GOVERNING HEADQUARTERS-SUBSIDIARIES RELATIONSHIP: AN AGENCY PERSPECTIVE

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Abstract

How multinational enterprises (MNEs) coordinate and control their geographically dispersed subunits is central to international management research (Kostova, Nell, & Hoenen, 2018). Our study adopts agency rationales to evaluate the effects of headquarters (HQs)–subsidiary convergence on the performance levels of the latter. Convergence within organizations relies to a large extent on controls that predicate a specific extent of alignment. In theory, the concept of alignment is seen as a valid proxy of agency intensity (Eisenhardt, 1989). Drawing on the supposition that MNEs are differentiated networks, where some subsidiaries continue to function in the traditional competence-exploiting role while others are competence-creating and augment the advantages of their home-base (Björkman, Barner-Rasmussen, & Li, 2004), alignment challenges can be manifested in six dimensions that define their strategic posture, span the organizational context and underly competitive imperatives: 1) subsidiary strategy, 2) culture, 3) governance practices, 4) financial decisions, 5) human resources, and 6) environmental activity. Drawing on a sample of 72 MNE foreign operations and gathering 254 responses from top management team (TMT) members, our results indicate that strategic, cultural, governance, and HR alignment are important determinants of subsidiary performance. However, whereas strategic, cultural, and governance convergence between HQs and subsidiaries are positively related to increased performance levels, an ethnocentric approach towards HR practices seems to trigger welfare losses.

Keywords: Governance of the MNE Network, Agency Theory, Subsidiary Performance, Dimensions of Alignment, Configuration of Operations

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1. INTRODUCTION

Anchored in the assumption of rationality and grounded upon the separation of ownership and control, agency theory stands out as one of the most influential paradigms in explaining different facets of business activity (Audretsch, Lehmann, & Plummer, 2009; Bendickson, Muldoon, Liguori, & Davis, 2016). In relevant conceptual and empirical investigations, the agency is typically contextualized as the relationship between one party, the principal, who designates certain tasks and decisions to another party, the agent (Mitchell & Meacheam, 2011) who is entrusted with certain privileges on the basis of mutual contractual agreements
Agency problems arise when these cooperating parties have contradicting interests and share different perceptions towards risk-taking (Fama & Jensen, 1983; Jensen & Meckling, 1976). Moral hazard, ineffective monitoring arrangements, and asymmetric information are seen as antecedents of the conflicts that occurred within the principal-agent relationship (Eisenhardt, 1985). While the ubiquity of agency phenomena for organizations is rather incontestable, adopting a monolithic perspective when attesting to their implications seems to lack in reliability, to the extent that agency theory applies differently in diverse contexts (Panda & Leepsa, 2017). To further precise, the effects of agency conflicts intensify for organizations characterized by a differentiated extent of decentralization and delegation of decision-making authority. The headquarters (HQs)-subsidiary relationships framing the multinational organization entail to a greater or lesser extent the above attributes, providing that subsidiaries (serving as agents) may develop diverging interests compared to those of HQs (acting as principals) (Faulk, 2019). Since subsidiaries are entities that may pursue their own interests, this goal incongruence can nurture undesirable behaviors on their behalf, such as manifestations of opportunistic behavior (Nohria & Ghoual, 1994). Therefore, multinational enterprises (MNEs) are subjected to agency conflicts that can significantly impact organizational outcomes (Kostova et al., 2018), with subsidiaries’ performance levels to stand out as one of the most important.

Drawing on this supposition, our research aims at entrenching a multidimensional approach for assessing agency issues in the study of MNEs. In particular, by proposing a unit-level research angle embraced by numerous scholars (Kim, Prescott, & Kim, 2003; Roth & O'Donnell, 1996), and by adopting an integrated conception of the organizational milieu, we seek to investigate the impact of different facets of HQs-subsidiary misalignment on the financial performance of the latter. While a bulk of studies have studied agency considerations in a multinational context, the significance of alignment in managing different dimensions of HQs-subsidiary relationships is relatively underdeveloped. In an opposite direction, Kostova et al. (2018) bring its importance into sharper focus, in a recent study that employs alignment as a proxy for agency intensity. In line with this backdrop, we posit that the diversity in subsidiaries’ roles and functions, and the heterogeneity of the marketplaces in which they operate (Evans, Pucik, & Björkman, 2011), call the multinational organization to consider the extent of alignment in fields that advance its strategic posture and bottom line. These relate to the competitive, organizational, and institutional complexity that surrounds subsidiary operations (Greenwood, Raynard, Kodeih, Micelotta, & Lounsbury, 2011; Kostova & Roth, 2003). We then argue that the alignment construct is important because it conveys different cost layers, and should be decomposed in specific dimensions (strategy, culture, governance, financial, environmental, and human resources) that address the above complexities, as well as a web of coevolutionary relationships between HQs and subsidiaries.

Our research is thus in line with some recent work on agency theory, which suggests that the HQs-subsidiary context offers opportunities for novel theorizing in this area, breaking away from the classical model emphasizing moral hazard and information asymmetry as indicators of incongruence between HQs (principal) and subsidiaries (agents), and suggesting instead alternative roots and manifestations of agency problems in these dyads (Hoenen & Kostova, 2014; Kostova et al., 2018).

The paper is organized as follows. Following this current introductory section, we develop our research hypotheses in Section 2. Section 3 describes the research design, our data collection instrument, and the measurements used in this study. Next, we present the results of the empirical investigation in Section 4 and discuss them in Section 5. Section 6 concludes by outlining the main implications and limitations of our study.

2. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

The alignment of the activities carried out by the different MNE subsidiaries is a key success requirement, one arising from the increasing globalization of most industries and markets (Paterson & Brock, 2002). Multinational managers are expected to establish complex arrangements to facilitate global cohesion, so as effectively integrate geographically dispersed subunits into a proper strategy to compete against rival companies (Wei & Nguyen, 2017). In this direction, MNE subsidiaries do not face a single, but multiple fields across intraorganizational, interorganizational and national levels that evoke alignment challenges (Kostova et al., 2008). While these fields theorize about the relationship between MNE agencies and environments (of both internal and external orientations), research is relatively silent on their constituent parts. As a response to the complexity transcending the MNEs’ spectrum of operations, we explore agency intensity within HQs and subsidiary relationships in layers of analysis that relate to strategic, cultural, corporate governance, financial, human resources, and environmental considerations.

Strategic alignment: Many strategy theorists define strategic alignment by adopting an external strategic fit, i.e., the fit of a firm’s strategy to external contexts (Gabriélsson, Gabriélsson, & Seppälä, 2012). When MNEs are assumed, the external strategic fit is a necessary, but not a sufficient condition for achieving convergence. An internal strategic fit, defined as the co-alignment between subsidiary and HQs strategy (Sousa & Tan, 2015) seems more representative when organizations shift their focus from a domestic towards an international orientation. We describe the rationale for co-alignment as subsidiaries’ ability to identify the key mandates assigned to them by the HQs and reconcile competing or conflicting ideas effectively (Venkatraman, 1990). A bulk of seminal studies have related strategic alignment constructs with firm performance (Aldrich, 1979; Hofer, 1975; Child, 1975), yet ensuing empirical findings provided mixed results for their associations. In particular, whereas some researchers have concluded towards a positive relationship (De Luz,
1993; Zou & Cavusgil, 2002), others have nuanced this finding (Nakos, Brouthers, & Brouthers, 1998). In the multinational context, the relevant research also remains ambiguous in empirical investigations (Xu, Cavusgil, & White, 2006). Here, by adopting a normative perspective positing that congruent organizations are more effective than incongruent ones (Venkatesan, 1999), we posit:

**H1: Strategic alignment between HQs and subsidiaries will be positively related to subsidiaries’ financial performance.**

**Cultural alignment:** Assuring the conveyance of their culture globally is pivotal for MNEs in order to maintain their internal cohesion and enable operating continuity across borders. In this vein, many researchers have treated cultural alignment as the basis for advancing the socialization process within the MNE and strengthen internal integration (Björkman et al., 2004; Noorderhaven & Harzing, 2009). In this respect, cultural alignment between HQs and subsidiaries reflects common norms that guide actions throughout the whole network. In our opposite direction, cultural misalignment derived from the endorsement of different corporate cultures across the multinational organization may lead to increased conflicts and frictions in the HQs-subsidiaries relationship and induce agency costs for mitigating the conflicts that arise (Nohria & Ghoshal, 1994). Indeed, cultural diversity across geographically dispersed MNE subunits calls for discrete configurations as per management style, handling of subunits relationship with focal stakeholders, and effective implementation of governance schemes; making the application of effective universal standards and rules difficult (Eulerich & Westhausen, 2018). In the empirical forefront though, research has supported the preeminence of an ethnocentric approach (Mühlbacher, Dahringer, & Lehls, 1999); with that having positive performance impacts on their geographically dispersed subunits (Halkos & Tzeremes, 2008). We expect:

**H2: Cultural alignment between HQs and subsidiaries will be positively related to subsidiaries’ financial performance.**

**Corporate governance alignment:** For the most part, effective governance works as an antecedent of increased performance levels. According to Brown and Caylor (2004), maintaining control over managerial actions has positive performance implications, mitigating agency intensity. In empirical investigations, a handful of studies provide evidence supporting that firm performance is increased in the presence of effective corporate governance mechanisms (Antwi, Carvalho, & Carmo, 2021; Cheng, 2008). Findings reflecting the meta-analytic work of Khan, Nijhof, Diepeveen, and Melis (2018), who scrutinized a bulk of field studies probing the governance-performance relationship, corroborate the above assertion. In the multinational context though, common governance practices are more difficult to implement, since governance mechanisms may be shaped under the influence of macro-institutional settings such as national regulations and laws (La Porta, Lopez-de-Silanes, Shleifer, & Vishny, 1997; La Porta, Lopez-de-Silanes, & Shleifer, 1999). Hence, achieving alignment between HQs and subsidiaries concerning common governance objectives could prove to be daunting, since effective governance implies context specificity (Ciftci, Tatoglu, Wood, Demirbag, & Zaim, 2019). In this regard, a proposed governance structure might respond adequately to specific situations but fall short of expectations in others (Aguilera & Cuervo-Cazurra, 2009). Different governance models though may increase information asymmetry, monitoring costs, and, in turn, welfare losses. We hypothesize:

**H3: Corporate governance alignment between HQs and subsidiaries will be positively related to subsidiaries’ financial performance.**

**Financial alignment:** Differing financial treatments between HQs and subsidiaries, might dissimulate misuse incorporate resources to the extent that these are used in the subsidiary’s discretion to ensure a privileged position within the multinational network. Similarly, financial pursuits can differ substantially between countries with different collective bargaining regimes (Jones, Salmi, & Kauhanen, 2012), making local managers develop opportunistic behavior, and subsidiaries operating in these countries formulate their incentives accordingly. A high level of sophistication regarding financial reporting practices has been empirically proven to correlate with ailing internal control (Rahman & Marjerison, 2020; Rahman & Fang, 2019). This poses additional hurdles for the MNE network to safeguard financial convergence, to the extent that procedural complexity makes it hard for dispersed subunits to follow and allows for controversial treatments. Thus, enabling financial convergence throughout the MNE network might be hindered by the diverging financial goals of subsidiaries, perspectives over the desired level of risk-taking, and claims to corporate resources. Kirca et al. (2010) built on the idea of firm-specific assets that are transferable within a firm across borders, to maintain that financial alignment might constitute a useful instrument of effectively claiming on the returns generated in international markets. Based on this notion, we anticipate that under a well-aligned financial context, the exploitation of the above firm-specific assets can have a positive impact on the performance levels of MNE subunits. We posit:

**H4: Financial alignment between HQs and subsidiaries will be positively related to subsidiaries’ financial performance.**

**HR practices alignment:** MNEs engage in the transfer of organizational practices to foreign subsidiaries for multiple purposes, such as the development of a common corporate culture, the enhancement of procedural justice across these functional units, and the management of the overall external legitimacy of the multinational network (Kim & Mauborgne, 1993; Kostova & Zaheer, 1999). In this direction, scholarly discourse attests that planned transfers of practices do not always work out in the way intended by HQs, and subsidiaries belonging to the same MNE differ in the extent to which they implement and internalize these practices (Kostova & Roth, 2003). In the field of human resources, among the different conceptualizations of HR practices’ alignment within...
the multinational setting, one of Ahlvik, Smale, and Sumelius (2016) defining alignment as the extent to which a particular subsidiary has implemented HRM policies that directly correspond with corporate HQs intentions regarding those practices, is adopted. Although HRM is for the most part treated as an important predictor of firm performance, according for concept of its variability (Kapondoro, Iwu, & Twum-Darko, 2015), HR alignment with subsidiary performance is undertheorized in the MNE literature. By treating HR alignment as a synonym to reciprocity, we imply that apart from HQs, subsidiaries are equally able to implement the HR practices and influence corporate intentions. The interaction ties between HQs and subsidiaries may make it easier for subsidiary actors to obtain help in finding useful ways to integrate the focal HR practices with other organizational practices and processes (Björkman & Lervik, 2007), lowering, in turn, the costs associated with their implementation and integration and, thus, positively affecting the financial performance of their unit. We aim at shedding light on the above relationship by hypothesizing:

**H5:** The alignment of HR practices between HQs and their subsidiaries will be positively related to subsidiaries’ financial performance.

**Environmental practices alignment:** Issues related to sustainability are on the top of corporate agendas for current competitiveness and future development. The triple-bottom-line of economic, social, and environmental activity has been excessively used in academic literature, as the point of departure for assessing firms’ performance on the basis of multiple performance dimensions. This performance system bifurcates from both the traditional view of corporations where their only responsibility entails utilizing resources and engaging in activities designed to increase financial wealth (Wilburn & Wilburn, 2014) and from more recent approaches emphasizing the environmental and social aspects of their operations. However, the simultaneous pursuit of different objectives may lead to interorganizational conflicts and tensions. The view adopted in our study in relation to environmental alignment attests to the internal consistency of the multinational firm with regard to an orientation of environmental conformance. In this line, alignment improvements require a common philosophy and culture towards environmental sustainability, acceptance of and commitment to the overall philosophy and culture, governing principles, and common policies by all MNE subunits. Entrenching a holistic management perspective towards environmental orientation and strategic action could enable a network-based shared value creation process (Vitolla, Marrone, & Raino, 2020). Integrated disclosure techniques should allow for greater environmental vigilance and set the way forward for achieving much-coveted sustainable development and financial viability. Prior research reinforces this view, suggesting that environmental fit is particularly critical for the financial performance of subsidiaries (Dikova, van Witteloostuijn, & Parker, 2017), yet the concept of environmental alignment in MNEs has not yet been adequately addressed. We anticipate that the espousal of common environmental practices will enable a better adjustment to environmental challenges, by leveraging the collective property of the firm (e.g., experience). We hypothesize:

**H6:** Environmental practices’ alignment between HQs and subsidiaries will positively affect subsidiaries’ financial performance.

### 3. RESEARCH METHODOLOGY

#### 3.1. Sample and procedures

Our dataset draws on a detailed list of foreign investments in Greece, provided by the International Capital (ICAP) directory. There are several merits of using the specific database. For instance, it is considered the most authoritative source of information in the focal economy; covering a wide range of sectors and containing unique, firm-level cross-sectional data on firms’ “profile” factors.

For the purpose of data collection, a structured questionnaire was administered to top management teams (TMTs) of subsidiaries (due to space constraints, our survey instrument is available by the authors upon request). Combining the need of evaluating performance relative to multidimensional antecedents, we could also consult Gerrschewski and Xiao (2015) and qualitatively identify the required information through in-depth interviews with TMT members in order to test our hypotheses. An additional argument for this partly exploratory approach is the particularly high sensitivity of contemporary organizations to environmental idiosyncrasies (Apanasovich, Heras, & Parrilli, 2016). However, since our study was aiming at reaching a higher sample size so as to generalize our results to the best possible extent, and provide opportunities for research duplication, we have decided to adopt a quantitative research approach.

The TMT is the dominant coalition of the most senior executives who have responsibility for setting the overall direction of the organization (Shepherd & Rudd, 2014). Members of TMTs affect their firms’ performance in many ways, the most direct being through the decisions they make (Clark & Maggitti, 2012). Our questionnaire aimed at measuring perceptions regarding the extent of alignment between the subsidiary and the parent organization, and their implications on financial performance. We followed three steps in the development of our questionnaire. First, two academics provided suggestions for improving its wording and layout. Second, five professional consultants assessed our survey instrument. Their recommendations resulted in a revised draft. Third, the questionnaire was distributed to two subsidiaries’ chief executive officers, none of whom participated in the survey. This final review yielded no additional changes. To increase the response rate, Dillman’s (2000) approach was followed. This included sending a cover letter attached to each questionnaire with the purpose of the research, and assuring confidentiality and anonymity. In total, responses from 72 subsidiaries (response rate of 34.6%) have been gathered. A comparison between responding and non-responding firms and between earlier and late respondents for industry, corporate parent, and size revealed no significant differences; indicating a minimal potential non-response bias. We acknowledge that the subjectivity of respondents
when they make perceptual evaluations is associated with respondent biases and random errors (Podsakoff, MacKenzie, Lee, & Podsakoff, 2003). To minimize this concern, our measures were computed from multiple respondents from the same firms. In the subsequent analysis, we have used the mean scores of their evaluations. Overall, we have gathered 254 responses (on average 3.4 per firm).

Our sample includes both European (approximately 82%) and non-European firms (18%). The vast majority operate in the tertiary sector (75%), whilst the remaining 25% are in manufacturing (18 out of 72). Thirty-seven point five per cent (37.5%) of subsidiaries comprising the sample were new to the local market, with an average operational experience of 4.6 years, 12.5% operated for a period between 9 and 20 years, while 43% operated between 21 to 50 years, which also stood as the largest subclass, concerning years of operation. A minor 7% of the sampled subsidiaries had an operating life that exceeded the 50-year time period. Forty-three point seventy-five per cent (43.75%) of our sampled subsidiaries fell into the “large business” group (more than 250 employees), 31.25% are medium-sized (between 50–250 employees) and 25% are small and micro enterprises (employing less than 50 people). Our sample’s characteristics are presented in Table 1.

### Table 1. Technical datasheet of the investigation

| Characteristics                                | Description                                                                 |
|------------------------------------------------|-----------------------------------------------------------------------------|
| Subject of investigation                       | HQs–subsidiary relationships                                                 |
| Sample source                                  | ICAP directory                                                              |
| Total population                               | 208 foreign-owned operations                                                |
| Number of responding firms                     | 72 (34.6%), among them, 59 (81.9%) operate in European multinational networks |
| Sector of investigation                        | All sectors of activity (OECD classification)                                |
| Level of sample reliability                    | 95%                                                                         |
| Data source                                    | Mail survey through a structured questionnaire (two rounds)                 |
| Focus group                                    | Subsidiaries’ top management team (TMT)                                     |
| Number of respondents                          | 254, among them 168 (66.1%) were male                                       |
| Geographical range                             | Greece, nationwide                                                          |
| Date of fieldwork                              | May 2020–December 2020                                                     |

#### 3.2. Measures

In our research, our dependent variable is subsidiary performance. The criterion of performance adopted here was subsidiaries’ return on investment (ROI). Despite the existing debate about the appropriateness of financial indicators in assessing performance, the selection of ROI is in line with a wide literature (Shrader, Chacko, Herrmann, & Mulford, 2004; Blaine, 1994) that considers it as a very relevant indicator. According to Gray, Salter, and Radebaugh (2001), ROI is the most utilized measure of performance and is particularly convenient in measuring the success of subsidiary activities.

All our independent constructs are measured on five-points, Likert-type scales and have been previously developed in the literature. For measuring the strategic alignment between HQs and subsidiaries, a three-item scale (understanding, acceptance, and slack) adopted from Melnyk, Hanson, and Calantone (2010) was employed. Cultural alignment was captured with a three-item scale (adaptability, integration, global orientation) developed by combining the works of Taylor, Levy, Boyacigiller, and Beechler (2008) and Hofstede (2001). For assessing corporate governance alignment, four items (board independence, decentralization, autonomy, audit) were adopted, after consulting the works of Aguilera and Cuervo-Cazurra (2009) and Benson, Davidson, Wang, and Worrell (2011). Our study addressed financial alignment between HQs and subsidiaries from a rather narrow perspective, particularly attending to the endorsement of shared financial practices, rather than exploring overall financial consolidation. Therefore, a more simplified measure of financial alignment was used (allocation of corporate resources, reconciliation, and reporting, risk appetite). HR alignment was captured with four items (selection processes, appraisal, human development practices, incentives, and rewards) adopted from Becker and Huselid (1998). Finally, the measurement of environmental practices’ alignment between HQs and subsidiaries was captured with two items (coordination of activism, fostering of sustainable practices) adopted from Neubaum and Zahra (2006) and Husted and Allen (2006). Our explanatory regressors are operationalized in Table 2.

Our model considers also two control variables. In line with prior research, firm performance is also affected by the degree of competition intensity in the local marketplace, and organizational size. Thus, with the intention of controlling the potential effects of this set of covariates, we have included them in our analysis. In order to identify the competition intensity of subsidiaries’ sector of activity, we use the four-firm concentration ratio which consists of the market share, as a percentage, of the four largest firms in the industry. A four-point Likert-type scale has been created in order to evaluate the construct in the focal economy. Perfect competitive industries (those with a very low concentration ratio) take the value of 4; whereas almost monopolies (with a near 100% four firm measurements) take the value of 1. The subsidiary size was sought to identify on a three-item construct, where the scale value 3 indicates large (over 250 employees) firms, the value of 2 – medium-sized enterprises (between 51–250 employees), whereas the scale value 1 suggests small, and micro firms (less than 50 employees).

#### 3.3. Measurement properties

Since our study uses perceptual evaluations, we examined the internal consistency, convergent and discriminant validity of our measurement scales. With regard to internal consistency, most of the constructs demonstrate a high Cronbach’s alphas value that exceeds the suggested threshold of 0.7. For assessing discriminant and convergent validity, we consulted Boateng, Nellands, Frongillo, Melgar-Quinonez, and Young (2018) recommendation.
for small sample sizes (i.e., \( n \leq 250 \)), and employed partial least squares (PLS) modelling. During this procedure, we first calculated the square roots of average variance extracted (AVE) values that measure the average variance shared between a construct and its items and then calculated the correlations between the different constructs of the model. All the corresponding AVEs exceed the proposed threshold of 0.5 (Chin, 1998). In order to assess the model’s discriminant validity, we employed the Fornell and Larcker’s (1981) criterion. All diagonal values are greater than the correlations with the rest of the constructs. This suggests that our measurement model’s discriminant validity seems sufficient.

**Table 2. Operationalization and measurement properties of explanatory constructs**

| Constructs | Items | Loadings | Variance explained (%) | \( \alpha \) |
|------------|-------|----------|------------------------|---------|
| Strategic alignment | Subsidiary TMT has a clear understanding of headquarters’ (HQs) scope in relation to subsidiary strategic mandate. | 0.736 | 0.867 | 0.728 |
| | Subsidiary TMT considers the subsidiary strategic mandate as being appropriate and feasible. | 0.644 | | |
| | Part of HOs slack is directed to subsidiary. | 0.491 | | |
| Cultural alignment | The HOs allow their subsidiaries to adapt their culture in relation to idiosyncratic characteristics of the local context they operate. | 0.545 | 0.841 | 0.643 |
| | Our business practices are similar to those of the HOs. | 0.679 | | |
| | In our MNE group, nationality is unimportant in selecting individuals for managerial positions. | 0.516 | | |
| Corporate governance alignment | In our subsidiary, we have a reasonable amount of independent directors. | 0.713 | 0.893 | 0.791 |
| | Our subsidiary is provided with great discretion to make decisions. | 0.184 | | |
| | Most subsidiary decision-making is shaped after consultation with the HOs. | 0.698 | | |
| | There are regular internal audits of governance from the HOs. | 0.721 | | |
| Financial alignment | The amount of financial resources available to our subsidiary is determined by the HOs. | 0.521 | 0.798 | 0.539 |
| | There are regular internal financial audits from the HOs. | 0.204 | | |
| | The level of risk that our subsidiary is prepared to accept in pursuit of its objectives is determined by local management. | 0.504 | | |
| HR practices alignment | Our subsidiary implements selection processes that directly correspond with corporate HOs intentions. | 0.801 | | |
| | Our subsidiary implements employees’ appraisal practices that directly correspond with corporate HOs intentions. | 0.381 | 0.948 | 0.852 |
| | Our subsidiary implements human development practices that directly correspond with corporate HOs intentions. | 0.714 | | |
| Environmental alignment | Our subsidiary has its own agenda for addressing environmental concerns of its external stakeholders. | 0.606 | 0.746 | 0.669 |
| | Sustainability practices are dictated by the HOs. | 0.615 | | |

Note: * reverse-coded item, † item dropped due to low factor loading.

**4. RESULTS**

Table 3 reports bi-variate correlations as model-free evidence. An analysis of means, standard deviations, and pairwise Pearson correlations between the dependent variable and all the regressors used in this study revealed that all correlations are below the 0.70 threshold level, and no particular high correlations have been identified (two-tailed \( p \)). Also, because most of the correlations between the independent variables are moderate to low, and the variance inflation factors are well below the recommended threshold of 10, multicollinearity does not seem to be a serious concern. As shown, a majority of alignment dimensions are positively related to subsidiaries’ financial performance. These results provide some preliminary support for our research hypotheses.

**Table 3. Means, standard deviations, and correlations of key variables**

| Variable | Mean | Std. Dev. | min | max | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) |
|----------|------|----------|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|
| (1) Financial performance | 2.16 | 1.13 | 1 | 5 | 1 | | | | | | | | |
| (2) Strategic alignment | 3.42 | 1.95 | 1 | 5 | 0.4318 | 1 | | | | | | | |
| (3) Cultural alignment | 2.71 | 1.36 | 1 | 5 | 0.371 | 0.2835 | 1 | | | | | | |
| (4) Corporate governance alignment | 2.33 | 1.24 | 1 | 5 | 0.2336 | 0.4507 | 0.1233 | 1 | | | | | |
| (5) Financial alignment | 3.54 | 1.95 | 1 | 5 | 0.1975 | 0.3936 | 0.4590 | 0.3858 | 1 | | | | |
| (6) HR practices alignment | 2.91 | 1.41 | 1 | 5 | -0.3134 | 0.4949 | 0.1021 | 0.225 | 0.2678 | 1 | | | |
| (7) Environmental alignment | 2.56 | 1.43 | 1 | 5 | 0.1796 | 0.3142 | 0.1692 | 0.6142 | 0.1529 | 0.4782 | 1 | | |
| (8) Competition intensity | 2.16 | 1.13 | 1 | 5 | -0.4638 | 0.5828 | 0.1868 | 0.1756 | 0.0908 | 0.3386 | 0.1578 | 1 | |
| (9) Organizational size | 2.18 | 0.821 | 1 | 3 | 0.1675 | 0.2169 | 0.3038 | 0.1854 | 0.1833 | 0.1613 | 0.1791 | 0.1916 | 1 |

Note: Correlations above 0.102 are significant at the 0.05 level.
Table 4 presents the results of regression analysis when the dependent variable is financial performance. Since according to the construct of our research, our dependent variable evaluates respondents’ perceptions in a polychotomous, qualitative and ordinal structure, the differences among the values the dependent variable can take might not be equivalent. Thus, we have tested our predictions with ordered probit (OP) estimations, since these models avoid the problems associated with the traditional regression and/or multinomial probit techniques, where the size of the difference between the values that respondents allocate matters to the carrying out of the analysis. The use of probit models has become a critical part of the management researchers’ analytical arsenal (Hoetker, 2007). We have also tested our model by employing an OLS specification. Results were in the same direction, though slightly inferior in significance.

Table 4. Ordered probit estimations (ROI as the dependent variable)

| Constructs                  | OP model results |  
|-----------------------------|------------------|
| Strategic alignment         | 0.400***         |
| Cultural alignment          | 0.352***         |
| Corporate governance alignment | 0.143**       |
| Financial alignment         | 0.053            |
| HR practices alignment      | -0.084**         |
| Environmental alignment     | 0.384            |
| Competition intensity       | -0.597           |
| Size                        | 0.182            |

Regression statistics

LR chi-squared (7): 142.54***
Pseudo R-squared: 0.192

Notes: n = 72; *** significant at the 0.01 level, ** significant at the 0.05 level, * significant at the 0.10 level.

According to evidence reported, strategic, cultural, and corporate governance alignment is found to be positive and statistically significant related with increased subsidiary performance ($\beta = 0.400$ at the 0.01 level of significance, $\beta = 0.352$ at the 0.01 level of significance, and $\beta = 0.143$ at the 0.05 level of significance, respectively), whereas the alignment of HR practices was found negative and significant ($\beta = -0.084$ at the 0.05 level of significance). Therefore, H1, H2, and H3 have been supported, while H5 has been rejected.

5. DISCUSSION OF FINDINGS

Our findings indicate that strategic alignment between the HQs and their subsidiaries is generally considered to generate better financial results for the MNE geographically dispersed subunits. This evidence is consistent with research focused on the efficiencies associated with MNEs’ global strategies. Based on this outcome, we could argue that in cases where MNEs’ overseas branches are more strategically aligned with their parent organization, the expectations for enhanced financial performance seem to be better captured.

In that sense, it seems that “parenting advantages” (Campbell et al., 1995) improve the competitive position of the operating units of the MNE network. Findings also confirm existing research as to the fact that better strategically aligned organizations financially outperform those organizations that demonstrate lower levels of convergence (Venkatraman, 1989), and attention to the rising importance multinationals assign to the strategic fit of their subsidiaries in order to secure their competitiveness.

Further, contrary to some prior research findings positing that the endorsement of an undifferentiated corporate culture is related to subsidiaries’ poorer financial results, as long as it impinges on the ability of the MNE to be locally responsive and thus yield better outcomes, in our study we argue for the reverse situation. Thus, we highlight the importance of cultural alignment for the MNE network, while at the same time we bear out the fact that corporate culture is far beyond an abstract notion that can substantially explain performance variations across firms. In particular, we argue that intran-MNE cultural diversity can be a cause of increased complexity which can be due to growth in coordination and agency costs. In addition, the statistically significant positive relationship between the corporate governance alignment of the MNE network with the enhanced performance levels of its subunits could indicate that by enforcing homogenous governance practices across a range of dispersed operations, the HQs manage to create a robust and solid organization that mitigates agency costs (Brown & Caylor, 2004; Core, Guay, & Rusticus, 2006). Thus, highly integrated MNE networks seem to better perform at their peripheral level.

Finally, HR alignment was also proved to significantly influence the performance of subsidiaries. This finding reinforce evidence suggesting that the design of an MNE’s international human resource management system has performance implications not only for MNE as a whole but also for its subsidiaries (Schuler, Dowling, & De Cieri, 1993; Taylor, Beechler, & Napier, 1996). The interrelations, though between HR alignment across the MNE operations and subsidiary financial performance was found significant, albeit with a reverse sign between the two constructs, contrary to what was expected. A possible explanation of this finding could be that the adaptation to the distinctive characteristics of human resources in the local marketplaces turns subsidiary employees into a valuable, well-motivated asset, enhancing in that way the financial performance of their organization. In this regard, our findings reconcile nicely with Kathuria, Joshi, and Porth (2007), positing that alignment requires that subsidiary managers share an accurate understanding of HQ goals and objectives and that HQ managers understand a subsidiary’s needs and unique context.

Overall, our results provide support to an HQ-centered approach. Despite the importance of subsidiaries as agents of value addition within MNE operations, their increased autonomy and developmental potentials in the global field, the reliance on traditional hierarchical conceptualizations of HQs-subsidiary relationships
have regained momentum; it seems not only still valid, but also beneficiary for subsidiary management. Thus, we reinforce arguments advocating a rationalistic HQ “knowledge situation” (Ciabuschi, Dellestrand, & Martin, 2011); HQs possess a more extended knowledge about given situations, enabling them to exert an increased involvement in subsidiaries’ organizational and strategic foundations.

6. Conclusion

The study of HQs–subsidiary relationships, or how multinational enterprises integrate their geographically dispersed value-adding subunits into the wider network operations, is central to the field of international business. The literature on this topic is vast and has evolved significantly in its focus and underlying assumptions since its inception (Kostova et al., 2018). By drawing on this consideration, we aim to broaden and deepen our understanding of agency effects on the performance of multinational subsidiaries. In line with recent scholarly discourse (Martin, Wiseman, & Gomez-Mejia, 2019), the concept of alignment was adopted as a proxy of agency intensity. While alignment has received some attention in international management research, up to now, the extant literature has predominately examined specific dimensions of convergence. In addition, it mainly focuses on HQ’s intended practices. Our study opens up the possibility of investigating multiple facets of the alignment construct, placing also subsidiary perceptions at the core of our research framework. Hence, we developed and tested an integrated model including different layers (strategic, financial, cultural, governance, HR, and environmental) of HQs–subsidiary relationships, in an attempt to investigate their interrelations with the financial performance of the latter. Our research reveals that strategic, cultural, governance, and HR alignment are important determinants of subsidiary performance. However, whereas strategic, cultural, and governance convergence between HQs and subsidiaries are positively related to increased performance levels, an ethnocentric approach towards HR practices seems to trigger welfare losses.

Our multilevel approach in examining subsidiary perspectives within an agency context could be theory-driven on the agency’s behavioral assumptions. In addition, our study has some considerable practical implications. To be more specific, managers should be acknowledged that the level of alignment between HQs and subsidiaries serves as a valid proxy of agency intensity in multinationals, where they can reliably ally in an effort to confront its various manifestations. In that sense, the interrelations that were found between alignment dimensions and subsidiaries’ financial outcomes have managerial implications. Subsidiaries that are strategically aligned with their parent organization tend to outperform those demonstrating lower levels of alignment. Thus, it is becoming important for MNE managers to point out ways for increasing strategic alignment in the HQs–subsidiary relationship, in order to yield subsidiaries’ superior financial results. Additionally, the positive association between cultural alignment and subsidiary performance highlights the necessity for subsidiaries to capitalize on the culture of their parent company in order to attain global integration through the use of common norms and practices. The finding that HQs–subsidiary alignment on the basis of corporate governance practices has a positive influence on the financial performance of subsidiary, underlines the exigence for MNE managers to find ways to amplify the convergence of governance practices between HQs and subsidiaries. In that way, they will manage to mitigate agency intensity and focus assiduously on performance issues. Finally, based on the ascertainment that the fostering of undiversified HR practices throughout the multinational network can do harm to the financial performance of subsidiaries, should actuate managers to tap their HR practices to the distinctiveness of subsidiaries’ local marketplace in order to improve their performance.

The specific sample of MNE subsidiaries operating in a single country limits the generalizability of the results. In addition, perceptual evaluations are always susceptible to subjectivity issues. In that sense, results should be treated cautiously to the extent that they depict a biased standpoint of reality, which may differ from the actual one. Also, the constructs that were used in order to capture the notion of alignment between HQs and subsidiaries were chosen carefully, yet they are not unique in the literature. Although the vast majority of them were found to be highly relevant to the dimension they examined, the cultural and financial alignment variables presented lower alphas than anticipated, implying a less accurate estimation pertaining to the specific constructs. In the context of financial alignment, transfer pricing could influence our construct and should be further examined. Finally, we have conceived alignment dimensions as exclusively orthogonal, eschewing the possibility of them being complementary. We believe that future research could address the above issues.

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