4	Resumes on LinkedIn; Annual Reports	5
Compared Subsidiary	0	11(3)	11(3)	13	Media reports; Resumes on LinkedIn; Published Cases	14
Global Leadership Expert	n.a.	n.a.	1	n.a.	n.a.	n.a.
<b>Total</b>	<b>16(3)</b>	<b>20(6)</b>	<b>36(9)</b>	<b>32</b>		<b>47</b>

Note: The follow-on interviews are shown in parentheses; The follow-on interview with Agriculture B is done through E-mail instead of virtual meeting; The number of successions is the number of events the informants discussed about in details during the interviews.

Following the coding approach of Maznevski and Chudoba (2000), I have, in a manner of “analytic induction” (Suddaby, 2006), tentatively coded the categories of variables according to the research template. I do so in order to frame the study within the context of the extant theories

(Eisenhardt & Graebner, 2007), as a preparation for reconceptualization. This initial template was largely guided by the micro-foundations underpinning the issue of agency problems within MNEs (Hoenen & Kostova, 2015), i.e., bounded rationality and opportunism. However, my data gradually showed that the assumption of opportunism is only a situational occurrence. Instead, I found the emergence of various facets of BRel (Kano & Verbeke, 2015), which turned out to be the “central characters” cohering into the story (Pratt, 2009). This then inspired a new round of literature review.

Subsequently, following the iterative and dynamic approach (Gehman et al., 2018), my research questions were refined and I developed a new set of formally stated observations. Grounding the research question in reality is a crucial step of problem formulation process (Van de Ven, 2007). Along with the continuous modifying and updating processes, my direction for data collection also changed accordingly (Dubois & Gadde, 2002). As the study progressed, I redirected my focus to the subtleties of BRel expressions so as to draw on the complete sources of data and encompass all nuances. In this process, I found three particular facets of BRel informed by the qualitative data<sup>9</sup>. I also discerned surprising relationships among these facets of BRel, which are not addressed by existing theoretical and empirical work. I then reduced fuzzy categories into fewer and clearer structures, and wove into the model an emergent category of variables I call economizing mechanisms. The revealed BRel (and the inter-links) and the economizing mechanisms (or lack thereof) jointly inform succession decision making and link to subsidiary performance. These larger patterns unveil complex social processes, thus enabling the theory elaboration.

In the next section, I present these formal observations in the form of propositions and

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<sup>9</sup> While Kano and Verbeke (2015) also discussed about other dimensions of BRel, my data did not reveal ex-ante opportunism and benevolent preference reversal.

incorporate a set of relevant literatures (Eisenhardt, 1989a). Consistent with critical realism, I adopt the process tracing technique to formulate the propositions (Welch et al., 2011), which involves a careful construction of causal chains of events. Each chain of causal events is regarded as a unique causal pathway.

## **RESULTS**

### **Insider HCNs and Ex Post Opportunism**

As mentioned previously, extant research on the nationality of subsidiary managers has held that HCNs are more familiar with the host-country environment and can more effectively maximize the performance-enhancing potential of a local-market-seeking strategy (Chung et al., 2015; Gupta & Govindarajan, 1991). Meanwhile in the field of strategic leadership, recent works on the origin of subunit manager successors showed that as internal candidates have higher performance ratings, it is sensible to staff the subunit manager position with internal candidates (DeOrtentiis et al., 2018). Based on these parallel literatures, therefore, it follows that for local-market-seeking subsidiaries, the logical succession strategy is to appoint an HCN GM who is promoted from within the subsidiary (hereafter insider HCN GMs). This is also the preliminary proposition I tentatively formulated before data collection.

My empirical observations, however, indicate a contrasting view. Given that the HCN perspective is not homogenous (Caligiuri & Bonache, 2016), and agency relationships inside MNEs are multi-tiered (Ambos, Kunisch, Leicht-Deobald, & Steinberg, 2019), on certain occasions, the use of HCN subsidiary GM successors was actually regarded by MNE decision makers as the worst succession strategy. Although HCN subsidiary GM successors are familiar with the host country environment, it does not ensure that these successors will necessarily align the subsidiary's operations with the MNE's best interest. When the HCN subsidiary GM

successor is from within the subsidiary, the successor's familiarity with the local market and with the subsidiary operations, coupled with the role stress in the face of conflicting goals, and the reduced alertness of the MNE decision makers, can lead to ex post opportunism. As a result, the subsidiary performance is less likely to be satisfactory. In formal terms,

***Proposition 1:*** *Internally promoting an HCN GM successor from within the local-market-seeking subsidiary may lead to ex post opportunism that renders subsidiary performance unsatisfactory.*

The empirical evidence is shown in Table 12. Some subsidiaries in my observations have never used this specific type of candidates for the reasons such as “*lack of trust*” or “*lack of qualified international managers*”. I thus corroborated the qualitative assessments with additional interviews with managers that have worked with insider HCN subsidiary GM successors (from the group I call *compared subsidiaries*). I also included the opinion from a global leadership expert.

**Table 12: Insider HCN GMs and Ex Post Opportunism**

Subsidiary	Successor	Replication	Deployed Insider HCN GMs	Ex Post Opportunism is the Concern	Subsidiary Performance	Examples
Water A	n.a.	Theoretical	No	Yes	n.a.	Regional CEO: "If possible, I would prefer to use local GMs...But it takes time to know the local GM...And we had problems in Peru before, luckily we found the (insider HCN) GM's fraud issue at the last minute."
Water B	n.a.	Theoretical	No	Yes	n.a.	Subsidiary GM: "People here are not very trustworthy...I fired the (HCN) business manager 3 years ago though he was very capable."
Water C	n.a.	n.a.	No	n.a.	n.a.	n.a.
Agriculture A	GM 2	Literal	Yes	Yes	Unsatisfactory	Subsidiary GM: "Here is a code of conduct issue, regardless of his capability. The predecessor opened his own company while working as the GM here. He then used his local networks and teamed up with several of our employees to develop business for his own company and then sold products to our subsidiary." Regional CEO: "We had 42 people in the subsidiary...We had to replace 35 people there."
Agriculture B	n.a.	Theoretical	No	No	n.a.	Director: "The predecessor and successor are both external hires...I haven't seen disloyalties."
Paper A	n.a.	Theoretical	no	Yes	n.a.	Corporate Affairs Manager: "We don't appoint (HCN) subsidiary GMs from within the factory nowadays, because we are concerned about the entrenchment and office politics the internal candidate might create."
Paper B	n.a.	n.a.	No	n.a.	n.a.	n.a.

Electronics A	GM2	Literal	Yes	Yes	Unsatisfactory	Deputy GM: "The (insider HCN) predecessor didn't go to the office often, and was involved in many fraud issues, which remained unnoticed until I was expatriated to the subsidiary."
Electronics B	n.a.	Theoretical	No	Yes	n.a.	Regional CEO: "We don't have many qualified international managers."
Compared Subsidiary 1	GM 1	Literal	Yes	Yes	Unsatisfactory	HR: "The (insider HCN) predecessor GM is too local, he had some under the table deals that the HQs suspected but had no proof."
Compared Subsidiary 2	The most recent predecessor	Literal	Yes	Yes	Unsatisfactory	Sales Manager: "At the beginning, the performance was good. But the (insider HCN) GM started to make the same problems...He left the subsidiary prematurely, leaving again a huge amount of inventories in the distributors' warehouse...Even worse than the predecessor."
Compared Subsidiary 4	GM 3	Literal	Yes	No	Satisfactory	Subsidiary GM: "I was then 'informally' trained by the HQs (for two years) to become the GM successor candidate."
Compared Subsidiary 8	GM 1	Literal	Yes	Yes	Unsatisfactory	Sales Director: "At the outset, the GM was very trustworthy. But over time, as the business grew very quickly, the GM started to build his empire and began to fight against the requirement from the HQs...It is a trust decay process."
Expert	n.a.	Theoretical	No	Yes	n.a.	Expert: "According to my experiences, MNEs nowadays still prefer to use expatriate GMs in China as they still don't trust HCNs."

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Surprisingly, I found that in most subsidiaries that have previously ever used insider HCN GMs, the subsidiary performance deteriorated during the tenure of the GMs. Why does the use of insider HCN GM successors lead to unsatisfactory subsidiary performance? I concluded that there are three reasons<sup>10</sup>. First, the primary location of employment may explain the differences in organizational commitment (cf. Banai & Reisel, 1993). The organizational commitment here refers to the psychological identification with the organization (Roth & O'Donnell, 1996). But along with the internal selection and promotion process, the subsidiary GM may gradually develop dual identifications with both the subsidiary and the MNE (Vora & Kostova, 2007), as these GMs are chosen by and get closer to the MNE decision makers during the promotion process. But for these insider GM successors, a sense of internal conflict may arise in the face of conflicting goals. One dysfunctional effect of the role stress is that these GMs may lose a sense of affiliation with both entities (Gregersen & Black, 1992; Vora, Kostova, & Roth, 2007). Thus, agency issues may loom large. The insider HCN GMs are also more able to behave opportunistically given their entrenchment in the subsidiary. Therefore, as the informant from Paper A explained, *"We don't appoint (HCN) subsidiary GM from within the factory nowadays, because we are concerned about the entrenchment and office politics the internal candidate might create."* By politics, I believe that he meant the "activities taken within organizations to acquire, develop, and use power and other resources to obtain one's preferred outcomes" (Pfeffer, 1981: 7). These outcomes, however, might not necessarily comply with directives of the

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<sup>10</sup> Given the small sample, I concur that what I have observed here might not be perceived as a solid relationship. However, the "statistical" power argument does not apply to the methodology and the nature of the data in the present context (Yin, 1994). Although I stopped collecting interview data when I believe that the "category saturation" was achieved (when new interviews yielded little new information), I can still make some tentative inferences, and my goal is to ensure the "analytical" power. This orienting principle underlies the whole theory elaboration process.

MNE.

Second, being successfully promoted from within the subsidiary may indicate that the new subsidiary GM has proven capabilities in dealing with environmental contingencies, which has enabled the GM to gain trust from the MNE decision makers (Mayer, Davis, & Schoorman, 1995). Here, trust refers to the trustor's (i.e., MNE decision maker's) psychological state comprising the willingness to be vulnerable based on positive expectations of the behavior of the trustee (i.e., subsidiary GM successor) (Rousseau, Sitkin, Burt, & Camerer, 1998). However, there is a dark side of trust (Kano & Verbeke, 2015). As the deputy manager of Electronics A stressed, the "*fraud issue*" remained unnoticed for years. In retrospect after several succession failures, the Regional CEO of Agriculture told us, "*Even though the GMs are very capable in terms of experience (in the field), they will not be fully loyal to you.*" In a follow-on interview, this Regional CEO further noted, "*The (promoted) GM was a great salesman, bright, very very good, but when he became a manager, because I cannot control him 24 hours a day, seven days a week, then he made me disappointed...He didn't expand his mind to the managerial level.*" This suggests that: first, the initial trust given to the insider successor can reduce the alertness needed (Verbeke & Greidanus, 2009); second, when a breach in trust is suspected, it is hard to prove (Anderson & Jap, 2005); and third, the trust dynamic has potential for contraction (Rousseau et al., 1998).

Furthermore, deep understanding of the local practices and the subsidiary operations is a double-edged sword in a sense that, as suggested by extant literature, it can enable the GM to bolster subsidiary performance, but as suggested by the data, it can also paradoxically enable the subsidiary GM to better pursue self-interest with deceitfulness. A telling example is given by the informant from Agriculture A, who noted, "*Here is a code of conduct issue. The (insider HCN)*



*predecessor established his own company while working as the GM here. He then used his local networks and teamed up with several of our employees to develop business for his own company and then sold products to our subsidiary.*” I summarized that the successor has the needed embeddedness to do so given his local knowledge and networks; the authority to do so given his rank in the hierarchy; and the latitude to do so given his established social ties to local employees (Berns & Klarner, 2017).

I proceeded to assess the validity of the proposition by interviewing informants from other local-market-seeking subsidiaries. The foregoing behavioral pattern was found in most cases. In the compared subsidiary 1, for example, there were *“under the table deals (by GM 1), which the HQs suspected but had no proof.”* I then asked the HR manager why GM 1 did that. She explained: *“He actually did not want to be the GM.”* I concluded that this attitude is clearly symptomatic of the role stress. Similarly, as witnessed by the informants from the compared subsidiaries 2 and 8, the *“trust decay”* only became recognizable gradually. The only exception I found is the insider GM 3 of the compared subsidiary 4, who did not demonstrate ex post opportunism. He successfully turned around the subsidiary performance. The GM did not experience the role stress because the decision makers in the HQs had spent two years in the candidate’s leadership development (albeit informally) prior to his promotion, in order to elicit the GM’s dual organizational identifications.

### **Expatriated HCNs and Economizing on Opportunism**

The above findings thus lead to the next question, how do MNE decision makers impose limits that assure localization of the operations by the HCN subsidiary GM is consistent with the MNE’s best interests? Prior research argued that succession decisions that are based on utilizing the most capable managers are different from the choices based on reducing transaction costs

(Tan & Mahoney, 2006). Then, could the MNE decision makers find the most capable subsidiary GMs who can *also* behave less opportunistically? I found that to achieve this goal, some MNEs expatriated HCN GMs from within the MNE but outside the subsidiary.

Although the IHRM literature suggested that establishing criteria for expatriate selection remains problematic (Dowling et al., 1999), and strategic leadership research reminded us that the choice of an outsider as a new leader is a highly charged decision, as it may violate implicit deals with some internal movers (Finkelstein et al., 2009), the empirical observations indicated that the expatriated HCN subsidiary GMs' strong identification with the MNE significantly reduced their willingness to engage in ex post opportunism. As a result, these GMs' stock of local knowledge was mainly used to find opportunities for increased local embeddedness rather than to serve the GMs' self-interest. Formally,

***Proposition 2:*** *Expatriating an HCN GM successor from within the MNE to the local-market-seeking subsidiary reduces ex post opportunism.*

The data indicated that the expatriated HCN GMs, such as those in Paper A and B, are close to MNE decision makers, which is consistent with prior studies on expatriation (e.g., Ishii, 2012; Michailova et al., 2016; Williams, Colovic, & Zhu, 2017). They have worked for the MNE for many years in various subsidiaries and business sectors. This pattern shows that they have strong desire to maintain membership and continue affiliation in the MNE, which is an embodiment of loyalty (Banai & Reisel, 1993). Both the director and the corporate communication manager of Paper call these expatriated HCN GMs “*old boys*” and “*fire captains*”, implying that these GMs are not only trustworthy but also capable of taking risks in confronting unanticipated environmental challenges. The corporate affairs manager from Paper B brought to light the underlying reason, “*The expatriated HCN GM can take some risks,*

*because he knows that even if he makes some mistakes in this process, the president will understand him.*” Moreover, these subsidiary GMs are very committed, as pointed out by the corporate communication manager of Paper, *“The GM (16) is always the last one to leave the subsidiary.”*

Meanwhile, the data indicated that these HCN expatriates do not necessarily divorce themselves socially from local people in the subsidiary, which seems inconsistent with many writings on the “expatriate syndromes” (Harvey & Moeller, 2009; March, 1992; Mesmer-Magnus & Viswesvaran, 2008). As suggested by the following quote from the informant in Paper B, *“The GM (16) always likes to communicate with all levels of employees.”* Similarly, the corporate communication manager of Paper told us, *“The GM (15) in Paper A proposed the ‘care and love of the employees’ initiative... greatly improved the employees’ morale and the GM’s credibility.”* My explanation is that both the *“linguistic ability”* and the deep appreciation of the host country culture can render these expatriated HCN GMs very capable of effective communication with local people, fostering organizational identification (Ishii, 2012) and in-group favoritism (Olsen & Martins, 2009). Meanwhile, because effective communication with the subsidiary is instrumental in ensuring the implementation of the local-market-seeking strategy, getting socially closer to the subsidiary can in effect allow the expatriated HCN GMs to better fulfill their commitment to the MNE. In this sense, the subsidiary identification can be best described as *nested* within the MNE. As a result, the risk of role conflict will be low (Vora & Kostova, 2007).

Therefore, these expatriated HCN subsidiary GMs can overcome the dual identification challenge, effectively address ex post opportunism, and thus render the unsatisfactory subsidiary performance as less likely. However, resource constraints clearly come into play here (Sonkova,

2015). Indeed, expatriates are often in short supply (Beamish & Inkpen, 1998; Collings, Scullion, & Morley, 2007), let alone the HCN expatriates who have prolonged exposure to the particular MNE's setting. Thus, I found that a more common approach adopted by the MNEs is to externally hire HCN subsidiary GM successors, the strategy to which I now turn.

### **Outsider HCNs and Divided Engagement**

As mentioned earlier, an outsider may lack firm-specific human capital (Chan, 2006). Moreover, it is likely that there exists information asymmetry between the firm and the outsider candidate, which may lead to a less-than-optimal selection (i.e., adverse selection) (Zhang, 2008). Similarly, as noted by DeOrtentiis et al. (2018), using external hires at the sub-unit level may lead to poor person-job/organization fit with respect to skills and abilities. My empirical observations, however, are startling in that adverse selection was not a major concern for MNE decision makers when deploying outsider HCNs. There was only one exception that demonstrated the adverse selection problem, that is, the predecessor GM of the compared subsidiary 6. However, due to the saliency of the GM role, it seems relatively easier for MNE decision makers to identify the GM's lack of needed skills and abilities, and thus quickly fix it. In the case of the compared subsidiary 6, for instance, the predecessor had a very short tenure and was fired immediately after a more appropriate candidate was found. Furthermore, because the outsider HCN GMs do not have the entrenchment problem and their activities are under scrutiny of the MNE decision makers and the subordinates, I found that they are also less likely to engage in ex post opportunism in the form of moral hazards. But some other behavioral problems emerged, to which I now turn.

After the new comers take office, their managerial attention is primarily focused on subsidiary-level goals that are spelled out by formal managerial roles, well-established job

descriptions, or provisions in the contractual agreement. As time goes by, the outsider HCN subsidiary GMs started to gain some exposure to the MNE's overall mission and goals which are often embedded (implicitly) in the corporate culture, i.e., the pattern of beliefs and expectations shared by the members of the MNEs (Stahl & Tung, 2015). But some of these GMs took issue with the mission and goals. This is evidenced by the following quote from the corporate communication manager of Paper, *"We have well-established managerial procedures, and the external candidate thought, OK, let me just follow them. But in fact, we have a set of implicit rules to follow...It is frustrating."* The same frustration is found in the case of Agriculture B, *"The GM used to be an important manager of ST (a related MNE, so the GM believes that he fits with the job description). But we need to be hands-on. Different from an exact job description that tells you need to do just this and that here, we need to do lots of things."* This is problematic, because subsidiary GMs, by virtue of this position, hold multiple roles (Vora et al., 2007). Some expectations do come from the subsidiary, but there are also expectations from the MNE as a whole. Failing to fulfill the MNEs' expectations will lead to what Kano and Verbeke (2015) termed divided engagement. In formal terms,

***Proposition 3:*** *Externally hiring an HCN GM successor for the local-market-seeking subsidiary may lead to divided engagement that renders subsidiary performance unsatisfactory.*

As just mentioned, while I concur the development of the overall commitment to the MNE can be difficult (García-Cabrera & García-Soto, 2012), the opportunism assumption is not necessary here. I found that the use of external hires, due to its high charged nature (Finkelstein et al., 2009), can increase, not decrease, the vigilance of the MNE decision makers. Because new beginnings are powerful incentives to establish or change the way work is accomplished (Feldman, 2000), MNE decision makers tend to pay more attention to the new-comer, which

have a characteristic of higher-level learning (Saka-Helmhout, 2010). For instance, as noted by the corporate affairs manager of Paper B: *“The predecessor had a huge pressure to deliver the budget under the (daily) supervision of the president.”* At the same time, without local political coalitions in place, the subsidiary employees would also function as monitoring apparatus, providing “credible information” about the new-comer (Rousseau et al., 1998). As the corporate communication manager of Paper explained, *“There are many monitoring apparatuses around the external hire. Sometimes, when the GM said something to his subordinates, the subordinates would immediately send emails to the president...Even the secretary is not his guy.”* In this case, therefore, pursuing self-interest with guile is hard for the outsider HCN GM (Eisenhardt, 1989c).

Although the opportunism here is curbed, however, some outsider HCN GMs still do not always perform to the expectations of the MNEs due to role ambiguity. For example, the corporate affairs manager of Paper B noted: *“The predecessor was focused too much on financial numbers, resulting in problems on customers’ end and on our ends...Although the company only started operation since 2012, and it started to be profitable since 2013. The president’s expectation was higher than the real performance...This is an important market.”* The director of Paper explained the president’s expectation to us, *“Our president hopes they exhausted all possible paths to grow...This is our culture.”* Somewhat similar evidence was given by the deputy GM of Electronics A: *“The GM is too much detail-oriented, which inevitability hinders him to engage in holistic strategic thinking. He is from a very centralized MNE, which is different from ours...I hope he can be a business owner, not a manager.”* The interview data showed that these outsider HCN subsidiary GMs kept following the contractual norms to develop local business, and both Paper B and Electronics A returned to profitability, which demonstrated the GMs’ proven capabilities (and thus no adverse selection). But role ambiguity

can eventually lead to the subsidiary GMs' unilateral commitment to the subsidiary and lack of commitment to the MNE as a whole (Gregersen & Black, 1992). As a result, though absent opportunism, their efforts may gradually deviate from the MNEs' overall goals. Along with a prolonged exposure to the MNE's overall setting, a poor person–organization fit would start to surface.

### **Economizing Mechanism: Ex Ante Socialization**

Meanwhile, there are some externally hired HCN GMs in the data striving to resolve the divided engagement issue. Taking GM 2 of Water C as an example, he told me, *“As a GM, sometimes you have to make a decision that might not be the best for your subsidiary. It’s a decision made by the HQs. You have to balance that.”* I found that the divided engagement issue is effectively addressed in MNEs where both the MNE decision makers make an effort to socialize ex ante the appropriate HCN candidate into the corporate culture<sup>11</sup>, and the subsidiary GM candidate also mindfully searched for the person-organization fit *before* joining the subsidiary. As noted by DeOrtentiis et al. (2018), in addition to skills and abilities, the person–organization fit is also based on the match between what the candidate values and what the values of the organization are perceived to be. My data mirror the value-match supposition here. For example, GM 4 in Agriculture A pointed out that the specific values of the organization he was looking for prior to joining the subsidiary include *“integrity”*, *“customer centricity”*, and *“partnership”*. The data, therefore, suggest that effective socialization can take place prior to successions, which is inconsistent with the assumption that it only marks the beginning of socialization when the subsidiary GM is hired (Moreland & Levine, 2002). I call this BRel

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<sup>11</sup> In this essay, the meaning of the term corporate culture includes both organizational climate and organizational culture, given that the differences between these two constructs are quite small (Fey & Beamish, 2000). Therefore, corporate culture here is both value-oriented and practice oriented. This is also consistent with how the informants in this study use the term corporate culture.

economizing mechanism ex ante socialization. In formal terms,

***Proposition 4:*** *Ex ante socialization enables the externally hired HCN GM successors in local-market-seeking subsidiaries to reduce the likelihood of divided engagement.*

Table 13 summarizes this study's evidence on the link between ex ante socialization (or lack thereof) and the outsider HCN subsidiary GM successor's divided engagement.



**Table 13: External HCNs, Divided Engagement, and Ex Ante Socialization**

Subsidiary	Successor	Replication	Successor Type	Subsidiary Performance	Divided Engagement	Economizing Mechanism	Examples
Water C	GM 2	Theoretical	Outsider HCN	Satisfactory	No	Ex Ante Socialization	Subsidiary GM: "I worked as a customer of this company for many years, so I know them...I had several conversations with those who work in this company in order to gain more insiders' views. The company then flew me to Israel. I spent almost three full days being interviewed." Regional CEO: "Socialization is important because of trust. Teaching him about the company (ex post) is hard."
Agriculture A	GM 3	Literal	Outsider HCN	Not Satisfactory	Yes	Ex Ante Socialization	Subsidiary GM: "Israeli companies are innovative... entrepreneurial... Her strategy is to stabilize the business only... Our new Regional CEO thought she couldn't make any changes." Previous Regional CEO: "She did not have much experience in (this field). But she had worked for me for some time in another firm and was familiar with the culture."
	GM 4	Theoretical	Outsider HCN	Satisfactory	No	Ex Ante Socialization	Subsidiary GM: "My boss who used to be the GM of (another MNE) joined this MNE as the VP International and then Asian Region President. I identified with him a lot as we worked together for many years. He invited me to join this subsidiary... The MNE's culture is similar to that of MNEs where I worked before." Director: "Many people know who you are today, you cannot make up a story."
Agriculture B	GM 5	Theoretical	Outsider HCN	Satisfactory	No	Ex Ante Socialization	

Paper A	GM 13	Literal	Outsider HCN	Not satisfactory	Yes	None	Corporate Communication Manager: "He has a great ambition...But nothing has been changed, we have our own ways of doing things...After two months, he was fired."
Paper B	GM 1	Literal	Outsider HCN	Not satisfactory	Yes	None	Corporate Affairs Manager: "The predecessor was focused too much on numbers, leading to problems on both customers' end and our end. He had a huge pressure to deliver the budget under the supervision of the president, and thus being very risk-averse...Although the company only started operation since 2012, and it started to be profitable since 2013, the president's expectation was higher than the real performance...This is an important market." Director: "Only profitability is not enough, sometimes 50% profit margin is not good enough...Our president wants to know whether you have tried all possible solutions and exhausted all possible paths to grow."
Electronics A	GM 4	Literal	Outsider HCN	Not satisfactory	Yes	Acculturation	Deputy GM: "The incumbent GM worked in the previous company for over 30 years...He said that he had difficulties in adjusting his mindset to suit our culture."
Compared Subsidiary 1	GM 2	Theoretical	Outsider HCN	Satisfactory	No	Ex Ante Socialization	HR Manager: "We did lots of evaluations regarding the person-organization fit, especially the match of values, such as integrity and corporate culture...Our MNE has many things similar to the MNE for which he has worked since graduation."

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As shown in Table 13, I found that most of the subsidiary successors can avoid the divided engagement problem if they have gone through an ex ante socialization process before joining the subsidiary. As GM 2 of Water C noted, *“Don’t marry right away...I worked as a customer of this company for many years, so I know them...Before joining (Water) I had several conversations with those who work in this company in order to gain more insider views. The company then flew me to Israel. I spent almost three full days being interviewed.”* The same “deep interview” is also found in Agriculture B’s hiring process of GM 5. I thus concluded that economizing on this facet of BRel leads to the alignment of expectations and in turn, increases goal clarity and buy-in from the parties involved (Verbeke & Greidanus, 2009). As noted by Kano and Verbeke (2015), the clear perceptions of “who they are and what they stand for” are a strong factor in the managers’ commitment to organizational action.

Moreover, once the relational foundation is in place, the open and transparent communications between the outsider HCN subsidiary GM and the MNE decision makers will be more likely to occur, when can in turn reduce the uncertainty about the way in which future contingencies will be addressed. O'Donnell (2000) viewed this as a vertical integrating mechanism. As GM 2 of Water C noted, *“I communicate everything in a very transparent manner to the HQs... Informing doesn’t mean you are controlling...Don’t call only when you have a problem, but inform when you have good news.”* Somewhat similar evidence was given by the informant from Agriculture A, *“I develop sales according to the corporate’s overall goal. I maintain this good relationship through open and honest communications with the HQs... and never cover up problems. My boss also tells me every day what he heard. Trust and confidence are the foundation here.”* On this basis, I see ex ante socialization as an antecedent of the effective vertical integration, leading to satisfactory subsidiary performance.

Only one GM successor in my data (i.e., GM 4 in Electronics A) went through an ex post acculturation process through cultural conflict management training. However, although the Regional CEO thought the acculturation process works, the deputy GM who works closely with the successor told us: *“It is difficult to change his mindset.”* In the follow-on interview, this informant further noted, *“The on-the-job training doesn’t work.”* I view this as symptomatic of genuine difficulties in culture unlearning (Kano & Verbeke, 2015). In combination, the foregoing discussion thus suggests that organizational cultures are not only shaped essentially through an internal process (Johns, 2006), they can also be similar across MNEs. Therefore, subsidiary GM candidates can proactively choose the one which suits them the best, and thus avoiding the tenuous cultural unlearning process. It also allows the MNE to choose the candidates who are “hyper-normal” towards its organizational culture (Caprar, 2011).

One exception is the GM 3 of Agriculture A. She had gone through an ex ante socialization process and developed close social ties to the previous Regional CEO before working for Agriculture A. In the first several years, her performance was also fairly satisfactory. However, after the new Regional CEO took office, the organizational culture changed significantly. The incumbent subsidiary GM from Agriculture A said: *“Israeli companies are innovative and entrepreneurial...Her strategy, however, is to stabilize the subsidiary business only...Our new Regional CEO thought she could not make any changes.”* Based on this anomaly, I can conclude that: first, culture unlearning is indeed difficult; and second, a boundary condition of my theory is that ex ante socialization may only work when the corporate culture itself is relatively stable. The HR manager of the compared subsidiary 1 told me the similar strategy her company adopted, further corroborating the validity of Proposition 4. Specifically, she emphasized the importance of culture fit, and told me that the candidate also indicated that the company’s culture

is very similar to that of his previous employer.

### **Expatriated PCNs and Right-Minded Regression**

Many MNEs tend to expatriate PCN GMs to manage their foreign subsidiaries (Tungli & Peiperl, 2009), and it seems to still be the case today, as evidenced by the informant who was a global leadership expert. Indeed, there exist some advantages of appointing PCN subsidiary GMs. As mentioned earlier, PCNs might be closer to headquarters (Michailova et al., 2016), and know more about the MNE's culture (Tarique et al., 2006). Their identification with the MNE decision makers can therefore be stronger, reducing their willingness to engage in ex post opportunism. Also, given that local-market-seeking-subsidaries need more resource support from the MNEs to overcome the liabilities of foreignness (Lee, Chung, & Beamish, 2019), using PCN GMs would allow the subsidiary to better access the needed resources to further capitalize on the performance-enhancing potential of the market-seeking strategy.

But existing studies also hold that PCNs are associated with a higher failure rate (Harvey & Moeller, 2009). When using PCNs, strategic planning often fails at the operational level (Collings et al., 2007). To add another level of uncertainty, my data showed that while expatriating PCN subsidiary GMs can curb ex post opportunism, this strategy may beget a new facet of BRel, which can ultimately reduce the subsidiary GM's local market expansion capabilities. Specifically, I found that some PCN subsidiary GMs, albeit well-intentioned, have a strong attachment to existing practices. As a result, they tend to not delegate authority to the local managers, hindering market knowledge acquisition which is the corner stone of successful internationalization, and leading to unsatisfactory subsidiary performance. Neeley and Reiche (2020) revealed a somewhat similar case that some global leaders from HQs are directive such that they tend to apply a standard approach and maintain a previously proven leadership style.

Kano and Verbeke (2015) term this expression of BRel right-minded regression (i.e., the tendency to surrender to the force of old habit). In formal terms,

***Proposition 5:*** *Expatriating a PCN subsidiary GM successor to the local-market-seeking subsidiary may lead to right-minded regression that renders subsidiary performance unsatisfactory.*

For example, in Water A, the Regional CEO said: *“I had to ask the GM to dedicate authority to segment managers, but it took three years for him to realize the change.”* This Regional CEO thought the subsidiary GM was not *“confident enough”* (though in good faith) in making changes. Similarly, as the corporate communication manager of Paper noted, *“When the local guy tried to explain it to them, the GMs only used their own way of thinking to understand the local situation.”* Somewhat similar evidence is found in Agriculture B, as the informant explained, *“The (PCN) GM was dreaming crazy...I didn’t get access to this guy...He was thinking at a very high level, he was not moving down.”*

An alternative explanation is that the foregoing behaviors of the PCN subsidiary GMs might be conceived of as *moral hazard* due to the different goals in the pursuit of self-interests and the information asymmetry (Hölmstrom, 1979). Thus opportunism might be the underlying micro-foundation. I was also told by the informant from one compared subsidiary (of a US MNE) that some PCN GMs in his subsidiary did behave opportunistically, because the length of their assignment was only two to three years, so they spent *“half of the time in planning to return home.”* This seems in line with Tung’s (1988) observations on some US MNEs. Most of my observations here, however, suggest that the PCN subsidiary GMs, on the contrary, are fully committed to their work in the subsidiary, challenging the moral hazard assumption. It thus seems that the GMs’ subsidiary identification in the present context, same as that of expatriated

HCNs, is nested within the MNE, rendering role conflicts (and thus opportunism) less likely. But the right-minded regression still renders these GMs ill-equipped to make accurate *implementation* plans that fit the host country specificities, despite the fact that their business strategy might be appropriate (Vance, Vaiman, & Andersen, 2009). Bringing to light the accurate micro-foundation is important in that opportunism and right-minded regression would need different remedies.

The evidence I collected from the additional interviews with the informants of the compared subsidiaries further bolstered the inference. For example, the sales manager from the compared subsidiary 3 said: *“(PCN) GMs don’t listen, they put the requests from the HQs to the local team...They do not take the local situation into consideration...There are seemingly two systems running in parallel, the Chinese versus the Korean.”* Regression may also lead to a slow decision-making process. As the sales manager of the compared subsidiary 11 explained, *“(The PCN GM) lacks the sense of safety and intervenes too much and the result is that no one in the subsidiary would like to make decisions, because they know it is only the boss who makes the decision, it is too inefficient.”*

### **Economizing Mechanism: Balanced Local Empowerment**

At the same time, however, the interviews showed that there are also PCN subsidiary GMs who effectively turned around the subsidiary’s poor performance (e.g., GM 2 of Electronics B and GM 2 of Water B) and who achieved a fast growth in local sales (GM 3 of Electronics B). I concluded, as the data suggested, that a universal safeguard enacted by these GMs to address right-minded regression was that these PCN subsidiary GMs were willing to delegate power to local managers to develop business while balancing hierarchy and flexibility. Here, delegation is a process whereby the PCN GM transfers the decision-making authority to the subordinates in

the subsidiary (Leana, 1987), but in a controlled and dynamic manner. Indeed, the downward deference model formulated by Neely and Reiche (2020) suggested that novelty and unfamiliarity of the host country context can motivate people with hierarchical power to improve their perception of those in lower ranks to lead the charge locally. However, as the deputy GM (who is a PCN) of Electronics A summarized, “*After you immersed yourself into the local context for a while, you would then know that not everything the local team said is correct.*” Given that the inherent function of the expatriated GM is to give strategic direction on behalf of the HQs, therefore, one Regional CEO of Electronics told us, “*The level of delegation has to be appropriate.*” As such, my model departs from the downward deference model by accounting for the effect of the dynamic change of the PCN GM’s local-knowledge base on the level of delegation. I call this BRel economizing mechanism *balanced local empowerment*. Formally,

***Proposition 6:*** *Balanced local empowerment enables the PCN subsidiary GM successors in local-market-seeking subsidiaries to reduce the likelihood of right-minded regression.*

Table 14 shows this study’s evidence on the link between balanced local empowerment (or lack thereof) and the PCN subsidiary GM successor’s ability to economize on right-minded regression.



**Table 14: PCNs, Right-Minded Regression, and Balanced Local Empowerment**

Subsidiary	Successor	Replication	Successor Type	Subsidiary Performance	Right-Minded Regression	Economizing Mechanism	Examples
Water A	GM 1	Literal	PCNs	Not satisfactory	Yes	None	Regional CEO: "The subsidiary in China was very slow...I had to ask the GM to dedicate authority to segment managers, but it took three years for him to realize the change."
	GM 2	Theoretical	PCNs	Satisfactory	No	Empowerment	Subsidiary GM: "I promoted synergy among different segments...you should have people in place and give them more autonomy. I have a different perception about how the firm works from the predecessor."
Water B	GM 2	Theoretical	PCNs	Satisfactory	No	Empowerment	Subsidiary GM: "I need someone who really knows the market...I plan to appoint my subordinate (an India) to be my successor."
Electronics B	GM 3	Theoretical	PCNs	Satisfactory	No	Empowerment	Regional CEO: "At the end of day, it is a team work...we have strong incentives to motivate the local people...Don't doubt the man you use."
Compared Subsidiary 3	n.a.	Literal	PCNs	Not satisfactory	Yes	None	Sales Manager: "Sometimes the (PCN) GMs don't listen, they only put the requests from HQs to the local team...Sometimes expatriate GMs do not take the local situation into consideration...There are seemingly two systems running in parallel, the Chinese versus the Korean."

Compared Subsidiary 4	GM 2	Literal	PCNs	Not satisfactory	Yes	None	Incumbent Subsidiary GM: "He was hard to read... He chose not to side with the Chinese team."
Compared Subsidiary 9	GM 2	Theoretical	PCNs	Satisfactory	No	Empowerment	Subsidiary CFO: "In order to achieve localization, we use a local sales manager who report to the GM."
Compared Subsidiary 10	GM 1	Theoretical	PCNs	Satisfactory	No	Empowerment	Subsidiary GM: "My solution is to rely on my 'right' hand, Yu (local employee), to bridge the (cultural) gap."

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It is straightforward that the HCN employees are more locally embedded. Relative to the PCN subsidiary GMs, they have spent more time in the host country and know the language and culture. Therefore, they have more accurate information upon which to base sound business decisions and are more able to harnesses local-market-seeking opportunities (Chung et al., 2015). In support of this view, the subsidiary GM of Water B who is an Israeli told us: *“I cannot say that I knew everything...We are an ‘Indian’ Company...We are taking projects in a way that is not common in Israel...So you cannot 100% control. You only need to control the bigger picture.”* More importantly, this approach also motivated local managers to put in effort to localize the operations. Tight control normally signals a lack of adequate trust (Inkpen & Currall, 2004; Rousseau et al., 1998). In contrast, delegating the authority to the employees demonstrates the PCN GM’s belief in the positive intensions and trustworthiness of these employees (Leana, 1987), which will in turn enhance the employees’ commitment to the subsidiary. This is consistent with the basic thesis of Vroom and Jago (1988) that under certain circumstances delegation will allow managers to gain both more information and increased support from the subordinates.

Indeed, Luo (2003) stressed that in market-seeking subsidiaries, local managers do not want unnecessary levels of control. To be innovative, adaptive, and entrepreneurial, local managers need to be motivated. This also explains why GM 3 of Electronics B relies heavily on incentives to motivate the local managers in order to nourish operations in the host country. Empowerment here is conceived of as an incentive. The informant noted: *“At the end of the day, it is a team work...Don’t doubt the man you use.”* This point is also corroborated by the GM successor of the informant. *“Empowerment will motivate them. This is very critical, because they do not want to be a passive implementor. They want to have a bit of creativity...If I tightly*

*control everything, I will be worn out. They will be worn out as well (laugh).*” In this regard, then, the local empowerment should not be simply viewed as (normative and structural) means of allocating jobs. It is a trust building and motivating process based on interactive dynamics. This mechanism is, to a certain extent, personal and informal. Furthermore, Gregersen and Black (1992) found that such interactive dynamics can then further increase the PCN managers’ sense of dual citizenship. The interview data echo this argument.

However, local empowerment in the present context does not suggest that the flexibility is unchecked and the general usefulness of a hierarchy is dismissed (cf. Neeley & Reiche, 2020). On the surface, control and empowerment might seem to conflict. But the interview data show that the PCN subsidiary GMs take efforts to ensure that the local team’s work accord with the organizational requirement. As evidenced by the following quote from the GM of Water B, *“We need to put some limitations and follow some corporate standards...We need to show our management that we are able to collect the money back. It is an accumulated experience. We made some mistakes in the beginning.”* The incumbent GM of Electronics B (who was expatriated to the host country since 2007) put it this way, *“Empowerment only occurs within the established rules, which I established together with the local team. For example, before signing a contract with distributor, we have to communicate thoroughly internally what the targeted goal and the rebate level are. Within this frame then, I just let them have the power to make their own decisions.”* In this sense, local empowerment here mirrors the notion of *dynamic delegation* such that GMs relinquish possession of the baton to the subordinates, but they are likely to stay at arm’s length from possession of the baton (Klein, Ziegert, Knight, & Xiao, 2006). Indeed, in Electronics A, the deputy GM told us, *“We use to have full delegation here in Europe, but now we are taking back some control.”* But different from dynamic delegation where leaders

withdraw delegation when based on their expertise, they perceive the magnitude of errors that the subordinates might commit is too great, my interview data suggest that PCN subsidiary GMs take back some control when their understanding of the local situation improves.

In my interview data, there is only one PCN (i.e., GM 2 of Water A) who is not an expatriate (as he was hired in the host country labor market). This GM, however, also emphasized the importance of local empowerment, even though he has been in China for 12 years. This GM summarized: *“I never say I know everything about China. Every day you encounter something new.”* I also found the similar local empowerment mechanism adopted in the compared subsidiaries 9 and 10. Specifically, the PCN GM of the subsidiary 10 who had stayed in China for over nine years told us, *“I will always be a foreigner there and I know it.”* This mind-set explains why he would be willing to rely on his local subordinate to enhance the subsidiary’s responsiveness, and thus further bolstering the inference.

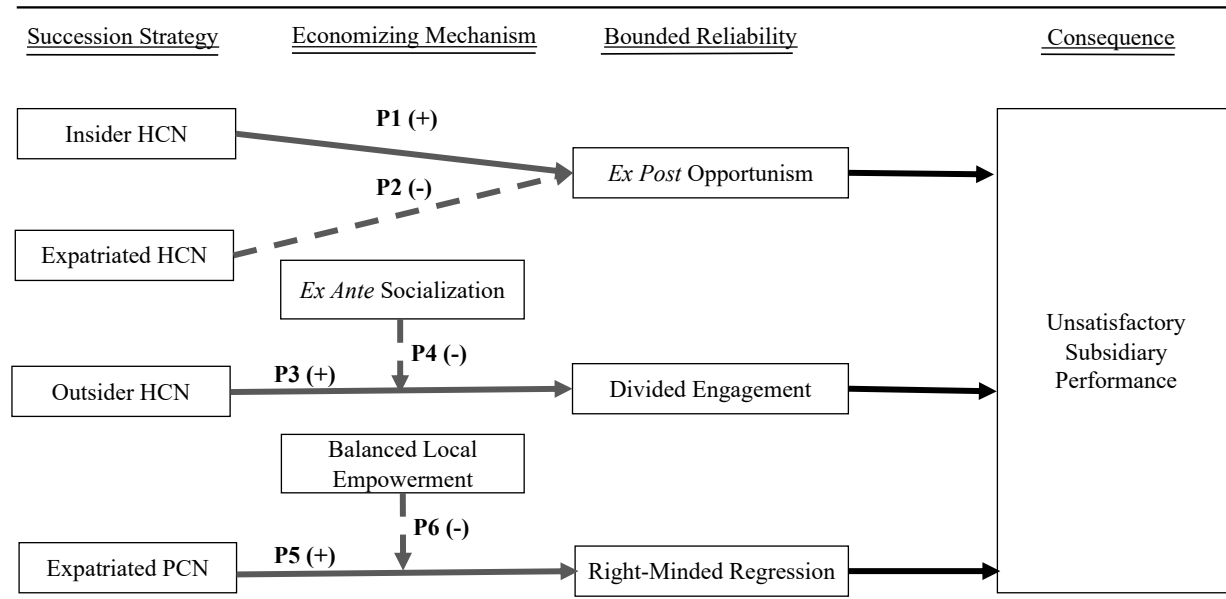
## DISCUSSION

I re-examined the roles of subsidiary GMs, which are often oversimplified or obscured by GMs’ nationalities (Meyer et al., 2020). In-depth queries of rich data afforded me a well-integrated understanding of how subsidiary GM succession decision making unfolds within a set of MNEs. In this process, to use McNulty and Brewster’s (2017) phrasing, I disrupted the assumptions of the “nationality” paradigm by elaborating a nuanced categorization of subsidiary GM successors. The essential point made in this paper is that the origin of the subsidiary GM successors has both subtle and powerful effects on the efficacy of the nationality-based strategy.

This paper contributes to the strategic leadership literature as well. Anchoring the origin-based succession strategy in the setting of foreign subsidiaries enabled me to shed additional lights on the nature and the consequences of successor origin. The insider/outsider terminology

alone is overly simplistic to inform subsidiary GM successions. When lacking theoretical nuances, they may yield misleading prescriptions for behavioral strategy in specific contexts. I offered alternative ways of looking at the successor origin issue and provided unexpected insights. Promoting from within the subsidiary does not strictly determine a priori whether the new GM will act in the best interests of the subsidiary or the MNE as a whole. On the other hand, using outsider candidates does not necessarily lead to information asymmetry and agency problem. I thus conclude that to more fully explain the implications of successor origin, a dynamic and integrative perspective is warranted.

As illustrated in Figure 2, I used the empirical observations, formulated as Propositions 1 to 6, to develop a micro-foundational model that maps how the BRel and the economizing mechanisms link the subsidiary GM succession strategies to subsidiary performance. By using an improved categorization scheme, this model can account for both the empirical anomalies identified here *and* the prior associations of attributes (i.e., successor nationality *or* origin) and organizational outcomes. As a result, it can thus augment theoretical predictions and pluralism.

**Figure 2: The Model of Subsidiary GM Successions and Effectiveness**

This study responds to the calls for incorporating the nationality of the subsidiary GM into the conceptualization of dual identification and the calls for exploring the negative consequences of dual identification (Vora et al., 2007). In contrast with generally tenable inferences, my data “reversed the signs” (Johns, 2006) and demonstrated that appointing HCN GM successors is not always the best strategy for local-market-seeking subsidiaries. Because trust can have a dark side, which will reduce the alertness needed (Anderson & Jap, 2005), and because dual identification may open up opportunities for role stress in the face of conflicting goals, which can in turn reduce the subsidiary GMs’ sense of affiliation to both the MNE and the subsidiary (Vora et al., 2007), it is likely that some insider HCN subsidiary GM successors are both able and willing to leverage their local knowledge and social ties to pursue self-interest with deceitfulness after they take office. Ex post opportunism, therefore, may ultimately arise and lead to unsatisfactory subsidiary performance.

Meanwhile, while I concur that agency and transaction costs minimization can play an

important role in influencing the international staffing decision (Tan & Mahoney, 2006), I found that opportunism in the present context is a situational occurrence (Lumineau & Verbeke, 2016). To economize on opportunism, some MNE decision makers expatriated HCN subsidiary GMs from within the MNE but outside the subsidiary. These expatriated GMs did not tend to spend less time with local people (c.f March, 1992). In contrast, they can simultaneously realize dual identification while being equipped with a sufficient level of local knowledge to improve the subsidiary's local responsiveness. This finding thus calls into the question the argument that those GMs whose talent most fits the position might also be the ones that the MNE will incur substantial costs in controlling their behaviour (Tan & Mahoney, 2006).

But expatriated HCN GM candidates as such are not always readily available. The more common approaches identified here are that MNE decision makers deploy outsider HCN subsidiary GMs or use PCN subsidiary GMs, both of which can also effectively limit ex post opportunism. However, the interview data revealed that these succession strategies would entail new facets of BRel. To address divided the engagement problem, Proposition 5 suggests the use of ex ante socialization. Although prior studies showed that ex post acculturation may also nurture common identity, the empirical reality here suggested a dynamic view, highlighting the importance of socialization timing, *inter alia*, in the face of difficulties in cultural unlearning. I thus extend the work of Caprar (2011) by adding that cultural alteration of the HCNs can occur prior to the successions.

To economize on right-minded regression, on the other hand, Proposition 6 suggests the use of balanced local empowerment. This is consistent with the instrumental understanding of downward deference (Neeley & Reiche, 2020) and underscores the notion that local flexibility is needed in order to motivate local managers to harnesses local-market-seeking opportunities



(Luo, 2003). But I add to these views by revealing that, at least for PCN GMs in local-market-subsidaries of manufacturing MNEs, local empowerment does not suggest that the flexibility is unconstrained and hierarchy is disregarded. The expatriated PCN GMs, due to their lack of local knowledge, tend to rely on the local team. However, they also need to ensure that the local operation is in line with the MNE's overall goal. The effective solution, thus, seems to be a hybrid mechanism consisting of both delegation and control, which enhances flexibility, allows for small errors, while providing sufficient order.

In sum, both safeguards mentioned above are interpersonal processes, facilitating cooperative and open relationships. These revealed safeguards comply with the core tenet of evolutionary theory that the goal of the MNE is to develop a harmonious social community (Kogut & Zander, 1993). By showing a positive strategic value derived from dual commitments (Gregersen & Black, 1992), we empirically corroborate the argument of O'Donnell (2000) that the design of organizational control system should be more involved than the limited solutions prescribed by agency theory.

The foregoing efforts to equip theory with managerial relevance also allow me to address the call by Kano and Verbeke (2015) to examine the various expressions of BRel in large MNEs, focusing on both their antecedents and consequences. In so doing, I corroborated the value of BRel as a standard micro-foundation in international management research. More deeply, the analysis made a strong case for the need to consider the different facets of BRel in an integrated manner, because the strategy to address one BRel challenge may inadvertently lead to another BRel challenge.

### **Limitations and Future Research Opportunities**

To continue this endeavor of micro-foundational theorizing (Foss & Pedersen, 2019), it

would be fruitful to further add nuance to the model formulated here. One possible direction is to draw a clear distinction between relay and non-relay succession (Zhang & Rajagopalan, 2004), as it may engender different bases of subsidiary GM power, and different social ties of the subsidiary GM. Also, future research could incorporate the missions of the expatriated subsidiary GMs. Not all expatriate assignments are the same (Caligiuri & Bonache, 2016). Some expatriates represent the long arm of the headquarters, whereas others build informal communication networks or transfer organizational culture (Harzing, 2001; Nohria & Ghoshal, 1997). Some expatriates are selected for postings, while others are self-initiated (Cerdin & Selmer, 2014; Suutari & Brewster, 2000). The duration of international assignments can also vary (Starr & Currie, 2009), which may influence the BRel of the subsidiary GMs. Relatedly, future research can also investigate other facets of BRel, thus extending the model formulated here.

Given the absence of inpatriates in the data, another promising research avenue would be to investigate whether being an inpatriate can moderate the effect of being an insider HCN subsidiary GM on subsidiary performance. As inpatriates are more likely to develop a global mindset (Harvey, Speier, & Novicevic, 1999), and some MNEs use inpatriation to develop subsidiary managers (Tharenou & Harvey, 2006), it seems likely that when inpatriates return to the host country, they can undertake both localization and integration more effectively (Sarabi, Froese, & Hamori, 2017) and develop the strong sense of dual identification quickly (Vora et al., 2007). This line of reasoning may also apply to returnees, who have gone abroad to study or work, then return to their home country (Roberts & Beamish, 2017). Therefore, I hope future research can add meaningful observations to our model by exploring whether ex post opportunism would still arise in those cases. Also, it would be fruitful to further explore the specific economizing mechanisms applied by outsider HCNs.

Meanwhile, as the subsidiary GM successor's personality characteristics, can also affect the MNE's decision to "buy versus make" global leaders (Caligiuri, 2006), future research on this topic could explore how successors' personality traits moderate the relationships I formulated. Finally, and at a more macro-level, for a better alignment between management practices and academic descriptions, future studies can account for the environmental forces that moderate the factors underlying my model. Contingencies in this regard may include national cultures (Toh & DeNisi, 2003), institutions (Tao, Liu, Gao, & Xia, 2018), economy (Sonkova, 2015), and environmental turbulence (Williams et al., 2017).

### **Managerial Implications**

This study provides several implications for practitioners. First, although it seems unwise to play down the talents of insiders (Mellahi & Collings, 2010), I caution against the use of insider HCN subsidiary GM successors as a way of fully achieving the subsidiary's local-market-seeking role. In the middle of the dual identification development process, the insider HCN subsidiary GM successors may be pulled in two directions, thus losing the sense of affiliation to both entities. This can be problematic. A remedy is to expatriate an HCN GM, who is equally capable yet may behave less opportunistically. The challenge for MNE decision makers then becomes building a cadre of such competent talents. This is exactly what Water is doing nowadays.

Second, given that "competition for global leaders to manage overseas operations will steadily intensify" (Collings et al., 2007: 201), and that individuals are often reluctant to relocate internationally (Minbaeva & Collings, 2013), spotting external talent in the host country makes good business sense. This is also a timely solution, considering that the COVID-19 pandemic renders sending managers on international assignments even more difficult (Caligiuri, De Cieri,

Minbaeva, Verbeke, & Zimmermann, 2020). However, it is critical to ensure the common goals that chart the course have already been in place when the outsider HCN GM takes office. Such appropriate antecedent conditions, enabled by trusting, prior interactions, seem more germane than on-the-job acculturation. To that end, patience is crucial, as stressed by two Regional CEOs in the interview data, *“Don’t make the choice under pressure.”*

Third, while I concur that PCN assignment contains control elements (Collings et al., 2009; Harzing, 2001), these managers might, though absent opportunism, surrender to the force of their old habit, thus exerting unnecessary levels of control or even interference to local managers. This approach can generate rigidity (García-Cabrera & García-Soto, 2012). In contrast, encouraging the PCN GMs in a hierarchical bureaucracy to proactively delegate authority to the local managers will have a profound effect on motivating the local managers.

## CONCLUSION

Grounded in both the extant literature and a qualitative inquiry, this essay developed a model of local-market-seeking subsidiary GM successions and effectiveness. The central message from my study is that we need to consider in an integrated way the choice of GM successors which has been studied by separate paradigms. The results underscored the continuing relevance of contingency models of GM successions. Delving into the micro-foundations, I concluded that effective GM successors for local-market-seeking subsidiaries need to be able to simultaneously address various facets of BRel. I delineated several safeguards that can enable these subsidiary GM successors to reduce BRel. If the propositions formulated in this study can survive future empirical tests, they can be viewed as a major step forward in our understanding of the choices of subsidiary GM successors.

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## CHAPTER 5: GENERAL CONCLUSION

While a sizeable body of work on subsidiary staffing exists within international management (e.g., Delios & Björkman, 2000; Fang, Jiang, Makino, & Beamish, 2010; Gaur, Delios, & Singh, 2007; Gong, 2003; Tarique, Schuler, & Gong, 2006), there is a paucity of theoretical and empirical research on subsidiary GM changes (For exceptions, see Bebenroth & Froese, 2020; Pitcher, Chreim, & Kisfalvi, 2000; Selmer & de Leon, 1997; Selmer & Luk, 1995). The lack of scholarly attention on this topic is unfortunate, because GM succession potentially strongly impacts subsidiary outcomes (Colakoglu, Tarique, & Caligiuri, 2009). This dissertation, aiming to meet the dual hurdles of relevance and rigor (Van de Ven, 2007), provides a systematic understanding of subsidiary GM successions, by examining multiple subsidiary GM changes, individual succession events, and micro-level succession decision making processes. This undertaking is not only theoretically important, but also relevant and timely to practitioners, because today the risk of selecting the wrong manager is greater than any time in the past (Donatiello, Larcker, & Tayan, 2018) and the COVID-19 pandemic adds additional complexities to subsidiary GM deployment (Caligiuri, De Cieri, Minbaeva, Verbeke, & Zimmermann, 2020).

Essay 1 applies evolutionary theory (Kogut & Zander, 1993, 1995, 1996, 2003) in the context of subsidiary GM changes, and thus extends received theory in fruitful ways (Makadok, Burton, & Barney, 2018). This essay also brings to the fore the parenting role of MNEs, which seems arguably more or less absent in evolutionary theory (Forsgren, 2017; Foss & Pedersen, 2019). As a result, Essay 1 further enhances evolutionary theory's relevance to practice. More importantly, I show that evolutionary theory can be used to address the inconsistencies in the extant succession literature. On this basis, I develop a temporal model that investigates long-term issues in subsidiary GM staffing, and advance the extant research on foreign subsidiary GM

staffing (e.g., Harzing, 2001a; Peng & Beamish, 2007; Schotter & Beamish, 2011) towards a dynamic perspective. Essay 1 develops a process-based theory that links individuals in leadership with various subsidiary-level outcomes (Meyer, Li, & Schotter, 2020). To the best of my knowledge this is among the first studies to theoretically and empirically investigate the longitudinal dynamics of subsidiary GM changes, thus improving our knowledge of the broader succession process (Berns & Klärner, 2017).

While Essay 1 explores the *continual* GM change *within* the organization, Essay 2 complements Essay 1 by accounting for the *individual* triggering event that is likely to set the path-building process in motion (Sydow, Schreyögg, & Koch, 2009) and by showing that *both* the internal structure of organizations and the external environment can influence organizational decision making (Argote & Greve, 2007) in relation to GM successions. Essay 2 provides a fresh look at the relationship between subsidiary performance and subsidiary GM succession. I challenge the performance–power–succession model (Drazin & Rao, 1999), which has been developed in a domestic setting, by demonstrating the intriguing double effect of strategic configurations. Therefore, Essay 2 advances theory by using an alternative explanatory mechanism (Roth & Kostova, 2003) to explain more fully the subsidiary performance–GM succession association in the unique context of MNEs. Also, I address the call to theoretically and empirically investigate the issue of negative headquarters attention (Bouquet & Birkinshaw, 2008). Furthermore, by using temporal progressions of activities as elements of explanation (Langley, Smallman, Tsoukas, & Van de Ven, 2013), Essay 2 empirically shows that how this negative headquarters intervention can turn an ailing subsidiary around.

Essay 3 complements Essays 1 and 2 by providing detailed descriptions of succession decision making. I develop a micro-foundational model of local-market-seeking subsidiary GM

successions and effectiveness. The findings challenge the argument that those GMs whose talent most fits the position might also be the ones that the MNE will incur substantial costs in controlling their behaviour (Tan & Mahoney, 2006). Focusing on micro-processes enables me to move away from the narrow category of expatriate managers to a more differentiated categorization (De Cieri, Cox, & Fenwick, 2007) and to re-examine the roles of subsidiary GMs, which are often oversimplified or obscured by GMs' nationalities (Meyer et al., 2020). I show that it is useful to consider in an integrated manner the choice of GM successors, which has been studied by parallel research domains (IM and strategic leadership) (e.g., Chung, Park, Lee, & Kim, 2015; DeOrtentiis, Iddekinge, Ployhart, & Heetderks, 2018; Finkelstein, Hambrick, & Cannella, 2009). Also, I address the call by Kano and Verbeke (2015) to examine the various expressions of BRel in large MNEs, focusing on both their antecedents and consequences. In so doing, I corroborate the value of BRel as a standard micro-foundation in IM research in general, and in succession research in particular. Moreover, I sharpen this micro-foundation by bringing to light the inter-links among the distinct facets of BRel, because the observations showed that the strategy to address one BRel challenge may inadvertently lead to another BRel challenge.

In sum, the dissertation generates important insights into subsidiary GM successions, and includes a number of timely implications for practitioners, which I have summarized at the end of each essay. My research advances theory in three ways. First, I use received theory within IM to address a new phenomenon. Second, I leverage the distinctiveness of MNEs and contexts to reconcile inconsistencies in the extant succession literature. And third, I contrast theories from separate paradigms to offer a more complete and accurate account of subsidiary GM successions. If the findings presented here can survive future empirical tests, this dissertation can be viewed as a major step forward in our understanding of subsidiary GM change.

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