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Responses to Subpar Performance in Foreign Subsidiaries

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ABSTRACT

Many multinational enterprises (MNEs) experience subpar performance in some of their foreign subsidiaries. Despite the clear importance to practitioners, there are surprisingly few comprehensive studies on the appropriate responses to be taken when such a situation occurs. Studies addressing the subpar performance phenomenon have been fragmented across research domains, causing there to be a lack of theory-driven studies within an international context to provide insights. Thus, the research questions guiding this thesis are: *When a foreign subsidiary experiences (repeated) subpar performance, what determines which specific type of response is chosen (if any at all)? Which type of response (if any) is most conducive to increasing recovery and survival prospects? What factors determine the timing of a response and what role does the timing of responses play in the effectiveness of the chosen response in increasing recovery and survival prospects?*

Drawing from a resource orchestration framework and related constructs, hypotheses are developed to differentiate between processes of "Identifying", "Responding", and "Synchronizing" when subpar performance occurs in foreign subsidiaries. Sequence analysis, multinomial logit regression, gap time competing-risk event history analysis, OLS regression, and estimations of curvilinear effects in logit regressions are performed to test a series of hypotheses on a sample of 17,982 observations, representing 5,669 subsidiaries in 94 countries.

Our findings suggest that the subpar performance phenomenon is quite prevalent, with hundreds of subsidiaries in the sample experiencing as much as 10 or more years of consecutive subpar performance. Surprisingly, the most frequent sequences are those in which subsidiaries appear to not respond to subpar performance, at least according to the responses measured

herein. Regarding "Identifying", we find that determinants at the country-level, MNE-level, and the subsidiary-level help predict whether a response is administered and if so, which one. Generally, if responses occur ("Responding"), they result in superior results over non-responses - if the focus is on the long-term survival prospects of the subsidiary. In the short-term, responses may be followed by adjustment periods which may prolong the subpar performance period. Moreover, increases in headquarter commitment appear to have a more beneficial effect than decreases in commitment. Regarding the "Synchronizing" dimension, we find that the existence of communication channels appear to improve the timeliness of a response. Moreover, the relationship between the time-to-first-response and the probability of recovery (versus exit) is curvilinear (inverted U-shape), such that recovery is most likely when the response occurs at a medium amount of time (3 to 6 years) after the onset of the subpar performance sequence. This curvilinear relationship is amplified for deceases in commitment, suggesting that the effectiveness of such responses is more sensitive to timing than increases in commitment. Regarding the replacement of general managers, we find that only early replacements enhance the likelihood of recovery.

The study is expected to advance understanding of the subpar performance phenomenon as well as appropriate responses by conceptually integrating the perspectives scattered across multiple research domains, thereby responding to calls from several literatures. The findings also provide some guidance to practitioners in MNEs who face the dilemma of how to appropriately respond to subpar performance in foreign subsidiaries.

Keywords: Subpar performance, foreign subsidiaries, turnaround, organizational decline, resource orchestration

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Thank you.

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CHAPTER 1: INTRODUCTION

1.1 Background and Motivation

Much of the international business literature has focused on growth (Whetten, 1980; Benito, 2005). As Tsui (2007) notes in her review of international management research, this focus has been a reflection of the broader context which, especially after World War II, has been characterized by an unprecedented increase in prosperity in many countries. Following the lead of multinational enterprises (MNEs), which expanded their boundaries across an increasingly larger number of countries, international business scholars emphasized growth-related topic areas such as understanding the global business environment, internationalization, entry mode decisions, international collaborations, and foreign direct investment. Indeed, these are the top five areas of research Werner (2002) identified in a review of 20 top management journals in the period between 1996 and 2000. Lu (2003) identified similar areas of focus in her review of international strategy research.

As Whetten (1980) and Tsui (2007) note, this enthusiasm for growth-related research may particularly be a reflection of the fact that much international business research has originated from a North American research paradigm. This context is characterized by periods of particularly strong growth, widespread global expansion of MNEs originating from it, and a culture in which failure can be considered a taboo and reason for blame. As a result, the need and the openness for anything but growth-oriented research have been limited.

This overarching bias towards growth, however, has increasingly been faced with a societal and organizational reality of decreasing rates of growth, progressively tighter profit margins, rising global wages, diminishing returns, and more dynamic competitive markets. How

high some societies and organizations can fall after years of growth was most painfully brought to light by the recent global financial crisis. This crisis lasted from 2007 until 2009 in the U.S. but much longer in other regions such as Europe, where it funnelled into a debt crisis. What this crisis and smaller ones before it revealed is that the global marketplace consists of multitudes of connections which can harm a whole system when a part of it falters. As a result, GDP per capita rates fell, as did exports of goods and services (as a percentage of GDP) for countries like China, Germany, and Japan. Unemployment rates increased in many countries as well (e.g. in Germany between 1990 to 2006 and in the US during the financial crisis). While aggregated indicators such as GDP per capita or export rates recovered for most countries some years after the financial crisis, the fate of selected countries and organizations may be much bleaker. In the U.S. alone, the total decline in the number of firms during the crisis amounted to 365,231 firms (about 6 percent), throwing the economy back to levels from 2002 (U.S. Census Bureau, 2013).

However, organizational decline and survival prospects may not just be the result of financial crises or other external factors such as the uncertainty associated with conflict zones (Dai, Eden, & Beamish, 2013) or the results of overall industry decline (Filatotchev & Toms, 2003). Internal factors such as ineffective management (Morrow, Sirmon, Hitt, & Holcomb, 2007), an insufficient degree of fit with the organization's external environment (Zajac, Kraatz, & Bresser, 2000) or conflict (Morrill, 1991) also play a role in causing organizational decline. In sum, organizational decline has become an increasingly apparent organizational reality which makes research in this area imperative.

Since the mid-1970s, a growing group of scholars has turned their attention to studying the phenomenon of organizational declines and turnarounds. In their 1993 review of the turnaround literature, Pearce and Robbins note that "The identification of appropriate managerial

responses to financial decline has become increasingly important." (p. 613). Two decades later, Trahms, Ndofor, and Sirmon (2013: 1278) second this, noting that "about half (49.8%) of firms in the S&P 500 index for the year 2010 had experienced more than 3 years of decline within the prior 5 years. […it is thus] likely to remain a highly relevant concern to managers worldwide".

Despite an increasingly interconnected global economy (exemplified by the worldwide rippling effects of the financial crisis) and the multitude of MNEs with vast networks of foreign subsidiaries, research on organizational decline has mostly been focused on corporate-level and/or business-level declines in a domestic context. These are characterized by declines that either affect the entire structure of the organization (e.g. Johnson, 1996) or its overarching business strategies (e.g. Barker & Duhaime, 1997). Anecdotes abound, however, of prominent examples of MNE investment decisions turning sour, such as U.S.-based Target Corp pulling out of the Canadian market after only two years with a US$2bn operating loss (Shaw, 2015) or Bombardier retrenching about 10 percent of its global workforce after disappointing performance (Marotte, 2016). Many ventures report subpar performance for several years in a row (much beyond Target's two year) before any action is taken. The British retailer Tesco PLC sold its US-subsidiary "Fresh & Easy" in 2013 after it had incurred five consecutive years of subpar performance, amounting to £1 billion in losses (Gordon, 2013). Wal-Mart Inc. in Germany sustained losses that amounted to US$1bn before pulling out of the market nine years later (Norton, 2006).

These cases of corporate-level/business-level and especially subsidiary-level declines in an international context have been understudied by management researchers, leaving little guidance about how to turn such ailing subsidiaries around. The research that does exist remains fragmented, resulting in conflicting findings, and driven by phenomena rather than theory.

Indeed, based on their review of the literature, Trahms et al. (2013: 1297) conclude that "what we do not know […] far outweighs what is known about decline and turnaround". What is notable as well is the fact that the exploration of the subpar performance phenomenon has been addressed in several literatures, often in parallel research domains, rather than in a coherent manner.

The three literatures most closely related to the phenomenon are the organizational decline/turnaround literature, the international divestments literature, and the escalation of commitment literature. Most studies on the subpar performance phenomenon at the corporate-level and business-level were conducted in the *organizational decline/turnaround literature* in the strategic management domain. Here, the subpar performance phenomenon is coined a turnaround situation (Pearce & Robbins, 1993: 634) and has focused mostly on domestic (within-country) operations and efficiency-enhancing operational responses such as downsizing/retrenchment (cf. Pearce & Robbins, 1993; Tangpong, Abebe & Li, 2015; Celly, 2008). The level of analysis is usually the corporate-level or business-level organization within a domestic context.

The *international divestments literature* within the international strategy domain has placed emphasis on de-internationalization (in the form of partial or full divestiture), for which subpar performance is but one cause (Benito & Welch, 1997; Benito, 2005; Mata & Portugal, 2000; Turcan, 2013). This literature is still at a relatively nascent level of research and which response to select from the range of available actions when a subsidiary is performing poorly remains an underexplored topic. The level of analysis here is usually at the corporate-level or business-level in the international context. Similarly, real options logic has been applied to joint ventures to examine the occurrence of dissolutions (by acquisition or divestment) (Kogut, 1991).

The application of real options logic is generally restrained by rather specific parameters, causing the body of real options research that specifically applies to responses to subpar performance at foreign subsidiaries to also be at a rather nascent stage.

The *escalation of commitment literature* in the behavioral decision-making domain draws specific attention on the individual decision-maker's responses to subpar performance (Staw, 1976; Shapira, 1997; Sleesman, Conlon, McNamara & Miles, 2012). The research in this literature shares some commonalities with prospect theory (Kahneman & Tversky, 1979). The focus here is on the psychological processes and biases that are reflected in responses to subpar performance and the level of analysis is the respective decision-maker.

The fact that the phenomenon of subpar performance has been examined from a number of different perspectives has led to several concerns. First, there are conflicting findings within and across domains. For instance, some literatures recommend divestiture over continuance in light of subpar performance (e.g. turnaround theory, real options logic if parameters apply), while others warn of premature abandonment (Drummond, 2014). Similarly, some literatures view increased commitment to a declining venture as a detrimental approach (e.g. escalation of commitment, prospect theory), while others view it as a potentially important factor of long-term stability (Lane & Beamish, 1990).

Second, there are gaps in the comprehensiveness of the analysis, e.g. a heavy focus on retrenchment/downsizing responses has caused non-divestment responses to be examined significantly less often. This brings about a relative emphasis on operational responses (those that are geared towards short-term performance improvements) and a relative de-emphasis of strategic responses (those that are geared towards improving the market positioning and strategic

health of the entity, with improvements in performance following thereafter). Strategic responses in the context of the present study are differentiated from strategic responses in literatures such as resource dependency theory (e.g. Oliver, 1991). In the latter, responses are directly geared towards one or more competitors, thereby enacting a competitive strategy. In the former, the competitive position is important as well but plays a less direct role. Instead, the goal of strategic responses in the context of this thesis can be understood as actions oriented towards putting the organization in a better position than the current one. From that improved position, it can then pursue its competitive strategy in the longer run. Complete divestiture or retrenchment is thus not the only action available to parent firms when the subsidiary experiences unsatisfactory performance for multiple periods. Specifically, a foreign parent in a joint venture may instead assume a higher amount of control of the subsidiary and acquire more equity in the venture, without turning it into a wholly-owned subsidiary altogether. The parent firm may also decide to send more expatriates or withdraw expatriates as a means to adjust commitment and control. We are not aware of any study which has examined responses such as these (and more) in comparison to each other, in an international context, and over time. Given the stakes that are involved for managers once a subsidiary generates subpar performance, the phenomenon warrants closer examination.

Third, most of the studies have used samples from US-based (or otherwise within-country samples) (Bruton, Ahlstrom & Wan, 2003; Benito, 2005). Thus, the complexities arising from headquarters-subsidiary relationships and the international context have been somewhat neglected. In an international context, not only may the types of responses differ from domestic contexts (e.g. deploying more expatriates) but also determinants may be important that are not relevant in a domestic context. Specifically, the concept of distance between a headquarters and

its foreign subsidiary has been shown to be a key construct in international business strategies (Berry, Guillén & Zhou, 2010) which may affect how fast a response is administered given subpar performance. Also, the response may depend on the role of the foreign subsidiary in the wider MNE network, such as being a regional headquarters. Thus, several mechanisms to turn around ailing domestic corporations may not be immediately transferable to the international context and in fact, the latter may be influenced by a wider set of variables that need to be considered.

Finally, the mushrooming number of studies on subpar performance in different domains has led to a lack of theory-development - across but also within domains (e.g. Trahms et al., 2013; Sleesman et al., 2012). We are not aware of any theory of decline/turnaround explicitly focused on subsidiaries in foreign locations. While some aspects of existing frameworks could be relevant for the international context as well, it remains to be tested and a larger number of determinants and responses need to be considered.

In sum, while many studies have addressed the question of what to do in response to subpar performance, there is rather little integration across domains, causing there to be several gaps. As a result, multiple calls exist that highlight the importance of moving towards a theoretical integration, shifting focus from identifying more determinants to other key mechanisms, and turning towards other levels of analysis such as the subsidiary-level. The objective of this thesis is thus to respond to these calls by adding new insights by focusing on subpar performing foreign subsidiaries and turnaround strategies employed as a remedy for such a situation. This objective will be elaborated further in the next section.

1.2 Objective

Given the motivation of the thesis, the following overarching research questions will be explored: *When a foreign subsidiary experiences (repeated) subpar performance, what determines which specific type of response is chosen (if any at all)? Which type of response (if any) is most conducive to increasing recovery and survival prospects? What factors determine the timing of a response and what role does the timing of responses play in the effectiveness of the chosen response in increasing recovery and survival prospects?[1]*

Trahms et al. (2013: 1297) note that achieving turnaround in situations of subpar performance is a "complex process" which requires investigation much beyond the current state of research. This thesis approaches the task of generating a deeper understanding of responses to subpar performance at foreign subsidiaries in three steps. First, the current state of knowledge about responses to subpar performance is reviewed in order to clearly locate the current gap regarding subsidiary-level turnarounds. This also leads to a revisiting of the definition of subpar performance sequences which will be understood as annual consecutive occurrences of poor performance (using several performance measures) which ends with either a recovery to pre-decline levels, exit, or the end of the observation period. Second, a theoretical framework grounded in a resource orchestration framework (Trahms et al., 2013) is developed to guide the analysis of key mechanisms within the phenomenon of subpar performance at foreign subsidiaries. The key parts of the framework differentiate between "Identifying" (whether/what), "Responding" (how effective), and "Synchronizing" (when) mechanisms. Third, given the focus on subpar performing foreign subsidiaries, additional responses to subpar performance and influencing factors that were not usually considered in conventional corporate-level or business-

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[1] The terms "responses", "actions", and "moves" are used interchangeably in this thesis.

level studies, are now assessed in more depth. For instance, factors such as GDP growth, the assigned role of a regional headquarters, MNE-level performance, and similar aspects are found to have an important influence. Finally, the research questions are assessed using multinomial logit regressions, gap time competing-risk event history analyses, and estimations of curvilinear effects, thereby moving towards the simultaneous consideration of more than just one type of response (conventionally divestment ("yes"/"no") or retrenchment ("yes"/"no")) and an explicit inclusion of the time concept.

With this premise, this study aims to contribute to the literature on subpar performance in foreign subsidiaries in the following ways. First, by examining the phenomenon using a near-population dataset of Japanese foreign direct investment, this study offers an overarching three-dimensional framework of subpar performance responses and their effectiveness at the level of foreign subsidiaries. The framework combines antecedents of responses ("Identifying") with their outcomes ("Responding") and their relationship with time ("Synchronizing"). Grounded in the resource orchestration perspective, this framework offers a theoretical premise, rather than being purely phenomenon-driven. The objective and intended contribution is thus to offer a starting point from which future studies of subpar performance in foreign subsidiaries can be explored.

Second, studies on the subpar performance phenomenon have had different emphases regarding appropriate responses. For instance, while the literatures on de-internationalization and turnaround have focused on retracting commitment, the literatures on escalation of commitment and prospect theory emphasized the effects of increasing commitment, and the literatures on organizational inertia and commitment theory have focused on non-action. This study takes a more encompassing stance by comparing all of these options to each other. As such, we partially

apply the corporate-level/business-level decline and turnaround literature but, more importantly, expand it to an international context.

Third, viewing the subpar performance phenomenon in a holistic perspective responds to several calls in the literature. For instance, in the escalation of commitment literature, most studies have focused on the individual/psychological level, with studies conducted in laboratory or classroom settings (Shapira, 1997; a few exceptions exist: cf. Barton, Duchon & Dunegan, 1989). Sleesman et al.'s (2012) meta-analysis reveals that the majority of studies focused on project-related determinants and psychological determinants, while social determinants and structural determinants were largely neglected (Shapira, 1997; a few exceptions exist: cf. Hsieh, Tsai & Chen, 2015). As Staw (1997: 206) puts it: "Perhaps because it is easier to study people than organizations, the field has concentrated on escalation as a product of individual decision making rather than organizational action". Furthermore, Sleesman et al. (2012) demonstrate that the plethora of determinants identified in the literature reflects a multi-determinism which allows for multiple theories (see also: Brockner, 1992). However, rather than identifying even more determinants of escalation, the field is in dire need of an integration of relationships and neighboring concepts into coherent theoretical models (Sleesman et al., 2012; Staw, 1997). This notion is reflected in the other literatures as well (e.g. Trahms et al., 2013). In this thesis, we explore both the determinants and antecedents of responses to subpar performance, thus aiming to generate a more holistic perspective on the phenomenon.

The domain of the intended contribution among existing literatures on the phenomenon of subpar performance, different predominant levels of analysis, and the focus on decreases, continuance, or increases in costs and assets is depicted in Figure 1.1.

Key findings that arise from this thesis are that (i) hundreds of subsidiaries experience 10 or more consecutive years of subpar performance; (ii) the most frequent sequences are those during which no particular discernible response occurs; (iii) determinants across the country-level, MNE-level, and subsidiary-level predict whether and which type of response is chosen, (iv) performing any action is preferable over performing no action, especially when it comes to improving the survival prospects of the subsidiary. Due to a period of adjustment following a response, the short-term effect may be that the number of consecutive years of subpar performance may increase; (iv) increases in commitment tend to have a more favorable outcome than decreases in commitment, especially with regards to survival prospects; (vi) some determinants that imply a higher communication channel frequency help reduce the time to first response; (vii) the relationship between the timing of the first response and the probability of recovery (versus exit) is curvilinear (inverted U-shaped) such that very early and very late first responses dampen recovery prospects. This relationship is amplified when the response in question is a decrease in headquarter commitment (as opposed to an increase in headquarter commitment), suggesting that there is a time-sensitivity aspect to decreases in commitments; and (ix) the effectiveness of a general manager (GM) replacement may depend on the timing of this response. If the GM is replaced within two years of the decline, recovery prospects are enhanced. After this time, GM replacement may be less effective than not replacing the GM.

The findings are also intended to hold value for practitioners. The analysis of antecedents of responses and the effectiveness of responses, especially considering the impact of time is hoped to offer some guidance in the all-too-familiar dilemma: "Do they persist and risk becoming caught up in a spiral of escalating commitment, or 'apply the brakes' when they may be within an ace of success?" (Drummond, 2014: 430).

Figure 1.1. The Positioning of the Contribution among Relevant Literatures.
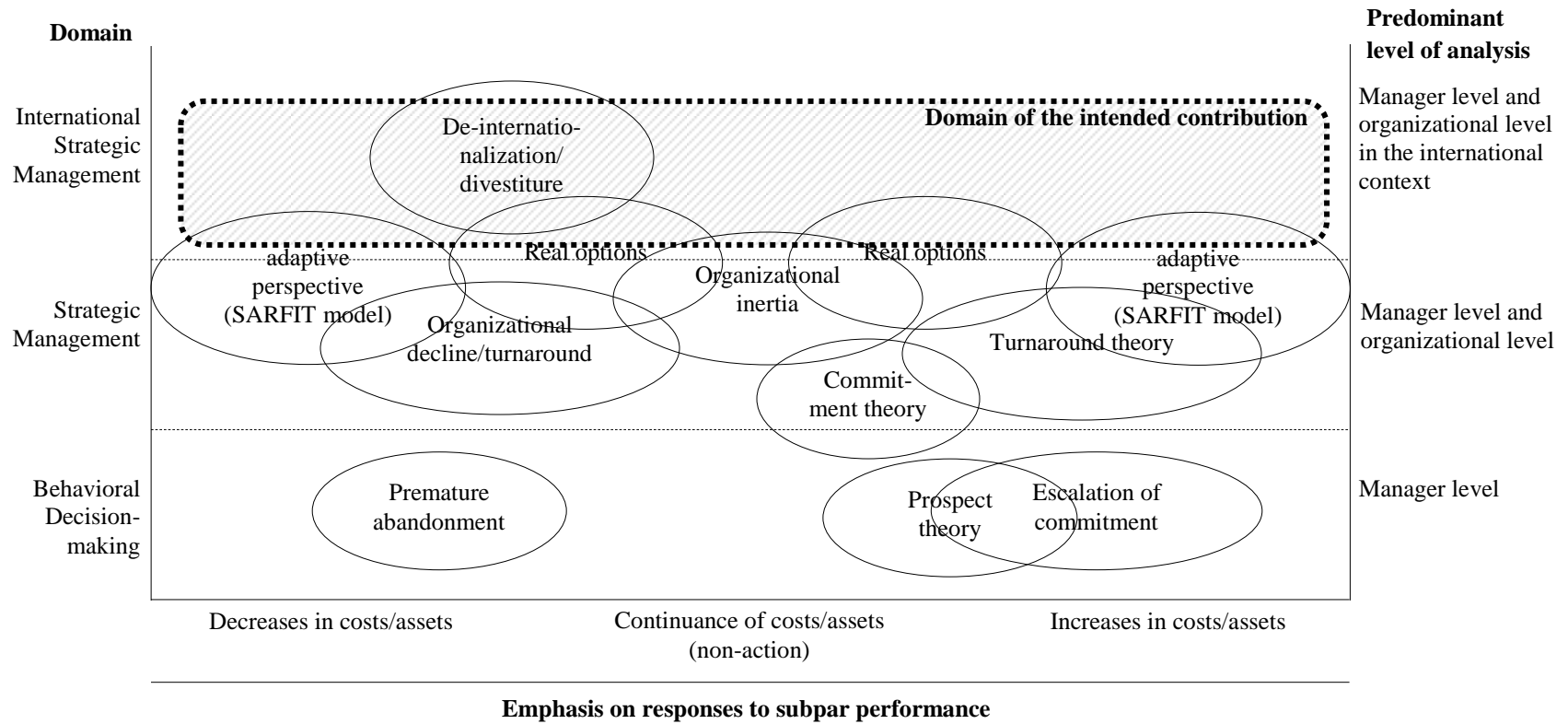
1.3 Organization of the Thesis

The subsequent chapters are organized as follows. Chapter 2 reviews the relevant literatures across three research domains, focusing on the definition and operationalization of subpar performance sequences, responses to subpar performance, and their effectiveness. This leads to a clear definition of subpar performance sequences and an identification of the research gap. Chapter 3 offers a theoretical framework based on a resource orchestration perspective which allows for an integration of the lenses reviewed in Chapter 2, by reviewing the resource-based view, dynamic capabilities, resource orchestration, and associated theoretical constructs. Hypotheses are developed in Chapter 4 which builds on the theoretical foundation from Chapter 3. Chapter 5 reviews the sample and research design. Chapter 6 summarizes the results from the sequence analysis, multinomial logit regression, gap time competing-risk event history analysis, and the estimation of (in part curvilinear) time effects. The findings are discussed, implications are reviewed, and future research directions are laid out in Chapter 7.

CHAPTER 2: LITERATURE REVIEW

In this chapter, the literatures addressing the subpar performance phenomenon are reviewed and discussed critically. Before we go into more detail regarding existing findings in the literatures on responses to subpar performance, however, it is worthwhile to clearly define two key concepts in this thesis: subpar performance and responses.

2.1 Defining the Subpar Performance Phenomenon and Response Sequences

2.1.1 Review of Definitions

The subpar performance phenomenon has been examined from the perspective of several different research domains. This has led to a smorgasbord of definitions of what constitutes a situation of subpar performance that requires some response. However, even within domains, there is a limited degree of consensus on the definition of the phenomenon. Table 2.1 offers an overview of the key studies across three research domains, including their definition and operationalization of subpar performance, samples, and key findings. Pearce & Robbins (1993: 634), for instance, coined the phenomenon *turnaround situations*, defined as "[t]he period of time the troubled firm should be engaged in turnaround efforts". Staw and Ross (1989: 216) have described the phenomenon as an *escalation situation*, thereby terming "situations in which losses have resulted from an original course of action, but where there is the possibility of turning the situation around by investing further time, money, or effort". Even others have referred to the subpar performance phenomenon as the *occurrence of financial distress* (e.g. Bruton, Oviatt & White, 1994), *substandard performance* (Bolton, 1993), *organizational decline* (e.g. Bruton et al., 2003; Trahms et al., 2013; McKinley, Latham & Braun, 2014), or even *failure* (e.g. Boyne &

Meier, 2009). Some of these definitions were categorized further, such as in the case of organizational decline in terms of its severity: *survival threatening* (e.g. Barker & Duhaime, 1997; Schmitt & Raisch, 2013; Tangpong et al., 2015) and *not necessarily survival threatening* (e.g. McKinley et al., 2014; Trahms et al., 2013; Bruton et al., 2003). Similarly, Chen & Hambrick (2012: 230) note that "Some have stipulated that declining performance, regardless of absolute level, constitutes a turnaround situation (e.g., Schendel, Patton & Riggs, 1976), whereas others have argued that performance needs to be below some absolute threshold (e.g. Barker and Mone, 1994; Hambrick and Schecter 1983)." A further categorization of the definition of organizational decline can be made in terms of the reason for it: *erosion of resources* (e.g. Francis & Desai, 2005; Trahms et al., 2013), *misfit within the niche* (e.g. Lamberg & Pajunen, 2005), or *environmental factors* besides internal ones (e.g. Gowen & Tallon, 2002).

Similarly, the operationalisations of the subpar performance phenomenon have differed, from objective measures such as Barker and Duhaime's (1997) four financially-focused criteria of decline (used also by e.g. Tangpong et al., 2015) to more perceptual measures such as survey items (e.g. Gowen & Tallon, 2002; Jas & Skelcher, 2005; Schmitt & Raisch, 2013; Lamberg & Pajunen, 2005). Moreover, the perspectives contrast on the lengths of time that is required for the minimum threshold for constituting a subpar performance phenomenon, ranging from instantaneous loss situations (e.g. Chen & Hambrick, 2012) to 2 years (e.g. Hambrick & Schecter, 1983; Robbins & Pearce, 1992; Barker & Mone, 1994; McKinley et al., 2014) to 3 or more years (e.g. Barker & Duhaime, 1997).

Table 2.1. Definitions and Operationalizations of the Subpar Performance Phenomenon.

Domain/ Literature	Authors (publication year)	Definition of the subpar performance phenomenon	Operationalization of the subpar performance phenomenon	Sample	Key finding(s)
International strategy					
International divestment	Song (2014)	"subsidiaries' internal problems including low performance" (p. 50)	"return on asset" (p. 55)	"1,560 foreign manufacturing subsidiaries of 101 Korean MNCs in 31 host countries" (p. 53) from the Korean stock exchange; (1990-2008); subsidiary-level	Using a multinational flexibility perspective, the authors find that some subsidiaries are not divested despite rising host-country labor costs. Intra-firm product shifts, greater cross-country labor cost differentials and more country options decrease the risk of divestment, while poorly performing, smaller, stand-alone subsidiaries in riskier countries are more likely to be divested.
International divestment	Berry (2013)	"poor performance is a signal that firms need to make changes to their subsidiary operation because the existing approach has not proven successful (Hoskisson and Turk 1990)" (p. 247)	"measure that the BEA has calculated for each foreign affiliate. This measure (which the BEA terms "profit-type return") is based on reported net income, but it is gross of foreign income taxes, excludes capital gains and losses and income from equity investments, and reflects certain other adjustments needed to convert profits from a financial accounting basis to an economic accounting basis." (p. 251)	12,430 manufacturing subsidiaries from the BEA benchmark and annual surveys of U.S. direct investment abroad; (1989-2004); subsidiary-level	This paper assesses interactions between firm-level and environment-level factors and their effect on divestment; surprisingly, only 1/3 of the divested subsidiaries were performing poorly; growth opportunities and the fact that poorly performing ventures may be hard to sell is preventing them to be divested; there are significant differences across the divestment decisions of firms for their related and unrelated foreign operations. If the country growth rate is high, divestments are less likely.
International divestment	Benito (2005)	"poor performers, but Weston (1989) points out that operations might be divested for other reasons than poor performance per se" (p. 238)	none (conceptual article)	none (conceptual article); subsidiary-level	Divestments have been considered in at least three literatures (industrial organization approach, financial studies, and corporate strategy perspectives). The author develops a framework that builds on international business strategies and suggests that subsidiaries in transnational MNEs are most likely to be divested, followed by those in multinational/international and global MNEs.

International divestment	Mata & Portugal (2000)	"exit [may be associated] with the failure of the foreign subsidiary. However, exit may be due to reasons other than failure."	not measured in this study: "Measuring the performance of subsidiaries of foreign companies is tricky, not least because pf the problems associated with transfer pricing." (p. 561) and identify this as room for future studies	1033 foreign firms in Portugal from the Portuguese Ministry of Employment survey (1983-1989); subsidiary-level	The determinants of closure and divestiture differ from each other: ownership configuration and organizational structure predict divestments, while the entry mode predicts closure. Only human endowments predict both outcomes, such that higher human endowments decrease the likelihood for both divestiture and closure.
International divestment	Benito & Welch (1997)	"severe problems may have emerged in managing the company's foreign subsidiaries at the same time as the external environment of these subsidiaries has become less favorable" (p. 19)	none (conceptual article)	none (conceptual article); subsidiary-level	The authors review three fields (economics, strategic management, international management) to assess how the de-internationalization phenomenon was addressed in them; then they propose a conceptual framework that relates "commitment to international operations" to partial/full withdrawal.
Strategic Management					
Organizational decline/ turnaround	Tangpong, Abebe & Li (2015)	"survival-threatening performance decline (Lim et al., 2013; Morrow et al., 2004; O'Neill, 1986)." (p. 647)	"firms that meet the following criteria [from Barker & Duhaime (1997)] were considered turnaround: (1) return on investment (ROI) above the risk-free rate of return for two consecutive years before decline; (2) during decline, ROI below both the risk-free rate of return and industry-average ROI for at least three consecutive years, and a Z-score below 3 for at least one year (indicating bankruptcy risk; Altman, 1983); (3) during recovery, ROI above the risk-free rate of return and industry-average ROI for at least three consecutive years; and (4) performance fluctuation allowed for up to three years between the decline and recovery periods." (p. 655)	48 matched pairs of firms from Compustat North American Database (1993-2008); corporate-level/ business-level	Early retrenchment (divestments and geographic market exits, not layoffs) improves turnaround success, when compared to late retrenchment.
Organizational decline/ turnaround	McKinley, Latham & Braun (2014)	"successive, year-after-year decrease in an organization's resource base that lasts for at least two	none (conceptual article)	none (conceptual article); corporate-level/business-level	Organizations can respond to decline through rigidity or innovation. Whether this leads to turnaround or a downward spiral depends on the flexibility of the

					innovation, the nature of power, controllability of causes, and the degree of permanence of the causes.
Organizational decline/ turnaround	Lim, Celly, Morse & Rowe (2013)	post-retrenchment performance (performance is the dependent variable, not a sample selection variable)	"industry adjusted return on sales (ROS) (i.e., firm ROS minus industry average ROS at the three-digit SIC code level). […] We measured performance three years after a retrenchment event to account for a potential recovery period." (pp. 47-48)	2,406 large non-diversified Japanese firms from NEEDS tapes (1991-2000); corporate-level/ business-level	Firms commonly choose between cost retrenchment and asset retrenchment. If a firm's core rent creation mechanism is Schumpetarian (exploration), cost retrenchment can be detrimental - especially in a Schumpetarian industry. If a firm's core rent creation mechanism is Richardian (exploitation), asset retrenchment can have a negative impact in less asset-intensive industries and a positive impact in more asset-intensive industries.
Organizational decline/ turnaround	Schmitt & Raisch (2013)	"an existence-threatening decline situation (Hofer, 1980; Lohrke et al., 2012)." (p. 1216)	Identification of turnaround cases by turnaround consultants; the sample was also characterized by the following: "Prior research suggests that turnaround initiatives should be selected by following a four-year period comprising two years of positive return on investment (ROI) and two years of an average pre-tax ROI below 10 per cent (Barker and Mone, 1994). While these selection criteria were reflected in our sample, we also ensured that the firms had experienced negative return on assets (ROA), as well as an absolute and a relative-to-industry decline over two years." (p. 1227)	107 out-of-court turnaround initiatives (27 Austrian, 64 German, and 16 Swiss) from a questionnaire sent to 12 Austrian, 14 German, and 7 Swiss consulting firms; (2003-2004); corporate-level/business-level	Retrenchment and recovery are contradictory and complementary at the same time. Successful turnarounds are achieved by combining efficiency-enhancing initiatives with innovation-stimulating ones.
Organizational decline/ turnaround	Trahms, Ndofor & Sirmon (2013)	"Organizational decline occurs when a firm's performance or resource base deteriorates over a sustained period of time (Bruton, Oviatt, & White, 1994; Weitzel & Jonsson, 1989)." (p. 1278)	none (conceptual article)	none (conceptual article)	The authors review the decline/turnaround literature since Pearce & Robbins's review in 1993 (whose model they expand); the literature is still fragmented, conflicting, and much more needs to be studied; assuming the lenses of resource orchestration, strategic leadership, and stakeholder issues may help.
Organizational decline/ turnaround	Chen & Hambrick (2012)	Turnaround situations: "established firms that once performed satisfactorily,	"those that had operating returns on equity (ROE, before extraordinary items) greater than their cost of	223 organizations in turnaround situations from the Standard and	CEO replacements during decline have commonly been regarded as a necessity. This study suggests that CEO

		specifically in terms of profitability, but no longer do." (p. 225)	equity (COE) for at least two consecutive years in our sample period, immediately followed by a year of operating losses (again, before extraordinary items)." (p. 230)	Poor's 1500 index; (1990-2003); corporate-level/business-level	replacement as such does not have an effect on subsequent performance. Instead, only if a better fitting CEO replaces a less well fitting one is subsequent performance improved.
Organizational decline/ turnaround	Boyne & Meier (2009)	"period of organizational failure (Pearce and Robbins, 1993)." (p. 835)	"performing in the lowest quartile on their primary assessment criterion in 1995." (p. 845)	140 Texas school districts (1995-2002); corporate-level/business-level (public sector)	Recovery from decline is not only determined by retrenchment and repositioning but also changes in the task environment (munificence and complexity) and human resources (internal succession being more beneficial than external succession). Retrenchment contributes to decline while repositioning appears to support turnaround success.
Organizational decline/ turnaround	Francis & Desai (2005)	"decline as a result of erosion of productive resources" (p. 1204)	"Two consecutive years of return on investment (ROI) above the risk-free rate of return. […] At least three consecutive years of ROI below the risk-free rate during the decline. […] At least one year within the three years of decline with a negative net income." (p. 1209-1210)	97 firms from Standard & Poor's Compustat database; (1980-1997); corporate-level/business-level	Managerially controllable factors (such as managing slack resources, increasing productivity, and cost/asset retrenchment) are more effective for turnaround success than environmental factors (such as munificence). Regarding the nature of decline, the severity of it is more impactful than its suddenness.
Organizational decline/ turnaround	Jas & Skelcher (2005)	"poor performance" (p. 196)	Categorization of councils into a "'poor' category and […] 'weak' category having a very low capacity to improve [thereby] identified by central government as 'poorly performing'" (p. 198)	Interviews with ~20 staff members from 5 English local authorities (councils) and a broader sample of 15 councils drawn from the Comprehensive Performance Assessment results (3 years); corporate-level/business-level (public sector).	"The […] typical performance of public organizations over time is cyclical. Where cognition and leadership capability are absent, organizations fail to self-initiate turnaround. In this situation authoritative external intervention is necessary. The strategies applied are principally concerned with building a leadership capability that engages senior politicians and managers in order to overcome inertia and collective action problems. The theory is presented in the form of seven propositions" (p. 195)
Folktale theory	Lamberg & Pajunen (2005)	Organizational decline: "deterioration in an organization's adaptation to its microniche and the associated reduction in resources within the	Case study of the Finnish company Enso-Gutzeit: "several problems as regards profitability and organizational performance […and] multiple problems in decision-making and organizational	Enso-Gutzeit (Finnish paper and pulp company); mainly (1945-1990)	The authors use an organizational storytelling technique to illustrate how Enso-Gutzeit went through seven stages during the decline: "interregnum, institutionalization, complication, counteraction/ reaction, external catalyst,

		organization (Cameron et al., 1987, 1988; McKinley, 1993; Mentzer & Near, 1992; Whetten, 1980)." (p. 549)	performance" (p. 954)		open battle, and harmonization" (p. 969)
Organizational decline/ turnaround	Kow (2004)	"organizations that, for a variety of reasons, are not demonstrating performance that is acceptable to stockholders, analysts, vendors and employees" (p. 229)	none (conceptual article)	none (conceptual article)	The author identifies six key elements of a successful turnaround strategy: "(1) an appropriate strategic vision; (2) an organizational structure; (3) a set of business processes; (4) a human resource architecture that will support the vision; (5) technological innovation that will nourish the organization as well as enhances the product ranges; and (6) an organizational culture that will accept and commit to the effort." (p. 229)
Organizational decline/ turnaround	Morrow, Johnson & Busenitz (2004)	"declining financial performance" (p. 189)	"(1) The firm had to experience at least three years of declining performance (ROI) preceded by two years of successive increases in firm performance, and (2) the firm had to engage in some form of cost or asset retrenchment. [The] firm [also] had to announce the use of retrenchment techniques such as cost cutting, plant closings, asset sales, employee layoffs etc. in order to be sure decreases in costs and assets were due to retrenchment." (p. 197)	412 single-business manufacturing firms from Compustat tapes; (1980-1995); business-level	The effects of cost and asset retrenchment depend on whether the business is situated in a growth industry (asset retrenchment has a positive effect) or a declining industry (cost retrenchment has a positive effect: asset retrenchment has a negative effect).
Organizational decline/ turnaround	Bruton, Ahlstrom & Wan (2003)	"pattern of performance decline (Schendel, Patton, and Riggs, 1976)" (p. 522)	"all sample firms suffered a decline in ROI for 3 consecutive years, with those ROIs being below the risk-free rate of return, and with an accounting loss in the last year of the 3-year decline cycle." (p. 527)	90 overseas Chinese firms in decline (44 from Hong Kong, 31 from Singapore, and 15 from Taiwan); from the Pacific-Basin Capital Markets databases and annual reports; interviews with 19 leading turnaround practitioners and 5 firms undergoing a turnaround (1979-1998)	Turnaround is usually a US-based concept and cannot be assumed to apply to other contexts; some parts may be applicable though, which supports Robbins & Pearce (1992); reducing sales is beneficial to prune to the core business but other actions may not be as productive.
Organizational decline/	Gowen & Tallon	"declining internal or environmental business	Survey; "The six antecedents to turnaround items were: (1) decreasing	65 surveys from American electronics	"significant differences [between American and US subsidiaries of

turnaround	(2002)	situation (Barker & Duhaime, 1997; DeWitt, 1998; McKinley, 1993; Pearce & Robbins, 1994; Shook, 1998)." (p. 226)	product line profitability; (2) decreasing account profitability; (3) fluctuating foreign currency rates; (4) increasing financial expenses; (5) increasing production/operations costs; and (6) increasing unproductive assets." (p. 234)	firms and 65 surveys from Japanese electronics firms' subsidiaries in the US; (cross-sectional); corporate/business- and subsidiary-level	Japanese electronics firms] exist among levels of strategy implementation in assessing the need for a turnaround strategy, the actions taken to reverse an adverse situation, and the relative success of the actions. In addition to greater capacity utilization, low turnaround plans are generally enacted by redesigning the product or process, but successful high turnaround plans are implemented most often by gain sharing or profit sharing, as well as by eliminating unprofitable products. American firms achieve greater return on investment, operating profit margin, and cash flow, but lower sales growth and less unit labor cost improvement than Japanese corporations." (p. 225)
Organizational decline/ turnaround	Barker & Duhaime (1997)	"survival-threatening performance decline over a period of years" (p. 18)	All four criteria must be fulfilled: *"At least three (3) consecutive years* of return on invested capital (net income/total investment) below the risk-free rate of return. […] An Altman's (1968, 1983) bankruptcy prediction Z-score of less than 3.00 for at least 1 year during this downturn. […] A performance recovery characterized by *at least 3 years* of return on invested capital above the risk-free rate of return, *continuing to and including the latest fiscal year* (FY 1988) before the Chief Executives of the sample firms were surveyed in late 1989 and early 1990. [...] Up to 3 years of fluctuating performance above and below the risk-free rate of return was allowed between downturn and upturn." (p. 21-22)	120 successful turnaround manufacturing firms from Standard & Poor's Compustat (1974-1988); corporate-level/business-level	The authors address the discrepancy between early turnaround scholars and large sample studies. They provide support for the contingency approach developed by early turnaround scholars by suggesting that firm-based causes of decline are best met with strategic turnaround actions. Large-sample studies may have been in contradiction to this approach because they did not account for the cause of the decline and may have been subject to a sample selection bias.
Organizational decline/ turnaround	Daily & Dalton (1995)	"5-year period prior to corporate bankruptcy" (p. 393)	"5-year period prior to corporate bankruptcy" (p. 393)	Sample 1: 57 bankrupt firms and 57 matched control firms (1973-1982); Sample 2: 50 bankrupt and 50 matched control firms	Although the CEO and director turnover rates may be higher in failing firms, the changes are often not in the direction that would be recommended (e.g. more independent boards, separation of CEO and chairperson positions).

				from Predicast's F&S Index of Companies; corporate-level/business-level	
Organizational decline/ turnaround	Lindsley, Brass, & Thomas (1995)	Efficacy-performance spirals: "a pattern of consecutive increases (or decreases) in both perceived efficacy and performance over a minimum of three task attempts" (p. 650)	none (conceptual article)	none (conceptual article)	The authors build a conceptual foundation for explaining why some firms would experience minor fluctuations in performance (self-correcting cycles), while others continue to decline until their performance becomes survival threatening (downward spirals). Spirals can interact with all levels in an organization (individuals, groups, and the entire organization).
Organizational decline/ turnaround	Bruton, Oviatt & White (1994)	"distressed [„.] poorly performing firm" (p. 973)	"Selected firms suffered simultaneous declines in net income and ROI." (p. 976)	51 distressed and 46 nondistressed acquisitions from Standard & Poor's Compustat database; (1979-1987)	"In 51 acquisitions of financially distressed firms, related business combinations in which the acquirers had prior acquisition experience performed best. However, business relatedness and acquisition experience had no effect on performance in a control group of 46 acquisitions of firms that were not distressed. The results imply that tacit knowledge about the acquisition process" (p. 972)
Organizational decline/ turnaround	Barker & Mone (1994)	"steep performance decline during which a firm's financial performance is extremely poor" (p. 395).	"minimum of at least two successive years of performance decline during 1976-85, measured by reductions in ROI. This decline had to follow at least 2 years of successive increases in positive ROI. Within each firm's period of decline, the year of sharpest performance decline (SPD) was identified by selecting the year with the largest absolute ROI decrease. If more than one period of decline occurred, the first period was used in the analyses." (p. 398)	32 U.S. textile mill companies with data from Standard & Poor's Compustat database; (1976-1985); corporate-level/business-level	The authors criticize Robbins & Pearce's (1992) findings by suggesting that retrenchment can be a result of decline, rather than a cause of turnaround performance. They replicate the 1992 study and the dominant role of retrenchment in turnaround success may need to be viewed more carefully.
Organizational decline/ turnaround	Pearce & Robbins (1994)	none (response to Barker & Mone, 1994)	none (response to Barker & Mone, 1994)	none (response to Barker & Mone, 1994)	The authors criticise that the replication of their study by Barker and Mone (1994) was not sufficient and that the original findings still hold.
Organizational decline/	Pearce & Robbins	Turnaround situation: "The period of time the troubled	none (conceptual article)	none (conceptual article)	Previous research can be summarized as having four implications regarding

turnaround	(1993)	firm should be engaged in turnaround efforts." (p. 634)			causes, severity, recovery strategies, and multistage perspectives. This led to the authors condensing them into one model and suggesting aspects to keep in mind for future research on turnaround.
Organizational decline/ turnaround	Robbins & Pearce (1992)	Turnaround situation: "Firms experience turnaround situations when performance criteria are sufficiently depressed to warrant turnaround efforts" (p. 307)	"To have experienced a turnaround situation the firm had to satisfy each of the following qualifications: two successive years of increasing ROI and ROS followed by: (1) absolute, simultaneous declines in ROI and ROS for a minimum of 2 years, and (2) a rate of decline in ROI and ROS greater than the industry average over this 2-year period." (p. 295)	32 U.S. textile mill companies with data from the company's annual reports; (1976-1985); corporate-level/business-level	Cost retrenchment (mostly inventory and interest expenses) occurred in many cases and appeared to achieve a higher level of subsequent ROI than other actions. In severe cases, asset retrenchment was necessary as well. Both together achieved the highest level of turnaround success. Retrenchment occurred less often if the cause of the decline was suspected to be due to external factors.
Organizational decline/ turnaround	Weitzel & Jonsson (1989)	"Organizations enter the state of decline when they fail to anticipate, recognize, avoid, neutralize, or adapt to external or internal pressures that threaten the organization's long-term survival" (p. 94)	none (conceptual article)	none (conceptual article)	Decline in organizations may occur in several stages: blinded, inaction, faulty action, crisis, and dissolution. Recovery from the decline may occur at each stage (except for the dissolution stage) if an appropriate response is administered.
Organizational decline/ turnaround	Thietart (1988)	"I used two main criteria to identify the businesses performing poorly: (1) low profitability and (2) declining market share." (p. 36)	"I considered a business to be performing poorly if (1) the ROI for the first two years under study was less than half the group's average ROI; and (2) if the real sales growth for the first two years under study was lower than the real market growth, meaning that the business was losing market share" (p. 36)	217 businesses from the PIMS (Profit Impact of Market Strategy) database; corporate-level/business-level	The effectiveness of strategies depends on whether the firm is pursuing a growth or profitability objective. Also, the competitive characteristics of the industry and the strategic posture of the business impose contingency effects.
Organizational decline/ turnaround	Hofer (1980)	Turnaround situations involve "declines in organizational profitability, with those involving declines in sales or market share not far behind. […]"	Assessment of current operating health (financial condition, market position, technological stance, production capabilities) and current strategic health (product/market matrix, technological and production capabilities, financial capabilities)	12 turnaround situations in 10 companies; (1951-1978); corporate-level/business-level	The author offers guidelines to assess operating and strategic health and tests this on a case-based sample of 12 turnaround situations. He finds that many firms that did not achieve turnaround performed an operating response when a strategic response would have been more fitting.
Organizational decline/ turnaround	Whetten (1980)	"decline-as-stagnation and decline-as cutback" (p. 582)	none (conceptual article), but notes that in "the past, decline has been operationalized as decrease in the	none (conceptual article)	Organizational decline is an understudied subject in organizational science, probably due to the bias towards

		number of staff, profitability, budget, or demand for products or services" (p. 583)			studying growth. Studying decline is important, however, especially since more firms are starting to have to cut back. The author proposes an agenda for addressing decline.
Organizational decline/ turnaround	Schendel & Patton (1976)	"The performance pattern of interest has two distinct parts: one, an initial, decline phase of sub-GNP growth in income; and two, a second, upturn phase of greater-than-GNP income growth. Our interest is in firms that experience the second phase matched against similar firms in similar circumstances that do not recover and do not enjoy the second phase" (p. 236)	"average percent change in net income, normalized to reflect growth in gross national product (GNP)" (p. 236)	36 matched pairs of firms from Standard & Poor's Compustat dataset (1952-1971); corporate-level/business-level	Through a combination of quantitative and qualitative analysis, this exploratory study reveals that there are differences between those firms that turn around and those that do not in terms of increases in sales, market share, types and effectiveness of investments, execution and/or timing of strategy, type of growth strategy, culture, and uncontrollable environmental aspects.
Organizational decline/ turnaround	Schendel, Patton, & Riggs (1979)	Turnaround situation: "decline and recovery in performance. Because profit is one of the main objectives of business firms, performance is measured in terms of net income earned." (p. 3)	"Downturn Phase: Four years of uninterrupted decline in net income as normalized by Gross National Product (GNP) growth. Upturn Phase: Four years of increase in net income with allowance for a two year deviation between the downturn and upturn phase. Again, net income was normalized by GNP growth." (p. 3)	54 domestic manufacturing firms from Standard & Poor's Compustat database; (1952-71); domestic corporate level/ business-level	Downturn phases seem to occur due to efficiency declines while upturn phases are often triggered by strategic changes. Turnarounds appear to be attributable to management action, rather than uncontrollable external events. Significant responses are required to break inertia and affect a turnaround.
Behavioral decision-making					
Escalation of commitment	Hsieh, Tsai & Chen (2015)	"scenarios in which a firm had been operating at a loss ever since its initial entry into a location" (p. 45)	"scenarios in which a firm had been operating at a loss ever since its initial entry into a location" (p. 45)	1,595 actions taken by 51 Taiwanese IT companies in China, (1998-2011); subsidiary-level	Firms engage in more escalating behavior when they receive specific cues (e.g. large competitors having a high volume of strategic action, small competitors having been operating profitably) or less escalating behavior if they receive other specific cues (e.g. larger competitor having been operating at a loss in the same location) from the environment.
Escalation of commitment	Sleesman, Conlon,	"One of the most robust and costly decision errors	none (meta-analysis)	meta-analysis of 166 articles on escalation of	There has been 35 years of research in the escalation of commitment literature -

	McNamara & Miles (2012)	addressed in the organizational sciences has been the proclivity for decision makers to maintain commitment to losing courses of action, even in the face of quite negative news" (p. 541).		commitment	however, most of it has focused on psychological and project related determinants; much fewer have focused on the organizational level, social/structural determinants, longitudinal studies, and field settings (non-lab). The authors develop 16 hypotheses from existing studies and develop 4 more (including moderation effects) to refine/qualify the knowledge and advice about existing relationships.
Organizational risk-taking	Audia & Greve (2006)	performance below a specific aspiration level	"return on equity (ROE), return on assets (ROA), and return on sales (ROS). […] Performance measures are evaluated against aspiration levels, which [were calculated] by taking an exponentially weighted average of past values on the performance variable" (p. 87)	11 shipbuilders from the Tokyo and Osaka Stock exchanges; (1974-1995); corporate-level/business-level	The findings show that when performance fell below the aspiration level, risk-taking behavior (regarding factory expansion) was reduced in small firms, which are contrary to the predictions of prospect theory. However, in larger firms, risk-taking behavior was either not affected or increased.
Escalation of commitment	Staw & Ross (1989)	Escalation situation: "situations in which losses have resulted from an original course of action, but where there is the possibility of turning the situation around by investing further time, money, or effort." (p. 216)	none (conceptual article)	none (conceptual article)	The authors propose a three-stage model of the escalation process. Determinants of escalation (project, psychological, social, and organizational) have different degrees of influence at different stages of the model.
Escalation of commitment	Staw (1976)	"negative consequences" (p. 27) of decisions and behavior	In a case-based experiment: "subjects in the negative consequences condition received financial data which showed a deepening decline in the profitability of the chosen division but an improvement in the unchosen division." (p. 32)	240 business undergraduates from the University of Illinois; individual-level	This study is the first to show that "the primary effect of responsibility and consequences was that individuals invested a substantially greater amount of resources when they were personally responsible for negative consequences." (p. 39).

Given that there is a wide array of definitions and operationalisations of the subpar performance phenomenon in the extant literature, a clear demarcation of the concept is needed. The following sections narrow the concept down to its specific use in the context of this thesis.

2.1.2 Scope of the Subpar Performance Definition

For the purpose of this thesis, the subpar performance phenomenon is understood in the spirit of Robbins and Pearce (1992: 307), who offered the following definition: "Firms experience turnaround situations when performance criteria are sufficiently depressed to warrant turnaround efforts". This definition encompasses all subpar performance situations that require a response, not just those that are directional (*organizational decline*) or potentially terminal (*failure*, *survival-threatening*). Moreover, we take a softer approach than Chen and Hambrick (2012: 230) who included only "genuinely troubled firms rather than simply stagnant or slowly deteriorating firms" in their sample. Since those stagnant or slowly deteriorating firms generally also require a managerial response in a typically global, competitive, and growth-oriented environment, they are included into the sample of this thesis.

2.1.3 Operationalizations of Subpar Performance in the Extant Literature

As Trahms et al. (2013: 1302) note, "[t]here are currently no set standards for measuring decline or turnaround." Since the level of analysis in this study is the foreign subsidiary, some measures that are commonly used to assess corporate-level or business-level decline are not available or are not easily comparable due to transfer pricing. Moreover, past research has highlighted the multidimensionality of the performance construct (Combs, Crook & Shook,

2005), suggesting that ideally, research should "use at least two of the three measures (market, accounting, and subjective)" of performance (Rowe & Morrow, 1999: 69). In order to build a foundation for devising a clear definition of the subpar performance sequence phenomenon, different ways of measuring performance have been used. This thesis incorporates two types of measures: accounting measures (change in subsidiary-level sales, change in employee productivity) and a perceptual measure of financial performance (gain vs. break-even vs. loss). The focus, however, is on sales as will be elaborated in Chapter 5.

Various studies have suggested that subjective measures of firm financial performance are an important component of the overarching performance construct (Rowe & Morrow, 1999). Anderson (1990) suggests that the use of subjective measures can be useful when subsidiaries are compared that have very different purposes and thus different performance indicators. The perceptual measure of financial performance used as a robustness check in this thesis is based on an assessment of the subsidiary's performance by managers. Thus, any performance perception is likely to encompass not only a valuation of the financial performance of the subsidiary but also other, less tangible performance criteria such as effectiveness of processes, quality of collaboration (in the case of joint ventures), or prospects of the venture.

We argue that excluding market-based measures of firm financial performance does not jeopardize the soundness of the subsidiary-level measurement of performance for two reasons: 1) Rowe and Morrow (1999) found that market measures showed the lowest loadings with the higher-order firm financial performance construct, suggesting that the accounting dimension and subjective dimension are stronger indicators of firm financial performance, and 2) market-based measures of firm performance are generally not available for the subsidiary-level. Thus, we aim

to build on existing literature by focusing on the most useful measure of performance in this context (sales) but test our hypotheses using alternative operationalizations, too.

2.1.4 Minimum Length of the Subpar Performance Phenomenon

With regards to the minimum length of the subpar performance phenomenon, this thesis emphasizes the sequential nature of the phenomenon (e.g. Pearce & Robbins, 1993; Lamberg & Pajunen, 2005). While a single occurrence of a subpar performance period may happen by chance and be an isolated occurrence, a multi-year occurrence is indicative of a more structurally embedded concern that requires a strategic response. Therefore, the minimum length of the subpar performance phenomenon is defined in this study to be two years. This approach has been used in comparable studies, such as Tangpong et al. (2015).

2.1.5 Defining the Unit of Analysis: Response Sequences

The patterns of subpar performance as described above are the context in which strategic action (or non-action) is observed. The observations are made for each period of the subpar performance phenomenon and all the observations together form a sequence with a length of at least two years. Brzinsky-Fay, Kohler, and Luniak (2006: 435) define a sequence "as an ordered list of elements". Figure 2.1 offers a schematic illustration of two response sequences.

In Figure 2.1, Subsidiary A experiences a subpar performance sequence that lasts seven years. Per definition, the first two years are not included in the analysis time and any responses are recorded thereafter. In the case of Subsidiary A, the response sequence consists of three

strategic actions taken and two years of no action being taken (=five elements), until recovery to pre-decline levels is attained. In comparison, Subsidiary B's subpar performance sequence lasts for six years and encompasses four response elements: one workforce reduction response in Year 3 and no responses thereafter. The response sequence ends with the exit of the subsidiary. This perspective on the unit of analysis being response sequences is somewhat similar to Tangpong et al. (2015) and Hsieh et al.'s (2015: 58) construction of firm histories which includes events (actions), spells, and gap times. In contrast to the latter, however, the subpar performance and the associated response sequence do not necessarily have to start with the firm's initial entry but may occur at any point during the subsidiary's observed life span.

In sum, response sequences are defined in this study as *an ordered list of strategic responses (or non-responses) against the background of subpar performance criteria which have occurred over at least two consecutive years. These do not necessarily start from the firm's foundation and are not necessarily increasing in severity or posing an immediate threat to survival. The sequence typically ends with either recovery to pre-decline levels of the subpar performance measure or the exit of the foreign subsidiary[2].*

Having thus generated a definition of the subpar performance phenomenon employed in this thesis, we now turn towards a broader review of the literature.

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[2] Note that there are also cases of right censoring, whereby some sequences will end because no further observations are available (before any of the two events have occurred).

Figure 2.1. Illustration of Response Sequences.

	(Year 1)	(Year 2)	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8

SUBSIDIARY A

Unit of analysis: response sequence

| | | | No response | Switch to WOS | More expat-riates | No response | More employ-ees | |

Subsidiary age

Pre-decline phase | Decline phase | Upturn phase | Recovery

	(Year 1)	(Year 2)	Year 3	Year 4	Year 5	Year 6

SUBSIDIARY B

Unit of analysis: response sequence

| | | | Fewer employ-ees | No response | No response | No response |

Subsidiary age

Pre-decline phase | Decline phase | Exit

Note: This figure is adapted from Figure 2 in Tangpong et al. (2015).

2.2 Overview of the Literature on Subpar Performance, Responses, and Turnarounds

In general, research in the field of business and strategy has been heavily skewed towards studying successful firms and identifying factors that lead to the further enhancement of various measures of performance such as profitability, financial performance, or degree of internationalization (Ghemawat, 1991; Johanson & Vahlne, 1977; 2009). Scholars have discussed several reasons for this observation, from the inconvenience of obtaining suitable (longitudinal) data to the undesirability of addressing negative subjects such as poor performance and failure (Turcan, 2013). Thus, the fixation on growth and expansion resulted in much less scholarly attention on the phenomenon of poorly performing businesses, contracting industries, and organizational decline (Pearce & Robbins, 1993).

Nonetheless, some literature streams have emerged that share the common denominator of focusing on experiences of subpar performance. One notable aspect of the subpar performance phenomenon is that it has been examined at multiple levels of analysis: the individual (manager) level, the domestic (single-country) firm level, and the international firm level. While the first level of analysis is generally examined in the domain of behavioral decision-making, the latter two levels are typically associated with strategic management and international strategy respectively. Studies have mushroomed in each of these domains but not to the point at which a unified theory of turnarounds has emerged (Pearce & Robbins, 1993: 614; Trahms et al., 2013) - neither within nor across domains.

In the following sections, the studies in each domain are surveyed in depth. The literature review was conducted by first exploring major reviews and meta-analysis, followed by considering the journal articles contained in each of them. References to relevant articles within each article were drawn from as well. Moreover, searches in several databases (ProQuest,

ABI/INFORM, Google Scholar), using key words such as *subpar performance*, *poor performance, organizational decline, organizational distress, and turnaround* were conducted to add any other relevant article[3].

In general, there is some degree of overlap between domains but only in certain areas. Given the focus of this thesis' research questions, which aim at understanding responses to subpar performance at the foreign subsidiary level, the literature review will begin with an assessment of relevant studies in the international strategy domain, then expand to the strategic management domain more generally, and conclude with an evaluation of the behavioral decision-making domain.

2.2.1 International Firm-Level Studies of Responses to Subpar Performance (International Strategy Domain)

Research in the international strategic (ISM) management domain has grown considerably over the past decades (for reviews, see Lu, 2003; Bruton, Lohrke & Lu, 2004). Bruton et al. (2004: 422) define the main question to be answered in ISM as ''to what extent do various environmental and organizational factors impact an MNE's ability to outperform its competitors over time?'' Poor performance at the subsidiary-level is an important phenomenon to be investigated in this realm since it can affect the MNE's overall competitive position. In the ISM stream, poor performance is understood to be "a signal that firms need to make changes to their subsidiary operation because the existing approach has not proven successful (Hoskisson

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[3] Given the vastness of the organizational decline/turnaround and escalation of commitment literatures in particular (both have a body of research of about 40 years), we focused on including the articles that are most informative to this thesis.

and Turk 1990)" (Berry, 2013: 247), assuming that the subsidiary has grown beyond its initial years during which performance may often and expectedly be subpar.

Notably little research has hitherto been conducted in this area. Lu (2003) identified 393 articles in the ISM realm, out of which only four fell into the subcategory of turnarounds/declines. Most of these examine the concept of de-internationalization (other terms include divestment, divestiture, retrenchment, and downsizing) (Benito & Welch, 1997; Mata & Portugal, 2000; Benito, 2005) which has evolved into a slowly growing field of investigation (cf. also Duhaime & Grant, 1984; Harrigan, 1981; Calof & Beamish, 1995; Benito, 2005, Turcan, 2013). Indeed, most divestment studies were conducted in other fields like the industrial organization approach, financial studies, and corporate strategy perspectives (Benito, 2005). Real options logic also extends into this domain. Cuypers and Martin (2010: 49) define real options as "strategies of organizations, since the capabilities and assets of an organization can be seen as a bundle of options for future strategic choices. These options are called "real options" and can be defined as contingent investment commitments in an asset or capability, rather than in a financial contract, which secure decision." The key notion of this lens is that making an investment (financial or otherwise) contains a certain element of flexibility such that it opens the door to future possibilities (Adner & Levinthal, 2004). Such flexibility can be a competitive advantage, as Kogut and Kulatika (1994) illustrate in their study of MNE decision-making regarding global manufacturing and production shifting in light of environmental uncertainty such as exchange rate fluctuations. Signals from the environment can suggest that the venture's value has risen or fallen. A signal of increased value tends to lead to a subsequent acquisition, while a signal of decreased value will only lead to dissolution if further investment would be required and operating costs are at a substantive level (Kogut, 1991: 20). Since Kogut's (1991) study on joint

ventures, real options logic has become an important lens in both strategic management and ISM, as mirrored by Eden's (2009: 357) comment that real options logic constitutes an "important lens for understanding MNE strategic decision-making".

Note that the literature on internationalization, on the other hand, does not predominantly fit into the scope of this literature review since even though there are conceptualizations of changes in commitment to a foreign venture (e.g. Johanson & Vahlne, 1977; 2009), these do not take *negative* performance signals as the starting point of the investigation. However, the retracting of commitment as suggested in that stream is very closely mirrored by the de-internationalization literature.

Since Lu's (2003) review, more studies on de-internationalization have emerged and have refined the relationship between poor performance and international divestments (c.f. Berry, 2013; Turcan, 2013; Celly, 2008). For instance, Benito (2005) argues that subsidiaries in a transnational MNE may be more prone to failure due to the inherent complexity of the strategy. He thus offers a theoretical framework which suggests that foreign subsidiaries which are part of a transnational MNE are most likely to be divested, followed by those in a multinational MNE, international MNE, and subsidiaries in a global MNE having the lowest likelihood of being divested. Berry (2013: 258) found that the negative relationship between performance and divestments only holds for subsidiaries in countries with "low growth, policy stability, and exchange rate stability" and may differ for related and unrelated subsidiaries. Moreover, Celly (2008) examined both the antecedents and the consequences of downsizing in an international sample of Japanese subsidiaries, thus offering a more comprehensive assessment of the phenomenon compared to previous studies.

However, despite its promising trajectory, this line of research falls short of a comprehensive analysis of response sequences to subpar performance for two reasons. First, as scholars in this realm have repeatedly asserted (e.g. Weston, 1989; Mata & Portugal, 2000; Benito, 2005), divestments of foreign operations may occur in response to subpar performance - but not necessarily so. An alternative reason for divestments may be a strategic reorientation of the parent firm and the decision that the subsidiary does not fit into the corporate portfolio any longer (Mata & Portugal, 2000: 561; Benito, 2005: 245). Indeed, as Hamilton & Chow (1993: 484) suggest, the reasons for divestment are manifold, ranging from a refocusing on core activities, meeting corporate liquidity requirements, to shifting resources into units with greater opportunities and many others (their study lists 30 different motives). Similarly, Berry (2013: 246) noted that in their sample of US-based multinational enterprises, "only about one-third of the divested foreign operations […] were poorly performing".

Second, the literature on de-internationalization/divestitures has typically focused on complete withdrawal from the respective foreign location. For instance, Mata and Portugal (2000: 554) consider foreign firm divestiture as the case "where the firm continues to operate, but no longer with foreign capital participation." Hamilton and Chow (1993: 480) found in their sample of New Zealand companies that 78 percent of divestments occurred in the form of complete sell-offs. Few exceptions of investigations into partial divestments exist, such as Celly's (2008: 190) finding that there is a negative linear relationship between the degree of downsizing and subsidiary performance.

Third, alternative lenses such as the real options lens are rather restrictive in their applicability. Specific parameters must be present in order for real options logic to be an appropriate lens - such as the level of uncertainty and irreversibility of an investment, as well as

the degree of flexibility in the target market choice and technical agenda (Adner & Levinthal, 2004). As such, the real options lens may mostly apply to decisions of a rather binary nature (dissolution versus continuance, moving of operations versus not moving operations) given certain signals from the environment, rather than finer-grained differentiations between a larger number of different responses to subpar performance.

Thus, while the de-internationalization and divestment literature in the ISM domain has generated valuable insights, to our knowledge no comprehensive assessment exists that focuses specifically on responses to subpar performance at the foreign subsidiary level *per se*. The stream on de-internationalization has focused on predicting the likelihood of divestments, for which poor performance is but one predictor (Berry, 2013). However, moving poor performance into the centre of attention opens the inquiry up for the exploration of new avenues in terms of appropriate responses, not solely in the direction of a decrease in commitment. Such a somewhat broader investigation of responses to the subpar performance phenomenon can be found in the turnover/organizational decline literature in the strategic management domain though, which is where this review turns to next.

2.2.2 Single-Country Firm-Level Studies of Responses to Subpar Performance (Strategic Management Domain)

The strategic management domain has been described as dealing "with the major intended and emergent initiatives taken by general managers on behalf of owners, involving utilization of resources, to enhance the performance of firms in their external environments." (Nag, Hambrick & Chen, 2007; italicization removed). Thus, a key difference to international

strategy research is a much lower emphasis on issues related to the operation of multinational enterprises, foreign subsidiaries, and their interactions with a global environment.

The largest literature within the strategic management domain which concerns itself with responses to subpar performance is that of turnaround/organizational decline (for a review, see Trahms et al., 2013). This literature emerged from the seminal work by Schendel and Hofer and Hedberg and Starbuck in the 1970s (see Barker & Duhaime, 1997, for a review) and investigates the "[e]fforts of a financially troubled firm to pursue a return-to-growth strategy" (Pearce & Robbins, 1993: 634).

Barker and Duhaime (1997: 14) discuss two distinct streams within the literature which emerged in the late 1970s that have shaped the literature to date. The first stream examines performance declines in terms of "a strategic decision problem to be solved by a turnaround strategy". Any responses undertaken in this regard aim to address the core problems of the firm which are either operational (subpar efficiency) or strategic (weak competitive position) in nature (cf. also Trahms et al.'s review, 2013). The second stream views performance declines as indications of firm-level stagnation, caused by a misfit between the organization's strategy, structure, ideology and the constantly changing environment. These approaches are based on contingency models, whereby the appropriate strategic response depends on the cause of the performance decline, with weak strategic positioning being the primary cause and inertia being a strong force against implementing strategic change. As pointed out by Barker and Duhaime (1997), however, some large sample studies have failed to confirm the validity of strategic change for turnaround success.

Several theoretical frameworks were offered, such as Weitzel and Jonsson's (1989) stage model, whereby organizational decline occurs in five stages of blindness, inaction, faulty action, crisis, and dissolution. Appropriate responses at any of these stages (except the dissolution stage) can turn the organization around (see Figure 2.2).

Another framework was offered by Pearce and Robbins (1993) who conceptualized organizational decline as a sequential process of a turnaround situation and turnaround responses. Their focus lies on retrenchment activities that could take the form of cost reductions or asset reductions, depending on the severity of the decline, see Figure 2.3.

Figure 2.2 Five-Stage Model Of Organizational Decline (Weitzel & Jonsson, 1989: 102).
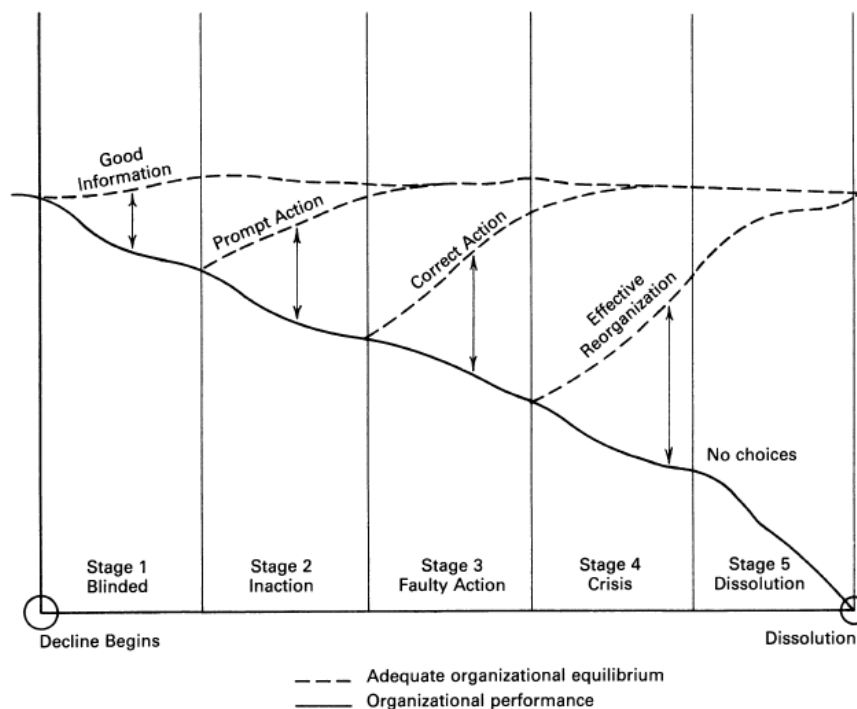
Figure 2.3. Turnaround Process Model (Pearce & Robbins, 1993: 624; Recreated).

Turnaround Situation		Turnaround Response	
Cause	Severity	Retrenchment Phase	Recovery Phase
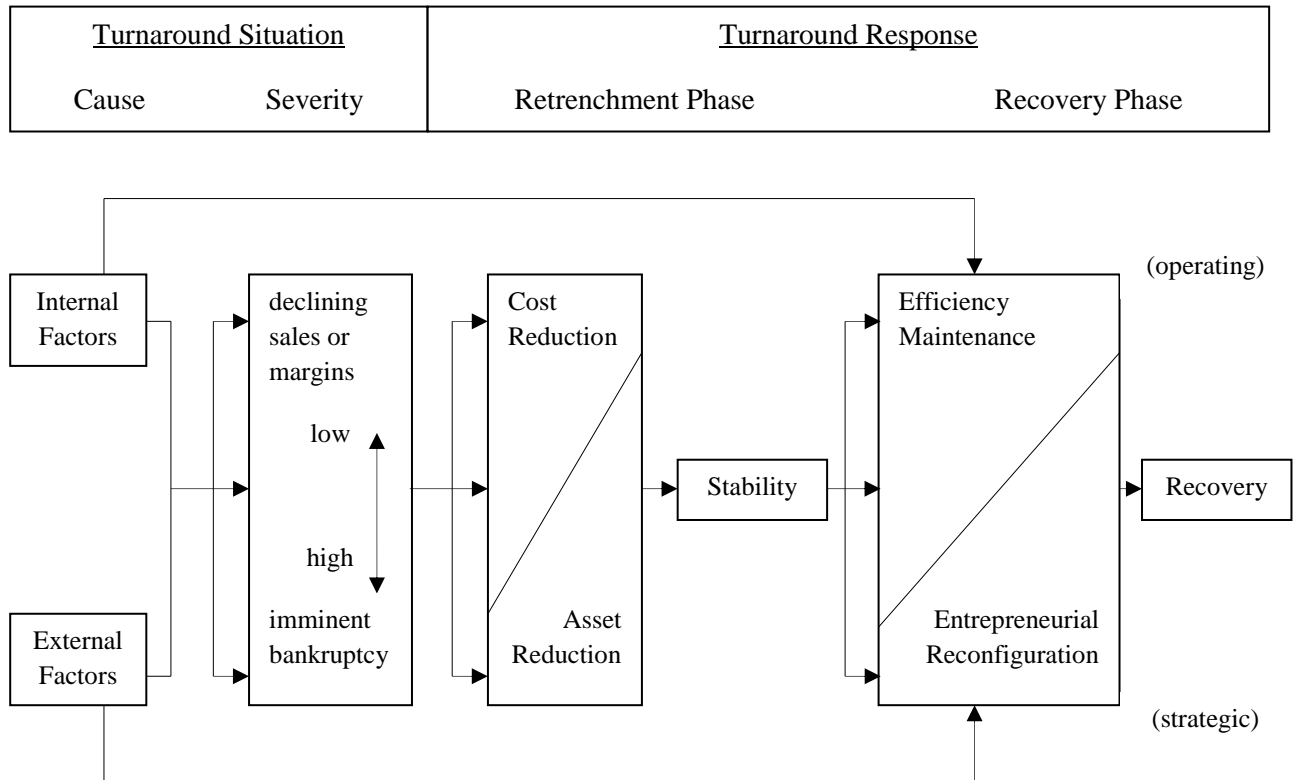
A more recent categorization of studies in the literature was provided by Trahms et al. (2013) who built on Pearce and Robbins' (1993) two-stage model of decline and turnaround. Trahms et al. (2013) divide the investigation of the phenomemon into internal and external causes of decline, response factors (managerial cognition, strategic leadership, stakeholder management), strategic and operational firm actions, and several types of outcomes (in terms of their severity). The resulting framework is depicted in Figure 2.4

Despite these advances, Trahms et al. (2013) note that there is much more to be investigated about the subpar performance phenomenon. For instance, while there are a number of studies focusing on the causes of decline and the predictions of response factors, there are much fewer studies on the outcomes of such turnaround actions. In fact, Trahms et al. (2013)

Figure 2.4. Turnaround Process Model (Trahms et al., 2013: 1288).
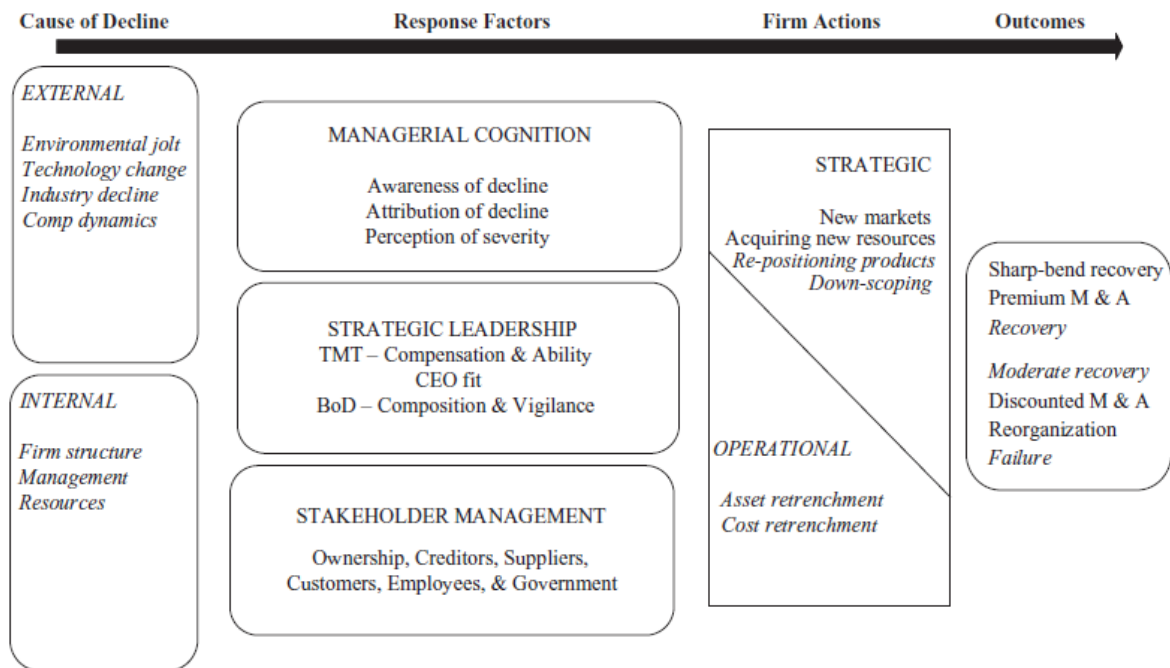
Note: Italicized constructs represent components from Pearce and Robbins (1993).

only list one such study (Moulton & Thomas, 1993), although others exist (e.g. Markides, 1992; Morrow, Johnson & Busenitz, 2004).

Further, similar to the de-internationalization literature in the ISM domain, most studies have focused on actions of retrenchment which Pearce and Robbins (1993: 634) refer to as "reductions of costs (advertising, R&D, direct labor, and materials) and assets (receivables, cash, plant and equipment)." Cost retrenchment is generally deemed a stronger response and the choice depends on the severity of the decline (Pearce & Robbins, 1993) or the degree of growth in the competitive environment (Morrow et al., 2004). However, although several studies have identified a list of possible strategic responses (Barker & Duhaime, 1997; Tangpong et al., 2015), those that are not geared towards a decrease in commitment have received much less attention.

Moreover, a coherent conceptualization of strategic responses has yet to emerge. Pearce and Robbins (1993) remarked that no unifying theory of business level turnaround exists and to date, many gaps exist in the literature. Trahms et al. (2013: 1278) advocate for the increased utilization of three theoretical lenses (resource orchestration, strategic leadership, and stakeholder theory) to apply within the literature, "thereby assuaging a key criticism of turnaround research: that this stream is largely phenomenon driven." A symptom of this lack of theory-driven approaches may also be the observation that findings with regards to the effectiveness of responses have been fragmented and somewhat inconsistent, which Trahms et al. (2013) attribute to operationalization issues as well as the notion that the response might have been in reaction to the depth rather than the cause of the decline.

In addition, the turnaround literature has largely focused on domestic (single-country) samples. For instance, Barker and Duhaime (1997) used a sample of 120 US-based manufacturing firms. Jas and Skelcher (2005) chose a sample of 15 English local authorities. Boyne and Meier (2009) relied on a sample of school districts in Texas. Bruton et al. (2003) is one of the few exceptions where turnaround theory was considered in an international context, with consideration to cultural implications (East Asian firms). However, taking the international context into account brings about new contingency aspects. For instance, the distance (geographic, cultural, or otherwise; cf. Berry et al., 2010) to the subsidiary is likely going to affect the level of strategic response inertia on the side of the foreign parent firm: the farther away a subsidiary is, the less headquarters attention it might enjoy (Hansen & Løvås, 2004; Monteiro, Arvidsson & Birkinshaw, 2007). Further, deciding on a strategic action may not be as straightforward if more stakeholders are involved. For instance, in a joint venture, selling off equity shares in a retrenchment effort may simply not be feasible due to contractual constraints

or desirable due to the resulting loss in reputation and participation in future market growth. In a similar vein, retrenchment may not always be the most appropriate strategic response if several stakeholders are involved. If the decline in performance is due to conditions internal to the subsidiary (cf. the literature relating conflict within international joint ventures to performance, e.g. Fey & Beamish, 2000), an *increase* in equity by one parent firm for the purpose of assuming greater control may actually be the more appropriate response. In fact, Barker and Duhaime's (1997: 25) list of strategic responses to subpar performance suggests that 50 percent of the firms in their sample responded that "Contracting, expanding or simultaneously contracting and expanding the scope of the corporation's foreign operations" is an action that has been taken before. However, this category focuses on the unit (foreign operations) itself, not on the direction of the response. Thus, much is yet to be explored in the turnaround literature within strategic management that illuminates the specificities of subpar performance periods in foreign subsidiaries.

Related to the above, most empirical analyses of the subpar performance phenomenon within the turnaround/organizational decline literature have focused on the core business unit, much more so than on other parts of the business' network (Celly, 2008). Multinational enterprises with their often vast network of subsidiaries have largely been ignored by turnaround researchers.

The next section reviews the subpar performance phenomenon in the behavioral decision-making domain, where it is mostly contained in the escalation of commitment literature.

2.2.3 Individual-Level Studies of Responses to Subpar Performance (Behavioral Decision-Making Domain)

Observing responses to subpar performance signals at the individual level of analysis has been a subject of research within the behavioral decision-making domain for several decades (Sleesman et al., 2012). The largest stream is within the escalation of commitment literature (Shapira, 1997), with the *Journal of Applied Psychology*, *Organizational Behavior and Human Decision Processes*, and *Administrative Science Quarterly* publishing the largest output of studies on the subject.

The foundation for the literature was laid by Staw (1976) who conducted a case study containing repeated investment decisions using a sample of 240 undergraduate students. The rather surprising observation was that individuals often invest *more* into a losing venture, even if this is deemed economically irrational - and especially if they felt personally responsible for the initial investment decision. Staw (1997: 192) later defined situations which are prone to such potentially detrimental behavior as those "where losses have been suffered, where there is an opportunity to persist or withdraw, and where the consequences of these actions are uncertain", thus falling into the definition of subpar performance.

Since then, several studies have ventured to identify the boundaries of the phenomenon and explore other predictors of escalating behavior. Indeed, soon a classification scheme emerged which categorized the identified independent variables into project determinants, psychological determinants, social determinants, organizational determinants, and contextual effects (Staw & Ross, 1989; Staw 1997). Sleesman et al. (2012) applied the same classification scheme to conduct a meta-analysis and found that the vast majority of determinants within these categories prove to be significant predictors of escalating behavior.

For instance, one important factor which is generally presumed to enhance the likelihood of escalating behavior is that of sunk costs. Northcraft and Wolf (1984) were among the first to address the question of whether more resources should be invested into a project which has generated negative feedback by focusing particularly on sunk costs. Sunk costs in this regard accrue when "a decision has been made and resources irretrievably expanded following from that decision. […] Sunk costs are the negative cash flows experienced in anticipation of future compensating cash flows […,thereby going beyond] a single decision or time period" (p. 226). While the objectively rational decision is to decide on "resource commitments […] only by comparing future revenues to future costs" (p. 233-234), studies in the escalation of commitment literature have found that individuals often deviate from this prescription. Instead of de-investing in light of subpar performance, they are worried that their initial resource commitments may be perceived as wasteful and subsequently invest more to justify their decisions (Arkes & Blumer, 1985). Later studies have refined the understanding of the sunk costs effect e.g. in terms of the amount of sunk costs (Heng, Tan & Wei, 2003), or the degree of ambiguity surrounding the negative feedback information (Garland, Sandefur & Rogers, 1990).

Staw and Ross (1987: 70) remark with an emphasis on the Anglo-Saxon context that "we associate persistence—'staying the course,' 'sticking to your guns,' and 'weathering the storm'—with strong leadership." Thus, to explain the difference between rationally expected and actually observed responses to subpar performance, a variety of theoretical lenses were utilized: self-justification (e.g. Staw, 1976; Brockner, 1992), prospect theory (e.g. Kahneman & Tversky, 1979), decision dilemma theory (e.g. Brockner, 1992), goal substitution effect (e.g. Conlon & Garland, 1993; Sleesman et al., 2012), self-presentation theory (Jones & Pittman, 1982; Sleesman et al., 2012) and agency theory (e.g., Eisenhardt, 1989; Jensen & Meckling, 1976;

Sleesman et al., 2012). More recent empirical advancements have placed a bigger emphasis on emotions such as regret (e.g. Ku, 2008; Wong & Kwong, 2007) and the factors that facilitate de-commitment (e.g. Heath, 1995; Moser, Wolff & Kraft, 2013).

All of these studies have in common the perception that the additional commitment to a venture that is performing below expectations is an irrational bias that is to be avoided. However, despite decades of research and many useful insights, several important questions are unresolved. First, as Drummond (2014: 430) noted, although "[e]scalation of commitment is thought to be a ubiquitous and costly mistake [, …] sometimes organizations should 'press on the accelerator' and stay the course despite adversity." This suggests that the cognitive bias may unfold in either direction: leaving the venture too late (while committing too much to it) or too early (while committing too little to it). The result is the need for more research to resolve the managerial dilemma: "Do they persist and risk becoming caught up in a spiral of escalating commitment, or 'apply the brakes' when they may be within an ace of success?" (Drummond, 2014: 430).

Second, most studies have focused on psychological and project determinants of escalating behavior while neglecting structural factors (Staw & Ross, 1989; Sleesman et al., 2012; few exceptions exist, e.g. Hsieh et al., 2015; Barton et al., 1989). In particular, "[l]ittle to no research to date has examined factors such as whether and how escalation is a consequence of overall organizational performance […]. This scarcity may in part be due to the difficulty of studying such factors." (Sleesman et al., 2012: 545). Indeed, most existing studies have been conducted in laboratory settings or with convenience samples from classroom experiments.

Third, although theoretical models such as a temporal model of escalation (Staw & Ross, 1989; Staw 1997) and an aggregate model of escalation (Staw, 1997) have been proposed, little

overall theoretical integration has occurred in this area. As Sleesman et al. (2012: 558) note: there is a "need to de-emphasize efforts to continue identifying determinant 'effects' and instead give attention to integrating and exploring more deeply the core theories driving escalation.".

Some of these shortcomings can be overcome by shifting scholarly attention towards "linking micro research on psychological biases with macro research on firm behavior" (Hsieh et al., 2015: 53) in an effort to create multi-level explanations for the subpar performance phenomenon. Moreover, rather than identifying more predictors of escalating behavior, the impact of the chosen response should be further investigated, in order to allow for a juxtaposition of available choices, a better grasp of the dilemma described by Drummond (2014), and an integration of perspectives for the purpose of developing theoretical advancement.

2.3 Overall Assessment of the Literatures across Domains

As the review of the literatures and domains addressing the subpar performance phenomenon and appropriate responses to it reveals, each domain has its own lens. Like in the famous Indian fable of the six blind men drawing different conclusions about the same object (an elephant) from their subjective angles, the literature domains exploring the subpar performance phenomenon have emphasized different aspects to the detriment of others, and drawn different (sometimes divergent) inferences. For instance, while the de-internationalization and turnover/organizational decline literatures emphasize *actual* divestment decisions in light of subpar performance, the escalation of commitment literature focuses on a *normative* perspective on divestment decisions. Furthermore, each domain focuses on a rather specific level of analysis and by neglecting the others, several responses (such as increasing control in a JV by investing

more equity; sending or withdrawing expatriates) are not taken into consideration. A multilevel analysis of the phenomenon would be desirable.

At the same time, these domains do have some commonalities. Specifically, the focus on phenomena-driven studies while neglecting theory-building has been a rather constant concern. Moreover, the emphasis appeared to have been placed more on identifying the determinants of escalating behavior or the choice of strategic response, rather than the outcomes of it. Finally, only a few studies exist which specifically focus on the longitudinal, sequence-based nature of the phenomenon itself, the responses, and its outcomes (a few exceptions exist, e.g. Tangpong et al., 2015).

In sum, although taken together there are a rather substantive number of studies on the subpar performance phenomenon, it is not obvious how they fit together. It appears, however, that the domains may inform each other, such that the international strategy domain might benefit from an inclusion of a broader variety of responses and outcomes, while the strategic management and behavioral decision-making domains may gain from the broadening of the context. Table 2.2 provides an overview of the areas of relative emphasis and neglect per domain.

Chapter 3 will offer a conceptual framework which aims at addressing some of the shortcomings of the existing and fragmented body of studies that address the subpar performance phenomenon.

Table 2.2. Comparison of Emphases in the Examination of the Subpar Performance Phenomenon across Domains.

Domain	Relatively emphasized	Relatively neglected
International Strategy	De-internationalization Complete retracting from foreign operations	Other responses to subpar performance Responses to subpar performance *per se* Degrees of divestments and other responses
Strategic Management	Causes of decline Predictions of response actions Phenomena-driven Retrenchment Single-country context Corporate or business level	Outcomes of response actions Theory-building Other responses to subpar performance International context Subsidiary level
Behavioral Decision-Making	Avoidance of undue persistence Psychological/project determinants Laboratory studies, convenience samples Prediction of determinants	Avoidance of premature abandonment organizational/contextual determinants Real (non-experimental) samples Theory-building, integration of theory

CHAPTER 3: THEORETICAL FRAMEWORK

As the preceding review of the literatures addressing the subpar performance phenomenon reveals, multiple perspectives have emerged at three different levels of analysis. A consensus across domains is, however, that the exploration of the phenomenon has been rather phenomenon-driven to this point (Pearce & Robbins, 1993; Trahms et al., 2013, Sleesman et al., 2012), while underemphasizing theoretical perspectives to explain the observed incidences. Therefore, in an effort to advance the understanding of the occurrence of and responses to subpar performance in foreign subsidiaries, a theoretical framework will be developed.

3.1 Towards a Resource Orchestration Framework of Responses to Subpar Performance in Foreign Subsidiaries

Resources play a central role during organizational decline and turnaround. Managers must conserve resources to ensure survival, jettison resources that are not critical for value creation, and invest the remaining resources in ways that facilitate turnaround (Sirmon, Hitt, Ireland, & Gilbert, 2011). Thus, a theoretical lens that considers resources a key element to describe decline and turnaround is imperative.

The resource-based view (RBV) (Wernerfelt, 1984; Barney, 1991) describes resources as "all assets, capabilities, organizational processes, firm attributes, information, knowledge, etc. controlled by a firm that enable the firm to conceive of and implement strategies that improve its efficiency and effectiveness" (Barney, 1991: 101). In this lens, firms are conceptualized as bundles of resources, thereby emphasizing the internal organization of firms to attain an advantage relative to its competitors (Penrose, 1959; Rubin, 1973; Eisenhardt & Martin, 2000). A particular resource contributes to the firm's sustained competitive advantage if it possesses the

characteristics of value, rarity, inimitability, and non-substitutability. A competitive advantage occurs when a firm is able to "create more economic value than the marginal (breakeven) competitor in its product market" (Peteraf & Barney (2003: 314). Since its introduction, the RBV has also contributed to the IB literature, where it has been applied to topic areas such as MNE management, market entries, strategic alliances, international entrepreneurship, and emerging markets (Peng, 2001).

Although the RBV has received considerable empirical support, it has not remained without criticism. Several scholars have noted that the RBV is too static in nature, both with reference to the external environment and the processes internal to the firm. First, Priem and Butler (2001) criticize the RBV for not having reached the stage of a theory of competitive advantage yet, due to a need for more formalization, an integration with an environmental demand model, and a closer consideration of the exogeneity of the value concept (i.e. resource value is defined by the customer, thus outside of the RBV - an aspect refined in Priem, Butler, and Li, 2013). Second, as Priem and Butler (2001) further note, the RBV requires the incorporation of the temporal component into its conceptual makeup, in order to strengthen its aspiration of reaching the status of a theory. This was mirrored by other scholars, who also suggest that the RBV "misses the strategic role of time" and breaks down under conditions of high environmental dynamism (Eisenhardt & Martin, 2000: 1118). Second, it focuses on the mere possession of resources which is a necessary but insufficient condition for explaining a firm's competitive advantage (Newbert, 2007; Eisenhardt & Martin, 2000). Rather, resources will unfold their value-creating potential only when put to proper use through the application and leverage of organizational capabilities (Mahoney & Pandain, 1992: 365; Peteraf, 1993). While Barney (1991) initially conceptualized resources as an umbrella term for assets and capabilities,

later refinements clarified that capabilities are a firm's capacity to deploy resources for a desired purpose. "They are information-based, tangible or intangible processes that are firm-specific and are developed over time" (Amit & Schoemaker, 1993: 35; italicizations removed). This criticism has been mirrored in the IB literature, where Peng (2001: 821) notes that "future RBV work needs to pay more attention to process- and implementation-related issues."

Such criticisms have led to a bifurcation of the literature, moving away from Barney's (1991) original heterogeneity approach towards a dynamic capabilities approach and an organizing approach (Newbert, 2007: 140). The dynamic capabilities approach has gained much traction among scholars, devised to describe "situations […that can be understood as dynamic in the sense that] there is rapid change in technology and market forces" (Teece et al., 1997: 512), Teece et al. initially (1997: 516) defined dynamic capabilities "as the firm's ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments." Since then, studies have emerged that suggest that the concept of dynamic capabilities also applies to moderately changing environments (Eisenhardt & Martin, 2000) or even relatively stable environments (Zahra, Sapienza & Davidson, 2006; Zollo & Winter, 2002) (Barreto, 2010). Based on this, a revised definition of dynamic capabilities was offered, wherein they describe "the firm's potential to systematically solve problems, formed by its propensity to sense opportunities and threats, to make timely and market-oriented decisions, and to change its resource base." (Barreto, 2010: 271).

What emerged from this development is the suggestion of an 'orchestrating' function of dynamic capabilities: the notion that dynamic capabilities work as a tool that helps managers transform the firm's existing resource base towards an improvement of the firm's competitive advantage prospects (Teece, 2007). Specifically, Teece (2007) notes that dynamic capabilities

may take the form of sensing, seizing, and managing threats and/or transforming (see Figure 4 in Teece, 2007). Together with their micro-foundations (embedded in organizational and managerial processes of coordination/integration, learning, and reconfiguring) and the overlaying dynamic capabilities, they make what "might be thought of as asset 'orchestration' processes." (Teece, 2007: 1341). This notion was developed further by Helfat, Finkelstein, Mitchell, Peteraf, Singh, Teece, & Winter, (2007) who describe asset orchestration as a type of dynamic managerial capability, consisting of two interrelated action categories. First, *search/selection* encompasses the design of the "business model, select configurations of co-specialized assets, select investments (e.g. R&D, M&A) […and] select organization, governance, and incentive structures". Second, *configuration/deployment* means to "orchestrate and coordinate co-specialized assets [and] nurture change and innovation processes" (Helfat et al., 2007: 28).

The other stream of the literature that the RBV has bifurcated into could be termed the organizing approach. An influential contribution in this realm is Sirmon, Hitt, and Ireland's (2007) resource management framework. In an attempt to hone in even closer on the "black box" of how resources are put to use, the authors offer a perspective on three processes (with three sub-processes each) by which resources can be managed within firms to create value for customers and owners. These processes are: 1) *structuring* (acquiring, accumulating, divesting), *bundling* (stabilizing, enriching, pioneering), and *leveraging* (mobilizing, coordinating, deploying). While structuring "refers to the management of the firm's resource portfolio", bundling "refers to the combining of firm resources to construct or alter capabilities", and leveraging "refers to the application of a firm's capabilities to create value for customers and wealth for owners" (Sirmon et al., 2007: 277).

Realizing the similarity both in objective and structure between the asset orchestration and resource management frameworks, Sirmon et al. (2011) ventured to integrate them into one *resource orchestration* framework. By way of clarifying how this new framework connects to its intellectual roots, Sirmon et al. (2011: 1394) note: "resource management draws on [the resource-based theory] RBT and has been explicitly linked with RBT's primary logic, while asset orchestration draws from the dynamic capabilities concept. However, dynamic capabilities have been linked to RBT (e.g., Helfat & Peteraf, 2003), thereby providing an indirect linkage between asset orchestration and resource management." Resource orchestration thus offers an integration of aspects from the RBV with those from the dynamic capabilities perspective. Figure 3.1 illustrates how asset orchestration and resource management fit together to form the resource orchestration framework.

Figure 3.1. The General Resource Orchestration Framework (Figure 1 in Sirmon et al., 2011).

Comparing Resource Management and Asset Orchestration Frameworks
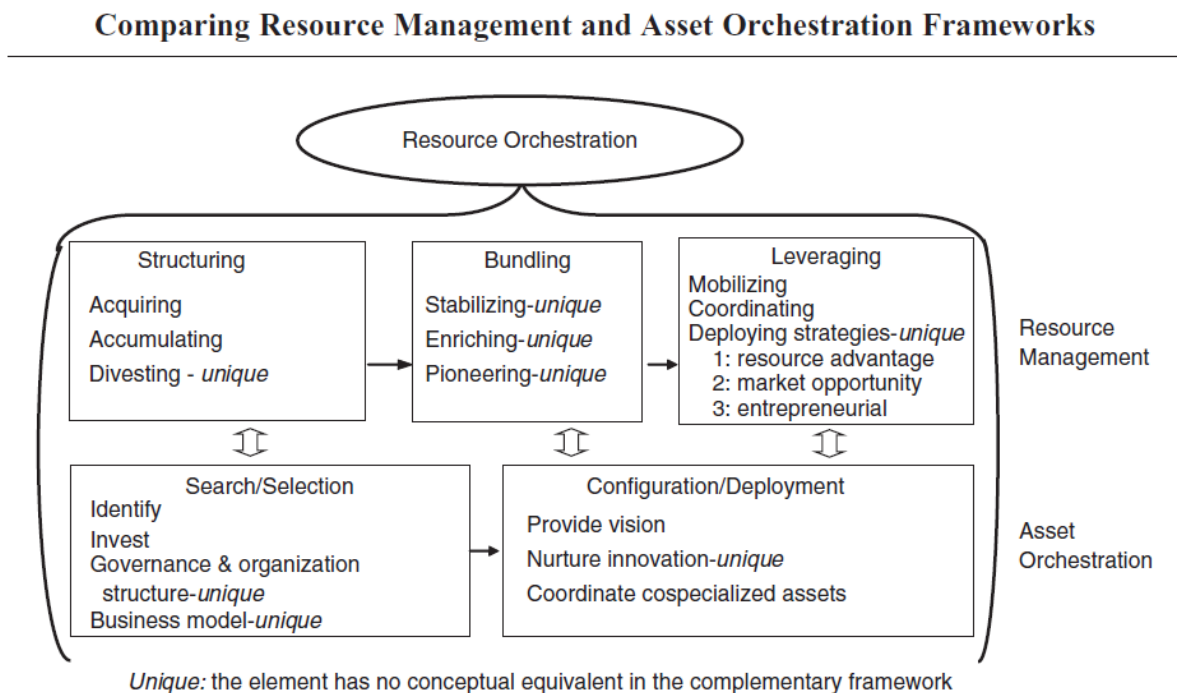
Sirmon et al. (2011) further elaborate that resource orchestration can be explored in three dimensions: breadth (scope of the firm), depth (levels within the firm), and life cycles (i.e. time). While the *breadth dimension* of resource orchestration encompasses corporate strategy (product diversification, international diversification), business strategy (differentiation vs. cost leadership), and competitive dynamics (strong vs. modest competitive rivalry), the *depth dimension* of resource orientation considers different configurations on the continuum of top-down and bottom-up strategies, and the *life cycle dimension* of resource orchestration covers the start-up stage, growth stage, mature stage, and decline stage of a firm.

The resource orchestration framework has been applied to topic areas such as commitment-based HR systems (Chadwick, Super, & Kwon, 2015) and family firms (Chirico, Sirmon, Sciascia, & Mazzola, 2011), but no study has used the framework on the phenomenon of subpar performing organizations and/or subsidiaries yet. This is not because applicability is limited. In fact, Sirmon et al. (2011) describe in broad strokes what a study of organizational decline using a resource orchestration framework might look like. Trahms et al. (2013: 1299) also note the potential the resource orchestration framework might hold as "a theoretical lens through which numerous unresolved issues in turnaround research can be examined". Indeed, they note that "it is surprising that so little turnaround research has examined how the management of a firm's resources during decline […] and their leveraging in new competitive actions influence performance turnaround." Moreover, the resource orchestration lens places a strong emphasis on the construct of time, offering itself as applicable to research questions such as: "Does the timing of retrenchment and strategic actions affect the success of turnaround attempts?" (Trahms et al., 2013: 1298).

In this thesis, we apply the resource orchestration framework to the phenomenon of subpar performance in foreign subsidiaries by combining models of turnaround as reviewed in Chapter 2 (Weitzel & Jonsson, 1989; Pearce & Robbins, 1993; Trahms et al., 2013) with the resource orchestration framework offered by Sirmon et al. (2011). This approach leads us to introduce three central and overarching orchestration processes: Identifying, Responding, and Synchronizing.

The orchestration process of *Identifying* (of the appropriate response to subpar performance by the MNE headquarters) connects the likely causes of decline to the responses taken as a result of suspected causal attributions. This aspect is closely linked to the search/selection part of the resource orchestration framework. Moreover, Pearce and Robbins (1993) note that organizational decline may have causes that are due to internal factors (e.g. inefficiencies within the organization, unsuited strategic orientation) and causes that may be due to external factors (e.g. industry decline). In the context of foreign subsidiaries within MNEs, the cause for decline may also be found within the MNE itself, whereby e.g. an MNE that declines overall may not be able to provide sufficient firm-specific advantages and other resources to the foreign subsidiary anymore. In such a scenario, the MNE would have lost its inherent competitive advantage by using the flexibility available through its international production network (Kogut & Kulatilaka, 1994). This is closely linked to Sirmon et al.'s (2011: 1394) assertion that the notion of fit with the environment is a foundational aspect of the resource orchestration lens. Decline at both the MNE-level and the subsidiary level could indicate a misfit. Once the likely cause of the decline has been identified, a choice is made for the type of response that is best suited to mitigate the situation and regain environmental fit. As we will argue in more detail in the next chapter, Identifying also implies that a specific situation needs to

receive headquarter attention before it can be addressed with a response. Note that attention can thereby be structured by institutional logics, which are "supraorganizational patterns, both symbolic and material, that order reality and provide meaning to actions and structure conflicts" (Thornton & Ocasio, 1999: 803). Thus, decision-makers will focus their attention on issues that are consistent with a predominant institutional logic. Moreover, some determinants may impede the process of Identifying and will be assessed in the analysis.

This leads to the orchestration process of *Responding*, whereby the effectiveness of the chosen response in terms of the rate of recovery and the rate of exit is assessed. Responding hereby corresponds most closely to structuring, leveraging (especially mobilizing), and deploying in the resource orchestration framework. While Pearce and Robbins (1993) focused on retrenchment as the main way to respond to declines, other studies such as Barker and Duhaime (1997) and Trahms et al. (2013) recognize a larger number of responses in their model. Since MNEs can respond in more ways than through cost retrenchment or asset retrenchment, the model in this thesis also encompasses a larger number of strategic and operational responses to subpar performance at the respective foreign subsidiary.

As has been highlighted before, the notion of time plays an integral role in the resource orchestration framework, leading us to conceptualize an orchestration process of *Synchronizing* resources in light of subpar performance at foreign subsidiaries. Responses to subpar performance are typically time-critical (Hofer, 1980) and can make the difference between a turnaround and bankruptcy. The timing of a response is thus a key concept that needs to be assessed specifically and not just as a latent variable. In the resource orchestration framework as presented by Sirmon et al. (2011), the aspect of time is perhaps best captured by the notion of coordinating. In conventional turnaround models (e.g. Pearce & Robbins, 1993; Trahms et al.,

2013), time is mostly inherent in the cause-response-outcome process model. What has mostly been overlooked, however, is the time it takes to respond to an adverse situation. This is particularly salient in the context of an MNE-subsidiary relationship, where the response to a subpar performing foreign subsidiary may be delayed by several factors (e.g. cultural and geographic distance or conditions at the home country) and expedited by others (e.g. existence of a regional headquarters). As we will argue in the next chapter, some factors enhance the frequency in communication channels, thereby allowing for more headquarters attention to be drawn to the respective subsidiary. Tangpong et al. (2015: 647) provide a first stance at assessing the impact of the timing of responses, finding that earlier divestments and geographic market exit contribute to successful turnarounds (while early layoffs do not). However, the factors that determine the timing of a response in the first place have been relatively neglected (Tangpong et al., 2015: 673) but are especially important in international contexts where spatial and temporal barriers play an important role. Several internal mechanisms are at play in order to synchronize action to express a first response. Since the first response is likely to be the most impactful, it warrants further examination. Thus, the resource orchestration framework can help shed light on factors that may determine how resources are synchronized throughout the MNE network and the impact this aspect of time-to-respond has on selected outcomes.

In sum, there are several advantages to assessing the phenomenon of subpar performance at the subsidiary level through a resource orchestration lens. First, it allows for an overarching theoretical perspective on how an MNE can address the challenge of turning around an ailing foreign subsidiary. This encompasses an assessment of a variety of causes, a longer list of responses than suggested in most retrenchment-focused studies, and a selection of different outcomes. Second, it presents a way of thinking about connections between the MNE-

headquarters' level of analysis and the foreign subsidiary's level of analysis. Since conventional studies of turnaround have mostly focused on corporate-level or business-level decline and turnarounds, a new theoretical lens that connects the two levels promises to offer valuable insights. Third and perhaps most importantly, it offers a time-focused perspective on turnarounds in foreign subsidiaries. As Trahms et al. (2013: 1299) note, "[a]lthough each action is important, it is in synchronizing or orchestrating the leadership's resources management actions that value is added in positive firm outcomes." Thus, it is not one type of resource (e.g. equity) or action which is important but the combination and timing of resources. This alleviates a key concern expressed towards the RBV (where the resource orchestration perspective has some of its roots), such that tautology is reduced when there is a clear time differential between the determinants (e.g. identified causes, deployed resources) and the outcomes (e.g. chosen responses, recovery/exit) (Peng, 2001).

In sum, the resource orchestration lens is particularly suited to attempt the creation of a unifying framework of responses to subpar performance, as many scholars have repeatedly called for (Pearce & Robbins, 1993; Trahms et al., 2013, Sleesman et al., 2012). Such a framework that applies to the context of an ailing subsidiary within an MNE network is presented in Figure 3.2. Please note that in the interest of better readability, the framework in

Figure 3.2. A Resource Orchestration Framework of Responding to Subpar Performance in Foreign Subsidiaries.
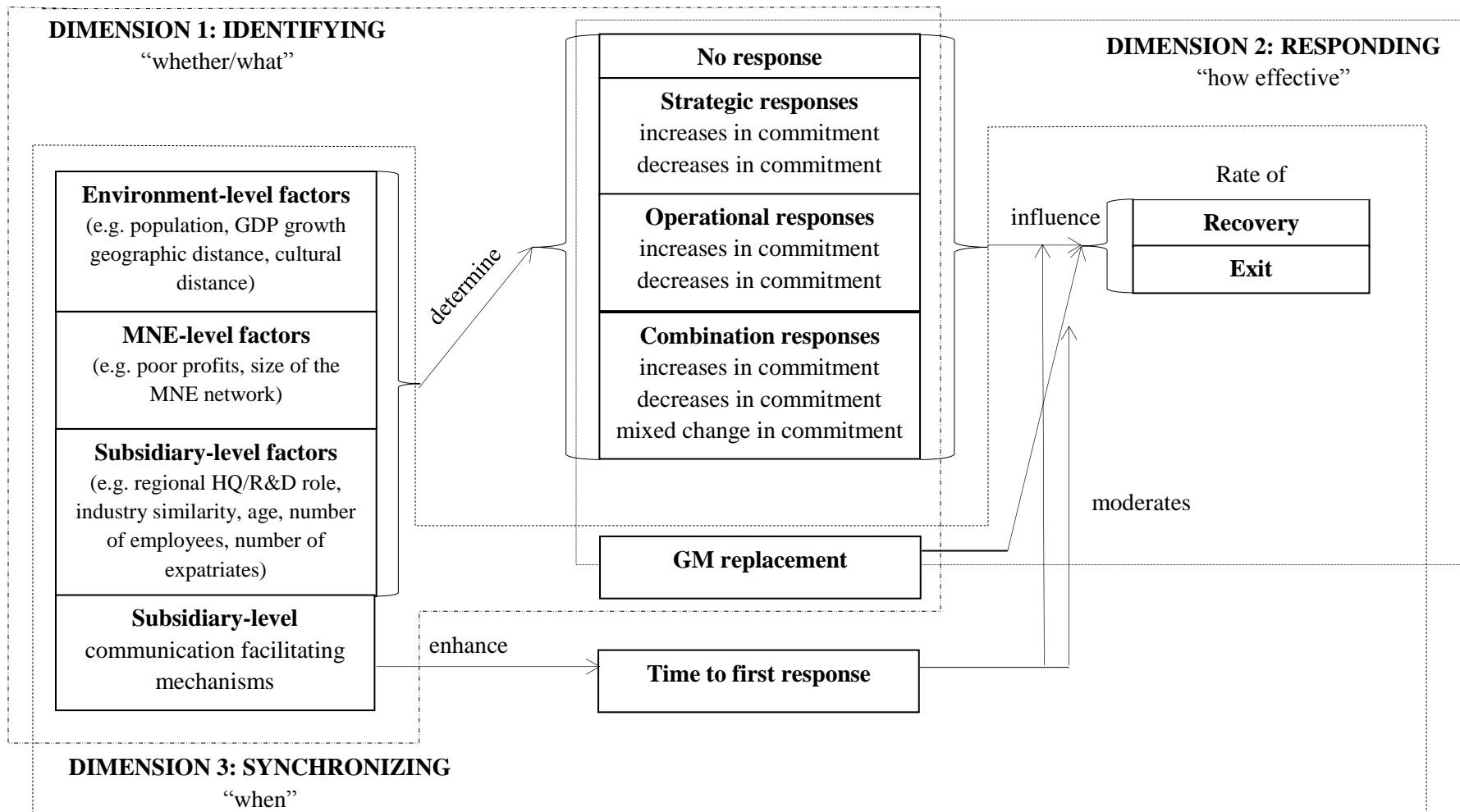
Notes: The outcome of recovery versus exit is to be understood as "eventual recovery" and "eventual exit", since responses can at first be followed by continued subpar performance. Separate models with specific hypotheses for each dimension will be presented in Chapter 4.

Figure 3.2 contains only the connections between broad categories. In Chapter 4, each dimension of the framework ("Identifying", "Responding", and "Synchronizing") will be analyzed in depth and three separate models for each dimension will be offered, each with an inherent set of hypotheses.

Within this overarching resource orchestration framework, several other theoretical concepts can be embedded to inform the hypotheses. These will be presented next.

3.2 The Attention-Based View

Within the resource orchestration framework presented in Figure 3.2, especially in the "Identifying" dimension, lays the notion of attention. Attention is a key yet mostly implicit construct underlying many studies on responses to subpar performance, particularly the ones in the international business realm. Broadly defined as taking notice of something and acting upon it (Oxford Dictionaries, N/A), attention can be understood as a resource that is scarce and critical to organizational success (Cyert & March, 1963; Simon, 1947; Bouquet & Birkinshaw, 2008). Although attention has been studied in many different ways, Ocasio (1997) was the first to explicitly combine attention with strategy, leading to an attention-based view (ABV) of the firm (for an extension, see Ocasio, 2011). Within this view, attention is understood to be a multifaceted concept which can be defined "to encompass the noticing, encoding, interpreting, and focusing of time and effort by organizational decision-makers on both (a) *issues*; [i.e.] problems, opportunities, and threats; and (b) *answers*: the available repertoire of action alternatives" (Ocasio, 1997: 189). The ABV is thus designed to provide an explanatory framework for understanding whether and how firms respond to changing internal and external

contexts, as well as the contingencies that may underlie these occurrences. As such, the key dependent variable within the ABV is that of *organizational moves* which Ocasio (1997: 201) defines as "the myriad of actions undertaken by the firm and its decision-makers in response to or in anticipation of change in its external and internal environment." He differentiates the organizational moves concept from that of *decisions* by emphasizing that moves imply that the action is not only planned but also performed. The concept of organizational moves is thus very similar to the concept of responses to subpar performance as it is used in this thesis. The theoretical framework developed by Ocasio (1997: 192) is replicated in Figure 3.3.

The ABV is different from related theories within the cognition realm in that it "focuses on the structural determinants that lead to strategic action" (Ocasio, 2011: 1292) and acts as a meta-theory which provides a background for detailing mechanisms. Individual-level cognition studies, in contrast, focus more on directly observing attention patterns as they unfold within a specific person. As a result of this difference, the ABV can be expanded across different levels of analysis, rather than being tied to the individual-level. Moreover, the ABV emphasizes less the performance implications of an action and more the determinants that lead to the confronting of an issue with an action or the ignoring of it through non-action (Ocasio, 1997: 194) in the first place.

Very few studies within the organizational turnaround literature have made the concept of attention explicit. One example is D'Aveni and MacMillan's (1990) study of crises of demand decline in a matched sample of 57 bankrupt firms and 57 turnaround firms. The results suggest that those firms that did not survive the crisis practically ignored the external (output) environment and focused their attention on the internal (input) environment, supporting the threat-rigidity perspective (McKinley, 1993). Another example is Musteen, Liang, and Barker's

Figure 3.3. A Model of Predicting Organizational Moves through an Attention-based View (Ocasio, 1997: 192; Recreated).
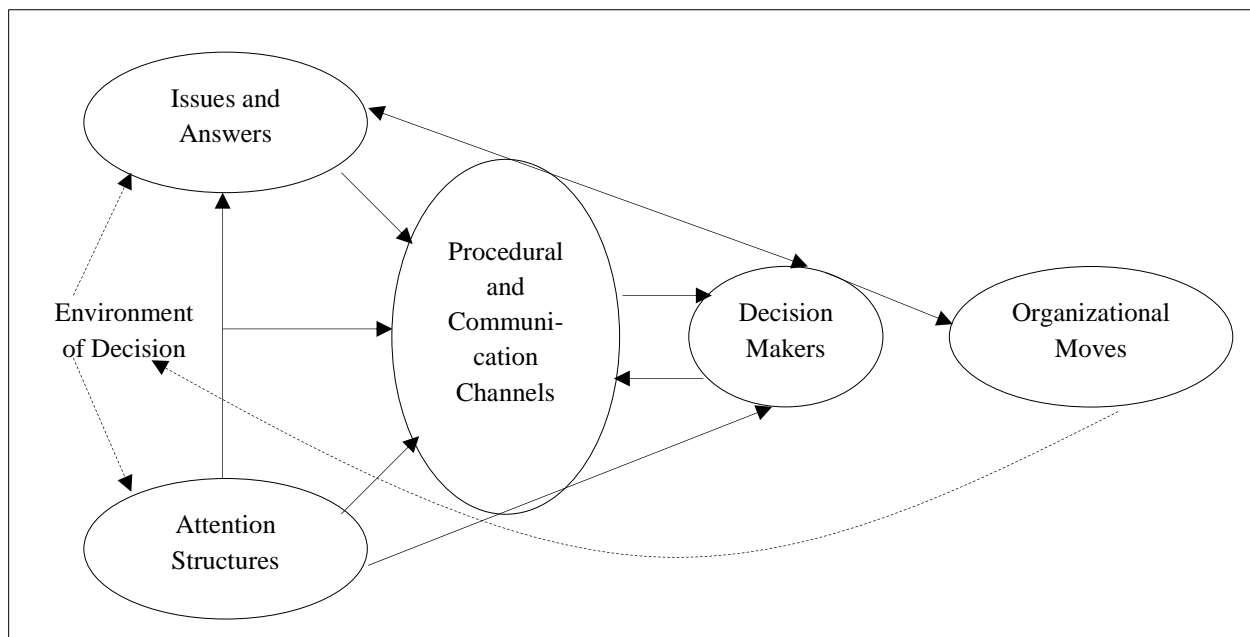
Note: The Figure was recreated to exclude references to specific hypotheses, for the purpose of better readability.

(2011) study using a sample of 110 MBA and Executive MBA students in a case-study setting. The objective of that research was to explore the individual-level determinants of decision-makers' attention/perception of organizational decline severity and its impact on the extent of retrenchment activity. More mature decision-makers with a background in throughput functions (Accounting & Finance, Production, Production/ Operation), and an external locus of control perceived the decline to be stronger, leading to more pronounced retrenchment decisions.

The interest in exploring the role attention plays in an MNE headquarters' resource allocation process has grown though (Campbell, 1989; Bouquet & Birkinshaw, 2008; Ambos & Birkinshaw, 2010). Headquarter attention is a rare and valuable resource; a notion which emphasizes the headquarters' orchestration role (as opposed to its planning role). The objective is to initiate action under certain contingencies (Ambos & Birkinshaw, 2010). Most headquarters-subsidiary studies drawing from the attention construct focused on a top-down

process of attention structures and decision-making (what Ocasio (2011) calls attentional perspective). However, combinations of top-down and bottom-up processes of attention (what Ocasio (2011) terms attentional engagement) have also found consideration. For instance, Bouquet and Birkinshaw (2008) suggest that the weight (strategic or operational importance) and the voice (initiatives) a subsidiary possesses within an MNE can influence the amount of headquarter attention it receives.

We are aware of no studies which focus specifically on the role of attention in a headquarter-subsidiary relationship when the foreign subsidiary's performance is at subpar levels. What the discussion of the literature has revealed so far is that the chances for a successful turnaround increase when a response is offered. Responses require that top-management attention is allocated in a way that allows for the initiation of such a response in the first place. The turnaround literature has recognized the implications of this relationship between attention and response for situations of organizational decline. In the international business context, the allocation of top-management attention is even more salient, where the "distinctive features of MNEs are high levels of geographical and cultural diversity coupled with complex portfolios of businesses, functions, and markets." (Bouquet & Birkinshaw, 2008: 577). The spatial, temporal, and cultural barriers put an even higher strain on the information processing and attention allocation capabilities of the organization than in smaller and or purely domestic firms. As a result, attention (and by implication, action) is often unevenly spread across subsidiaries and may thus help explain differences between subpar performing subsidiaries with regards to whether they experience a response from their headquarters and if so, which one. Thus, a stronger focus on attention may be a useful extension of the existing studies on headquarters-subsidiary relationships in situations of subpar performance.

3.3 Inertia, Hysteresis, and Time Compression Diseconomies

While the attention-based view aims to predict organizational moves, it can also offer an explanation for why firms do not respond to internal or external changes. The concept of inertial forces has received most traction within the strategic management literature. Organizational inertia theory (Hannan & Freeman, 1984) offers a dominant and detailed perspective in this regard. Organizational inertia theory suggests that organizations frequently act in pursuit of reliability and accountability which, however, are only attainable if the organization moves toward a stable and reproducible structure. By standardizing patterns of activity, the organization is able to exhibit a relatively consistent structure over time. Unfortunately, such an approach also leads to more rigid structures, more complexity, less efficiency, and ultimately organizational inertia, which manifests itself as an aversion to change (Kelly & Amburgey, 1991).

Core capabilities (those that are not necessarily dynamic yet still relevant to the firm's competitive advantage) can exert some inertial forces. Ghemawat (2002: 69) notes that such core capabilities are path dependent, subject to time lags, and embedded in organizations. This also applies to dynamic capabilities, as Eisenhardt and Martin (2000: 1113) remark, particularly when the environment is not characterized by very rapid change. In such a context, dynamic capabilities resemble routines which "are complicated, predictable, analytic processes that rely extensively on existing knowledge, linear execution and slow evolution over time. As managers continue to gain experience with these routines, they groove the processes more deeply such that they become easily sustained and even inertial." This means that some companies experience inertial forces which may affect the firm's ability to sense changes in the environment and translate this into appropriate responses. The outcome of a lack of dynamic capabilities is that the

firm may continue to make competitive returns in the short run - but will fail to remain viable in the longer run (Teece, 2007: 1342).

In the turnaround/organizational decline literature, a lack of managerial action has been explained within the "threat-rigidity camp". As Ketchen and Palmer (1999: 683) note, "poor performers are expected to rely on previous actions to reverse their poor outcomes." This reaction was explained by the impact that threat (as signaled by poor performance) may have on managerial decision-making: a behavior of retreat during which information processing, centralization of control, and conservation of resources are most dominant (Staw, Sandelands & Dutton, 1981). As a result, adaptation to the changes in the internal or external environment may be inhibited - a notion McKinley (1993: 3) describes as "'necessity is the mother of rigidity' school" which stands in contrast to the "'necessity is the mother of invention" school. The latter draws from prospect theory (Kahneman & Tversky, 1976) and describes how managers become more risk-seeking in light of negative signals, which in the best scenario provides a catalyst for adaptation and innovation (McKinley, 1993).

Related to these notions is the concept of hysteresis which generally describes a situation in which the effect lags behind a change in the cause of the effect. In the (international) strategic management literature, causes of hysteresis have been identified which include high switching costs and uncertainty (e.g. Belderbos & Zou, 2009). For instance, if the signals from a foreign subsidiary switch from being positive to being negative, a response may be delayed because of partial irreversibility of the initial decision (e.g. related to equity investments) or uncertainty about the appropriate path of action (e.g. commit more or less?). As a result, even though capabilities to sense and seize may exist, the ability to act upon what has been sensed may be delayed.

While the hysteresis effect can impede a timely reconfiguration of resources that are in need of transformation, the construct of time compression diseconomies (TCD) presents an alternative perspective. First introduced by Dierickx and Cool (1989), TCDs suggest that ceteris paribus, a faster pace of change leads to more adverse outcomes as the organization faces a trade-off between time and costs (Jiang, Beamish & Makino, 2014: 116). For instance, as Celly (2008) observes, Vermeulen & Barkema (2002) argue for the effect of TCDs on the relationship between international expansion and performance: the faster the rate of internationalization, the lower the positive effect on performance becomes. The diseconomy of this time compression arises from costs associated with incomplete search, imperfect decision-making, and little available time and attention devoted to the screening of, reaction to, and integration of information regarding subsidiaries (Jiang et al., 2014: 115). Similarly, Jiang et al. (2014: 119) use the concept of TCDs to connect RBV with the Uppsala model (Johanson & Vahlne, 1977; 2009), showing that "speed of expansion has a direct and negative effect" on subsidiary survival, while "[f]or subsidiary profitability, no main effect was found and the negative influence on subsidiary performance was significant only when combined with timing of entry." These findings are relevant for this thesis in at least three ways. First, the concept of TCDs is closely connected to the dynamic capabilities/resource orchestration perspective, since it introduces the element of time to the notion that "[r]esource and capability development cannot be rushed" (Jiang et al., 2014: 114). As such, the concept is closely related to what Tan and Mahoney (2005: 114) term *dynamic adjustment costs*, defined there as "the inability of a firm to adjust its managerial resources to the desired level in a timely way to match adaptively to a change in the market". Second, TCDs appear to play an important role at the foreign subsidiary-level and, although Jiang et al. (2014: 115) view them as "the limit to firm growth discussed by Penrose

(1959)", they may equally apply to other types of adjustments, such as de-internationalization. Third, Jiang et al. (2014) show that the timeliness of actions may have different effects for shorter-term outcomes (performance), compared to longer-term outcomes (survival) - a differentiation that is important and also made in this thesis.

Taken together, the discussion around inertia, hysteresis, and TCDs suggests that a balance needs to be struck between change that is too slow and too fast and/or often (Chung & Beamish, 2010).

3.4 The Patterns and Outcomes of Organizational Change

Somewhat related to the constructs of hysteresis and time compression diseconomies is that of organizational change per se. In the conceptual system of dynamic capabilities, organizational change relates to managing threats and/or transforming which is expressed in its micro-foundation pertaining to "[c]ontinuous alignment and realignment of specific tangible and intangible assets" (Teece, 2007: 1340). In the broader organizational change literature, two competing models have been proposed. First, Tushman and Romanelli (1985) and Romanelli and Tushman (1994) introduced the conceptualization of change as the punctuation of equilibria. As such, long periods of stability are interrupted by rather short periods of rapid change. The periods of stability tend to be longer than those of change due to the aforementioned self-reinforcing pressures towards reliability and reproducibility which can lead to inertia. In contrast, the relatively shorter periods of rapid change allow for a combined effort (an orchestration of resources) from many parts of the organization which can enable change to be implemented more easily than if the change stretched out over longer periods of time.

An alternative perspective on change processes stems from the evolutionary perspective, in which business units are conceptualized as changing slowly over time (Miller & Friesen, 1984; Cyert & March, 1963), as each subunit goes about its related but relatively independent operations. Over time, in incremental steps, and without a concerted effort, the corporation as a whole becomes transformed.

When change is implemented, there can be short-term and long-term repercussions arising from it. As Celly (2008: 46) remarks, "while some changes can ultimately be positive for some individuals, change tends to be disturbing and disruptive for employees, at least until it has fully normalized." Fedor, Caldwell and Herold (2006: 21), for instance, observe in a sample of 32 organizations from a number of industries, that change (good or bad) entails adjustments that need to be made by the workforce. This adjustment may take time and have an impact on the level of commitment the employee offers to the organization. Specifically, their study revealed that "Even "good" change is not always good for certain employees if they need to do most of the adjusting. […] if the change was seen as being unfavorable for the work unit, changes in organizational commitment were largely neutral to negative." Therefore, while "good" change may be beneficial to a subsidiary's performance and the workforce's satisfaction in the long-run, the effects may be quite the opposite in the short-run.

Commitment in the sense it is mentioned above is an individual-level construct but it can also occur at the organizational level. This is relevant to the concepts reviewed next.

3.5 Organizational-Level Commitment to Foreign Subsidiaries

Although the construct of organizational commitment has typically been understood as an employees' commitment to an organization, this study uses the concept to mean commitment of the headquartering organization to its subsidiaries. As such, it denotes an organizational-level relationship which can be defined in terms of Morgan and Hunt's (1994: 23) notion of relationship commitment, with "an exchange partner believing that an ongoing relationship with another is so important as to warrant maximum efforts at maintaining it". Lenses such as commitment-trust theory (Morgan & Hunt, 1994), social exchange theory (Isidor, Schwens, Hornung & Kabst, 2014; Das & Teng, 2002), or cyclical processes in inter-organizational relationships (Ring & Van de Ven, 1994) view continued commitment as a necessary ingredient for subsidiary longevity. In the dynamic capabilities perspective, Teece (2007: 1235) notes that "commitment of (financial) resources to investment opportunities can lead to enterprise growth and profitability." and resource orchestration efforts encompass such resource commitments or changes thereof.

However, not all perspectives in the literature agree that high and/or increasing commitment is a beneficial approach. For instance, Ghemawat (1991: 15) describes "commitment [as] the tendency of strategies to persist over time". Depending on the context, such persistence or non-response may be more promising than changes in the level of commitment, since the continuation of a proven strategy over a longer period of time may reduce the degree of strategic "flip-flops" (Ghemawat, 1991: 15) and enhance the stability and predictability within the organization. Contrary to this view, several streams of the literature warn about refraining from strategic responses. In the turnaround literature, Pearce and Robbins (1993: 615) note that "that patience and perseverance by the firm are rarely sufficient to produce

profitable performance for the firm". In the escalation of commitment literature, Staw and Ross (1989) and Staw (1997: 204) note that: "there is […] a very loose coupling between organizational goals and action (March & Olsen, 1976). […] organizations are often slow to respond. Thus, even when the need for change is recognized, it may not occur". These two perspectives are somewhat opposing because while the first recommends continuation of past action paths, the second advises against it.

Similarly, there seems to be no consensus over which direction the commitment change should take, if the decision towards a change is made. For instance, Lane and Beamish (1990: 99) cite an executive from their sample as stating "Commitment is probably the single most critical factor for successful entry into foreign markets" and note that commitment is especially important once hurdles such as subpar performance are encountered. This may hint at the notion that commitment is especially vital in times of distress and an increase in commitment may be beneficial.

This stands in contrast to the escalation of commitment literature (Staw, 1976; Sleesman, et al., 2012) which suggests that persistence to a path of action is not only adhered to but indeed commitment is raised to a higher level when performance is low. Since this may be due to economically irrational behavior (as described in Chapter 2), such escalation of commitment (Barton et al., 1989) is viewed as detrimental to the firm. Thus, within this lens, commitment is seen more sceptically and as potentially dangerous.

While the escalation of commitment literature specifically focuses on the risk of investing more into a losing venture, other streams emphasize downsizing as the most rational option (also in comparison to persisting). One stream in which this is an important aspect is the real options perspective. Kogut (1991) was the first to connect real options logic to foreign subsidiaries (joint

ventures (JV) in particular) and argued that JVs represent initial investments with a subsequent flexibility to contract, maintain, or expand the investment once more has been learned about the venture's development over time. Adner and Levinthal (2004) proposed a two-stage model in which the initial investment is revised based on whether subsequently favorable or unfavorable news were received. Following the logic, subpar performance would constitute unfavorable news, causing the investor to withdraw the option and retract their investment if certain conditions are met. Indeed, as noted before, real options logic can only be applied when strict parameters are present. For instance, the logic is not applicable when a decision point could result in a smorgasbord of different decisions. The failure of an option investment must be clearly identifiable, in order to initiate timely abandonment. As Adner and Levinthal (2004: 77) suggest, for instance, if the target market of a subsidiary is flexible, failure may be difficult to determine, since "if a new product fails to win acceptance in a given target market, it may still be successful in other possible target markets". Thus, real options logic as a special case of path-dependent investments applies to rather specific decision situations.

Further, while some literatures make relatively straightforward recommendations and/or predictions, there are indications of a more differentiated perspective. For instance, even though most studies in the de-internationalization literature describe decreases in commitment, Benito and Welch (1997) suggest that international divestments become more unlikely the longer the subsidiary has been in existence. Similarly, a new stream of literature has recently emerged in the behavioral decision-making domain, where Drummond (2014) suggests that premature abandonment of a venture may also be detrimental, thereby tempering the warnings regarding "abandoning too late" issues by most studies in the escalation of commitment study.

In sum, the recommendations and predictions arising out of studies that focus on organizational-level commitment have not been equivocal. Thus, the constructs and their relative importance within a comprehensive perspective will be weighed carefully when developing the hypotheses. In the following section, the arguments bought forward by this diversity of theoretical lenses will be incorporated into the development of specific hypotheses. The resource orchestration perspective will thereby be used as an overarching framework which allows for a comprehensive consideration of the subpar performance phenomenon of foreign subsidiaries.

CHAPTER 4: HYPOTHESIS DEVELOPMENT

Following the overarching resource orchestration framework developed in Chapter 3, the sets of hypotheses in this chapter are organized around "Identifying", "Responding", and "Synchronizing" processes when responding to subpar performance in foreign subsidiaries. Each set of hypotheses is preceded by a more detailed excerpt of the resource orchestration framework offered in Figure 3.2.

4.1 Hypotheses Regarding "Identifying"

When a foreign subsidiary is performing poorly for at least two years, action is usually required to facilitate turnaround (Schendel, Patton & Riggs, 1976). While some factors that influence the choice of a response to poor performance level have been identified for corporate-level or business-level turnarounds, much deeper understanding of the phenomenon is warranted. On the one hand, the main focus within the turnaround literature has been on corporate-level and business-level turnarounds. This focus has led to a relative neglecting of responses that go beyond asset or cost retrenchment, exits, or strategic reorientations, as well as determinants that encompass more than a domestic market. An international business perspective can add insights regarding alternative responses in this regard. On the other hand, within the international business perspective, predicting whether and how MNE headquarters respond to subpar performing foreign subsidiary and what factors may determine the choice has been a relatively neglected area of research. Perhaps the largest related stream of research is that of international divestments (Benito, 2005; Berry, 2013), wherein determinants of divestitures are explored. However, as Berry (2013) notes, not all divestitures necessarily result from poor subsidiary-level

performance. Moreover, the option of not responding to subpar performance is vastly under-researched within both the turnaround literature and the international divestitures literature.

Nonetheless, there are some studies in the organizational turnaround literature that aimed to predict the factors that may impact whether and how an organization responds to subpar performance. For instance, Hofer (1980) noted that unfortunate positions in a declining industry phase or in a market with little fit can (and, in all likelihood, should) lead to strategic actions. When, however, slack is high and short-term performance improvement is the goal, a response aimed at improving operations is likely going to be more beneficial (Hofer, 1980; Love & Nohria, 2005). A few studies within the international business domain have also emphasized determinants of responses, specifically international divestments. For example, Mata and Portugal (2004) find that foreign firms that enter a market with an acquisition, new firms with a larger human capital endowment, joint ventures, and minority holdings are more likely to be divested. Benito (2005) notes that overdiversification can also predict divestments. These studies have in common that subpar performance at the subsidiary-level is but another predictor of a response (divestment), while it is the key contextual variable in this thesis. Thus, all subsidiaries in the study are already performing poorly, causing subsequent responses likely to have been made in reaction to the undesirable situation.

Consequently, the first set of hypotheses aims to fill this gap by addressing the first research question raised in Chapter 1: *When a foreign subsidiary experiences (repeated) subpar performance, what determines which specific type of response is chosen (if any at all)?* An attention-based view (Ocasio, 1997, 2011) is employed since it provides a framework designed to predict the occurrence and type of an organizational move (a concept very similar to that of responses) given specific contingencies. The framework also offers a useful perspective on

headquarter-subsidiary relationships (Bouquet & Birkinshaw, 2008; Ambos & Birkinshaw, 2010). An emphasis was laid on examining those factors which may prevent or facilitate a response in the first place, before examining how each type of response is influenced by idiosyncratic sets of determinants.

4.1.1 Hypotheses 1a-1c (No Response)

The causes for a non-response to subpar performance at a foreign subsidiary can be manifold and span all levels of analysis. In this part of the analysis, we assume an ABV perspective and suggest that geographic distance, MNE-level poor performance, and the number of expatriates at the ailing subsidiary are factors that may influence whether a response is administered. The choice of these variables is based on their representativeness regarding influences at different levels of analysis (following the notion that subpar performance can span multiple levels of analysis) and their importance in the extant literature. Figure 4.1 illustrates the hypothesized relationships.

The ABV suggests that the meta-concept of attention can help explain why some firms would respond to issues while others do not. Attention, while ultimately an individual-level process, is "situated in the context of the firm's activities and procedures, and these situational contexts, and the decision-makers, issues, and answers they are linked to, are distributed throughout the firm (March & Olsen, 1976)." (Ocasio, 1997: 189). This dispersion of attention structures can manifest in differences with respect to how much attention is allocated to each unit across spatial, temporal, and procedural dimensions (see Mechanism 3 in Ocasio, 1997). In

MNEs, these dimensions are especially salient, since the headquarters must allocate its attention across different country borders, time zones, language barriers, and cultural differences.

Figure 4.1. Model With Hypotheses For Dimension 1: "Identifying": Part 1 - Predicting No Response.
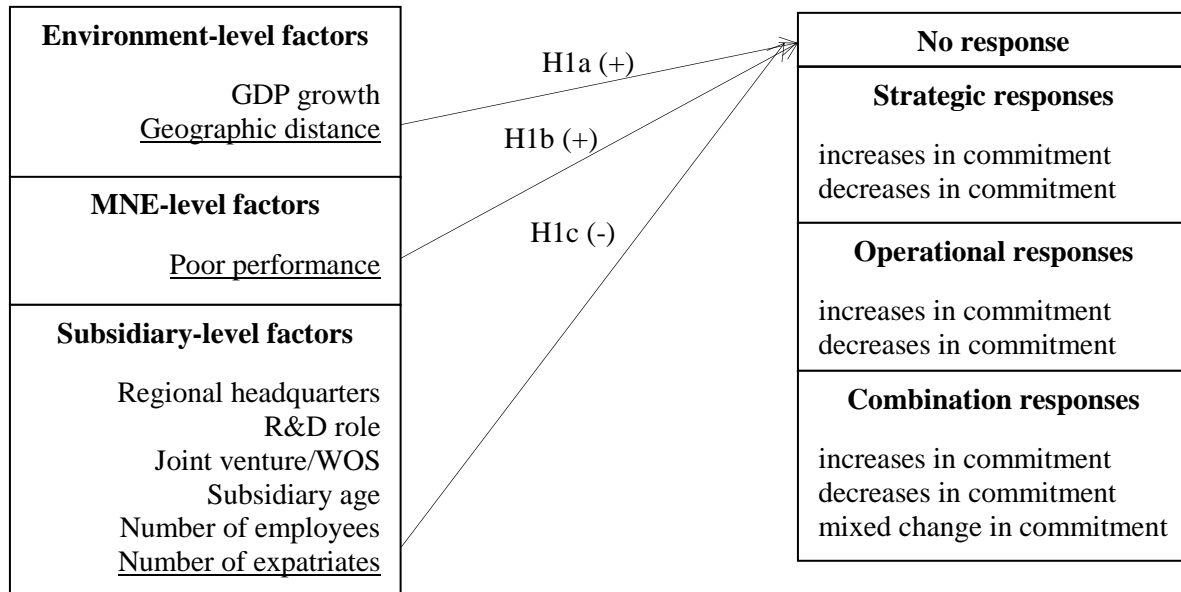
Note: The underlined variables are the ones in focus for the respective set of hypotheses.

An important factor that may thus affect whether or not a subsidiary will experience a response to its subpar performance is its geographic distance to the headquarters. A foreign subsidiary that is further away from its headquarters is likely going to be less connected to the processes and key decision-makers at the headquarters (Helliwell, 2002). Greater geographic distance can also come with greater travel time and higher travel costs, which in turn may affect the number of visits executives pay to the foreign subsidiary (Boeh & Beamish, 2012). Similarly, Dunning (1998) suggests that geographic distance can incur spatial transaction costs which can result from the friction of coordinating a dispersed network of subsidiaries, managing country differences, or alleviating information asymmetries. Geographic distance may also result in language barriers that can lead to misunderstandings, conflict, and parallel communication

channels (Harzing & Pudelko, 2014). All these challenges can raise temporal transaction costs, since greater geographic distance can result in delays due to longer travel times, translations, and time zone differentials.

Taken together, greater geographic distance can make it more likely that an MNE is paying less attention to the distant foreign subsidiary. Moreover, even if the headquarters does receive signals about the subsidiary's subpar performance, it may be more difficult to process this information and interpret it accordingly when geographic distance is greater. For instance, the causes for subpar performance in a geographically proximate subsidiary may be more intuitively understood than the causes for subpar performance in a geographically distant subsidiary, where many headquarter-based heuristics may not be applicable.

Moreover, insights from the literature on networks suggest that a diverse network may increase the degree of novelty of information received through the network. However, this diversity may come with an overall reduction in information flow. Thus, if an MNE has built a widespread network of foreign subsidiaries, it may be able to obtain novel information from such far-flung subsidiaries (e.g. about local preferences and innovations). The trade-off in this setting is, however, that the headquarters may receive less information from those foreign subsidiaries, increasing the risk of a non-response when subpar performance occurs. In sum, the following hypothesis is offered:

Hypothesis 1a: *A non-response to subpar performance at a foreign subsidiary is more likely to occur with higher geographic distance between the headquarters and that foreign subsidiary.*

A similar attention-based argument can be made for the situation in which the loss situation is not restricted to the foreign subsidiary but concerns the MNE as a whole. It is

possible that the foreign subsidiary is ailing precisely as a result of the corporate-level or business-level decline. In a situation of decline for the entire organization, attention may be focused on salvaging the domestic market first, before rescuing a particular foreign subsidiary. The problem in the headquarters' own backyard needs to be resolved before it can direct its attention elsewhere. Further, even if the headquarters did note the subpar performance situation at the foreign subsidiary, it may not be able to prioritize resources to be allocated to the foreign location. Such resources include top management time, leading to a higher level of inertia regarding the headquarters'-subsidiary relationship. In sum, the following hypothesis is proposed:

Hypothesis 1b: *A non-response to subpar performance at a foreign subsidiary is more likely to occur when the MNE as a whole is experiencing profit losses.*

During situations with high levels of uncertainty, such as subpar performance, an MNE headquarters has several options through which it can exercise control, channel support, and receive information in order to enhance its ability to pay attention to a subsidiary-level situation. One such way is the practice of temporarily deploying parent-country nationals as expatriates to those foreign locations for purposes of knowledge transfer, organizational development, or coordination and control (Edström & Galbraith, 1977; Takeuchi, Shay, & Li, 2008). Japanese MNEs regularly deploy expatriates to their foreign locations for these purposes (Gong, 2003; Peterson, Napier & Shim, 1996). Expatriates can thereby play a two-directional role: first, they can direct subsidiary-level attention to measures required by the headquarters. Choi and Beamish (2004) also note that control mechanisms act as a conduit for firm-specific advantages and expatriates could be such a control mechanism. Second, they can report back to the headquarters regarding the subsidiary-level situation. Thus, expatriates can play an active role in directing

headquarter attention channels - with the result that a higher number of expatriates at a subpar performing subsidiary is expected to decrease the probability of not receiving a headquarter response.

Moreover, Riaz, Rowe, and Beamish (2014) note the importance of expatriate deployment levels with regards to future growth. They find that a higher number of expatriates at the foreign subsidiary's foundation and a slower decrease of this number over time lead to improved growth prospects. Riaz et al. (2014) suggest that expatriates can facilitate knowledge transfer, coordination and control. If their number is higher at founding, path dependency unfolds a positive effect, whereby subsequent capabilities development and growth is enabled. The second part of their argument suggests that when the decrease in the number of expatriates is slower in a subsidiary than in its counterparts, it incurs lower dynamic adjustments costs. These costs arise when new members replace the function of the expatriate and the organization needs to adjust to incorporate these individuals. During times of subpar performance, both a higher number of expatriates at foundation and over time may thus allow for more efficient communication and coordination. As a result, the following hypothesis is provided:

Hypothesis 1c: *A non-response to subpar performance at a foreign subsidiary is more likely to occur when there are a fewer expatriates in the subsidiary.*

4.1.2 Hypotheses 2a-2c (Increases in Strategic, Operational, and Mixed Commitment)

If a subsidiary does receive a response, the type of response may be affected by different predictors. In this section, the predictors of increases in commitment are assessed (see Figure 4.2), based on an argument of environmental fit.

Figure 4.2. Model with Hypotheses for Dimension 1: "Identifying": Part 2 - Predicting Increases in Commitment.
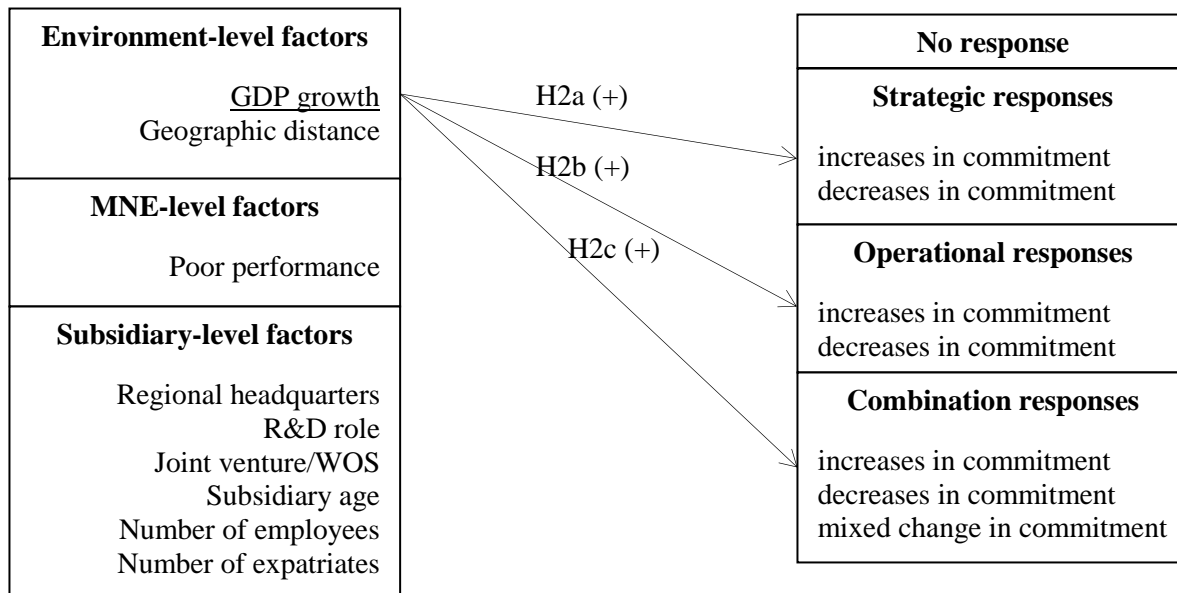
When the foreign subsidiary is performing poorly while the overall market is growing, an indication of misalignment of fit with the external environment may be present. Various ways exist to effectuate realignment through increased strategic commitment. In this thesis, these include enhancing control through switching to a higher equity ownership mode, and deploying more expatriates. Within an MNE, strong reasons are likely to be necessary to justify a strategic response associated with a considerable amount of investment. Such a justification could be the market potential at the foreign subsidiary's host country location. Berry (2013) identified market growth as a key factor that deterred MNEs from divesting their relatedly diversified subsidiaries. Here, this argument is extended to the effect that increases in strategic commitment is hypothesized to be the response that MNE headquarters choose in light of an ailing subsidiary in a promising market. This leads to the following hypothesis:

Hypothesis 2a: *An increase in strategic commitment is more likely to occur when the subpar performing subsidiary is located in a host country with higher GDP growth rates.*

The arguments for an increase in operational commitment to the subpar performing subsidiary are similar to those for an increase in strategic commitment. Operational measures such as increasing the workforce or investing in equity without effecting a mode change can enhance the fit with the environment, e.g. by increasing customer-orientation through a larger sales team. However, the probability of an increase in operational commitment is expected to be stronger than the probability of an increase in strategic commitment. The risk associated with investing more resources into an ailing subsidiary in a promising host country is smaller for the operational commitment and thus more probable. The resulting hypothesis is:

Hypothesis 2b: *An increase in operational commitment is more likely to occur when the subpar performing subsidiary is located in a host country with higher GDP growth rates.*

Finally, when GDP growth rates are particularly high, the abovementioned arguments are expected to converge to a combination of increases in commitment through both strategic and operational measures. Thus, the following hypothesis is offered:

Hypothesis 2c: *An increase in both strategic and operational commitment is more likely to occur when the subpar performing subsidiary is located in a host country with higher GDP growth rates.*

4.1.3 Hypotheses 3a-3f (Decreases in Strategic, Operational, and Mixed Commitment)

Much of the organizational decline and turnaround literature has emphasized the importance of retrenching, following a "necessity is the mother of rigidity" school (McKinley, 1993). In this set of hypotheses, the conventional efficiency arguments are investigated along with IB-context specific aspects. Figure 4.3 illustrates the set of hypotheses.

In the context of MNE headquarters attention, the strategic role of the subsidiary plays an important part in the decision to respond to subpar performance. Bouquet and Birkinshaw (2008: 577) suggest that subsidiaries with sufficient "weight", i.e. central "structural positions that subsidiary units occupy within a corporate system" receive more headquarter attention. For instance, if the ailing foreign subsidiary serves as a regional headquarters, it has an important strategic role that connects it to other subsidiaries in the region. Lasserre (1996: 31) lists five key tasks performed by the regional headquarters. They 1) *scout* the region for opportunities, 2) offer

Figure 4.3. Model with Hypotheses for Dimension 1: "Identifying": Part 3 - Predicting Decreases in Commitment.
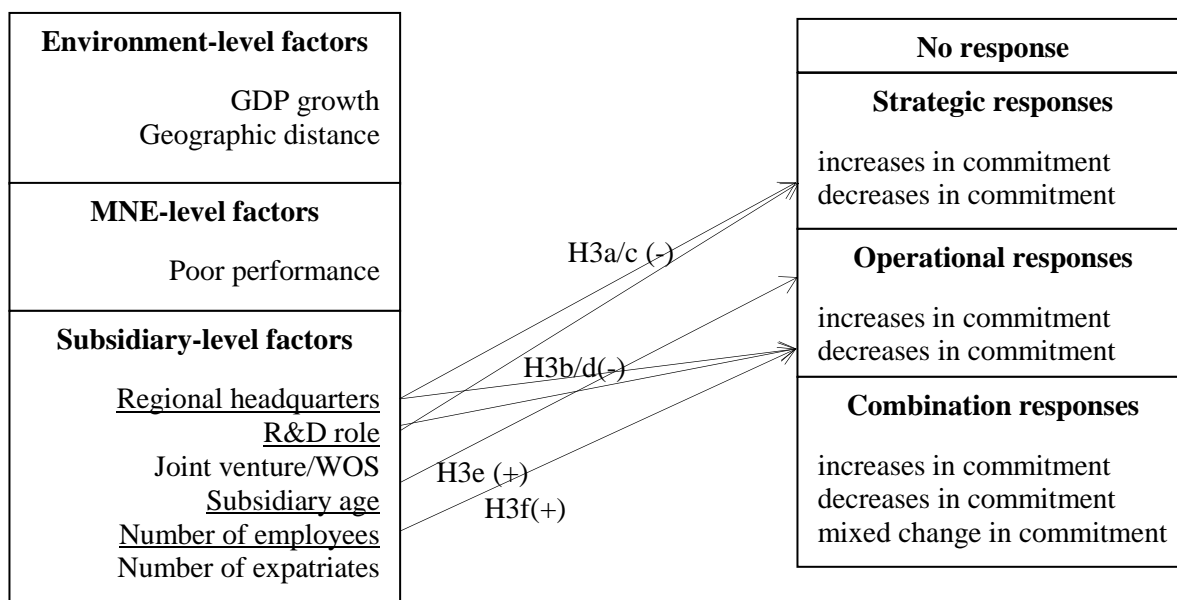
strategic guidance to units in the region, 3) demonstrate internal and external *commitment* to the region, 4) *coordinate* the units in the region and create synergies, and 5) *pool resources* across units in the region. Due to this "switchboard" function, the regional headquarters is thus very important as an information and attention channel for the headquarters - it has "weight". A similar argument is made by Alfondi, Clegg, and McGaughey (2012) who identify 10 functions of regional headquarters[4]. They also note that in some countries, a full regional headquarters may not be feasible. MNE headquarters then assign a regional management mandate, which includes many of the functions of a regional headquarters but at a lower level of investment. As such, both regional headquarters and subsidiaries with a regional management mandate fulfill important roles. In comparison, the regional management mandate may be a more cost-efficient approach in smaller markets than regional headquarters but regional headquarters are the most effective way for an MNE headquarters to signal attention and commitment to a specific region. Thus, a divestment of a regional headquarter would not only indicate a retreat from that particular investment but from the region as a whole.

Moreover, Nell, Ambos, and Schlegelmilch (2011) discuss the concept of overlaps in the networks of MNE headquarters and their foreign subsidiaries ("embeddedness overlaps"). If a subsidiary has an important role in the MNE's network that links it to many other subsidiaries, it possesses a certain degree of power which demands headquarter attention. By creating embeddedness overlaps, a MNE can tap into the information flows that are connected to that subsidiary, thereby acting to overcome the diversity-bandwidth trade-off described by Aral & Van Alstyne (2011).

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[4] 1) Strategic leadership, planning, and direction, 2) resource development, acquisition, and deployment, 3) seeking and exploiting new opportunities, 4) driving organisational adaptation, 5) attention and signalling, 6) monitoring, control, and governance, 7) resource and knowledge management, 8) representation and mediation, 9) coordination and harmonisation, 10) integration and facilitation of inter-unit linkages.

Thus, if such a powerful regional headquarter subsidiary is performing poorly, it is expected to be highly unlikely that it will experience any decrease in strategic or operational commitment. Instead, if a decrease in strategic and/or operational commitment occurs, it is expected to materialize only for those subsidiaries that do not fulfill a regional headquarters role. The following hypotheses results:

Hypothesis 3a: *A decrease in strategic commitment is more likely to occur when the subpar performing subsidiary is not a regional headquarters.*

Hypothesis 3b: *A decrease in operational commitment is more likely to occur when the subpar performing subsidiary is not a regional headquarters.*

A similar argument as for regional headquarters can be made for subsidiaries which fulfill another specific purpose in the MNE network. As Feinberg and Gupta (2004) note, foreign subsidiaries being assigned a research and development (R&D) role have become an increasingly common phenomenon. Extant literature has noted the importance of subsidiaries with an R&D role with regards to the generation of learning within the MNE and the transfer of this new knowledge from the host country to the home country. As a result, such subsidiaries with an R&D function gain "weight" (Bouquet & Birkinshaw, 2008) within the MNE network. Over time, a subsidiary which has been assigned an R&D role may thus evolve from a "starter" role (establishing a newly started laboratory) to an "innovator" (enhancing capabilities within the laboratory) to a "contributor" role (diffusing knowledge within the MNE network) (Asakawa, 2001). Moreover, research projects within MNEs often represent important and capital-intensive investments into future product lines or process improvements within the organization. The time horizon of performance expectations may thus be significantly longer than it would be for

foreign subsidiaries with other purposes. With such an important node position within the MNE's network, it is thus unlikely for subsidiaries fulfilling an R&D function to be divested, be it strategically or operationally. Thus, similar to regional headquarter subsidiaries, we propose the following:

Hypothesis 3c: *A decrease in strategic commitment is more likely to occur when the subpar performing subsidiary does not fulfill an R&D purpose.*

Hypothesis 3d: *A decrease in operational commitment is more likely to occur when the subpar performing subsidiary does not fulfill an R&D purpose.*

Decreases in operational commitment such as downsizing and retrenchment have arguably been the most dominant types of responses in the turnaround literature (Robbins & Pearce, 1992; Barker & Mone, 1994; Pearce & Robbins, 1993, 1994). While there has been some criticism regarding the efficacy of retrenchment actions (Barker & Mone, 1994), much evidence seems to suggest that most firms retreat to downsizing by way of reducing slack when performance is poor. For instance, Love and Nohria (2005) find that downsizing by way of reducing slack is most beneficial when slack is high. While most studies in this regard have aimed to investigate the question of whether downsizing is an appropriate measure for the facilitation of turnaround, much fewer have empirically explored the factors that may determine whether downsizing is chosen as the response. Within the context of an MNE, two factors stand out as having explanatory potential in this regard: subsidiary age and size. Both age and size can come with path dependencies that build up slack over time. Building up slack can be a conscious decision, considering that it has been shown to contribute to firm performance and especially innovation, at least within certain ranges (for a review, see Daniel, Lohrke, Fornaciari, & Turner,

2004). However, during poor performance, slack exerts a counterproductive effect, representing bound resources that are not used for the achievement of a turnaround until they are capitalized through downsizing.

These arguments fit into the "necessity is the mother of rigidity" (McKinley, 1993) stream of the organizational turnaround literature. Its main tenet is that turnaround can be achieved by cutting costly innovations and pursuing a strategy of risk avoidance by cutting costs and focusing only on the core of the business (McKinley et al., 2014). Following Love and Nohria (2005), it can be expected that firms choose to downsize by way of reducing slack only when slack is already high. This is likely to be the case in 1) older and 2) larger subsidiaries which are likely to have accumulated excess resources over time.

Moreover, age and size also affect the degree of attention the headquarters allocates towards the ailing subsidiary. If a subsidiary is older and larger, it is more likely that the executives at the MNE-level will have had contact with executives from that subsidiary. Thus, it is likely that larger and older subsidiaries will indeed experience a response to its subpar performance situation. Consequently, the following two hypotheses are developed:

Hypothesis 3e: *A decrease in operational commitment is more likely to occur when the subpar performing subsidiary is older.*

Hypothesis 3f: *A decrease in operational commitment is more likely to occur when the subpar performing subsidiary is larger (in terms of the number of employees).*

4.1.4 Hypothesis 4 (Combination Response)

Hofer (1980) pointed out the advantages of using responses to subpar performance that point in a clear direction. Combination responses that contain both strategic and operational increases and decreases in commitment can bring about heightened managerial complexity and confusion among employees. What may nonetheless affect the decision in favor of a combination response is depicted in Figure 4.4.

The degree of complexity of attention and control structures within MNEs versus purely domestic firms becomes apparent when considering that subsidiaries may be managed by more than just one parent firm from more than one country (i.e. in the case of an international joint venture). A stream of literature within the international business domain has

Figure 4.4. Model with Hypotheses for Dimension 1: "Identifying": Part 4 - Predicting Combination Responses.
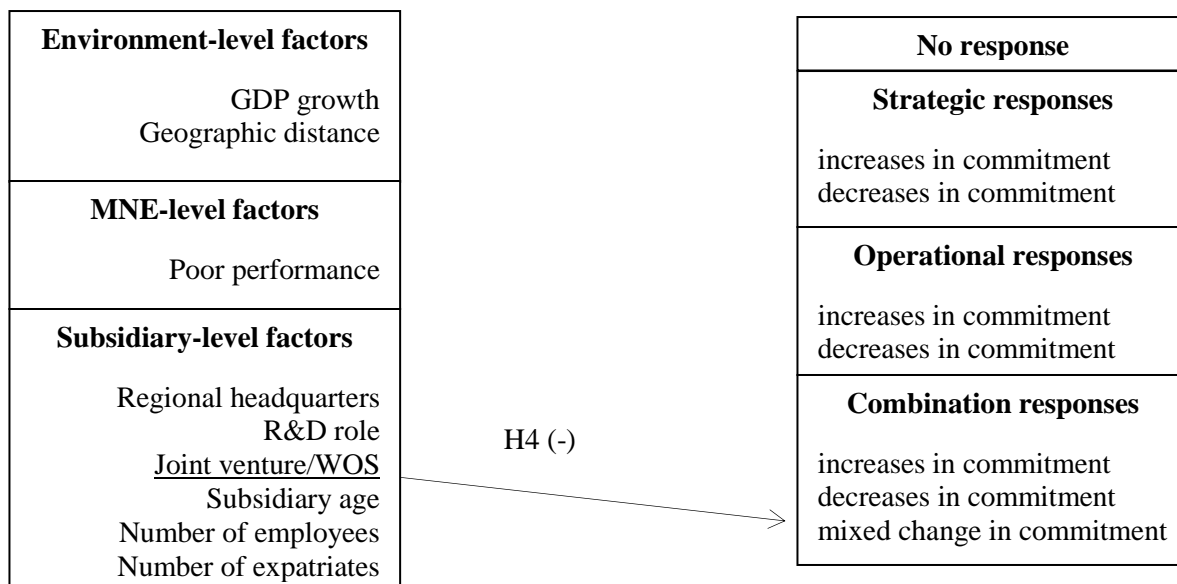
explored the effect that the number of parent firms in a subsidiary may have on outcomes. Regarding performance, for instance, the perspectives on how the number of parent firms matters have diverged. Beamish and Kachra (2004) juxtapose the TCE perspective (more parent firms lead to higher transaction costs and thus lower performance) with the RBV perspective (more parent firms lead to more diverse complementary resources and thus higher performance) and find that the number of parent firms is not significantly associated with performance. However, there appears to be consensus that having more than one parent firm in a foreign subsidiary does increase managerial complexity, especially when the parent firms originate from different home country locations. This in turn may affect how attention is allocated and whether the subpar performing subsidiary experiences a response.

Managerial complexity in a strategic alliance stems from multiple sources. Yan and Zeng (1999) offer a list of factors that add complexity (and potentially lead to instability) which includes disagreements regarding co-management, conflicts due to cross-cultural differences, issues related to control and ownership structures, clashes resulting from idiosyncratic characteristics of parents, and the navigation of external environments. Subsidiaries that are owned by more than just one parent firm are thus required to manage a higher degree of complexity and ambiguity.

This notion becomes especially salient when the subsidiary is performing poorly. In such a situation, many firms "will blame their local partner [or, more generally,] almost anyone or anything except themselves" (Lane & Beamish, 1990: 100). Naturally, this reaction is likely to lead to conflict among the parent firms of the subpar performing subsidiary. Even if the parent firms genuinely try to search for the true cause, it may be very difficult to identify a causal mechanism of subpar performance and this ambiguity may result in disagreements about the best

way to move forward. These disagreements are not necessarily detrimental - however, they are likely going to lead to more cases in which a subsidiary may experience a more diverse (perhaps even uncoordinated) response. For instance, the local partner may wish to increase the number of employees (operational increase) while the foreign partner may wish to decrease their equity position to a portfolio mode (strategic decrease). Thus, since different entities may initiate different responses which are at risk of not being well coordinated, combination responses are hypothesized to occur more often in joint ventures than in WOS:

Hypothesis 4: *A combination response is more likely to occur when the subpar performing subsidiary is a joint venture.*

This concludes the hypothesis development section for the "identifying" dimension of the resource orchestration framework. The next set of hypotheses will be developed around the "responding" dimension.

4.2 Hypotheses Regarding "Responding"

This subsection assesses the second part ("Responding") of the overarching resource orchestration framework ("Identifying", "Responding", and "Synchronizing"). In particular, the effects of chosen responses on outcome variables (recovery, exit, and continued subpar performance) are explored.

This notion of the efficacy of responding is an important area of research at the intersection of the organizational turnaround literature (Trahms et al., 2013) and international divestiture literature (Benito & Welch, 1997; Benito, 2005). On the one hand, the turnaround literature has mainly focused on responses to poor performance at the corporate-level or

business-level within domestic markets, thereby neglecting scenarios in which MNE
headquarters are called upon to respond to their poorly performing subsidiaries in foreign
locations. The number and types of responses available in such a situation can be quite different
from the number and types of responses available at the corporate-level or business-level of
analysis in a domestic context. For instance, the adjustment of control (e.g. via expatriates or
equity) are not commonly available in the latter scenario. Moreover, many studies in this stream
of literature focused on samples of firms that successfully performed a turnaround (McKinley et
al., 2014), leading to a limited picture of the efficacy of responses to subpar performance.

On the other hand, the international divestiture literature has mostly been concerned with
divestitures as the dependent variable, rather than as an independent variable like in the
organizational turnaround literature. This leads to a slight shift in focus, whereby divestitures are
found to occur in response to subpar performance - but also in response to other aspects such as
corporate-level or business-level strategic reorientation (Berry, 2013; Benito, 2005). The
appropriate response to subpar performance at the subsidiary-level as the defining criterion of the
context has thus been underexplored.

The investigation of the efficacy of each response (i.e. the response being the
independent variable) is thus important to investigate in terms of the chances for recovery versus
the risk of exit. Thus, this study explores the following research question: *Which type of response
(if any) is most conducive to increasing recovery and survival prospects?*

4.2.1 Hypotheses 5a-5b (No Response versus Any Response)

There appears to be consensus in the literature that a subpar performance sequence that lasts for more than two years requires an active response in order to facilitate turnaround. What this means with regards to the rate of recovery versus exit (as opposed to the mere likelihood of each outcome), has remained underexplored. Figure 4.5 illustrates the proposed relationships.

Drawing from the resource orchestration framework (especially its roots in the dynamic capabilities perspective), a response to subpar performance can be the result of an efficient process of sensing, seizing, and subsequently managing threats and/or transforming. The

Figure 4.5. Model with Hypotheses for Dimension 2: "Responding": Part 1 - Predicting the Efficacy of No Response versus Any Response.
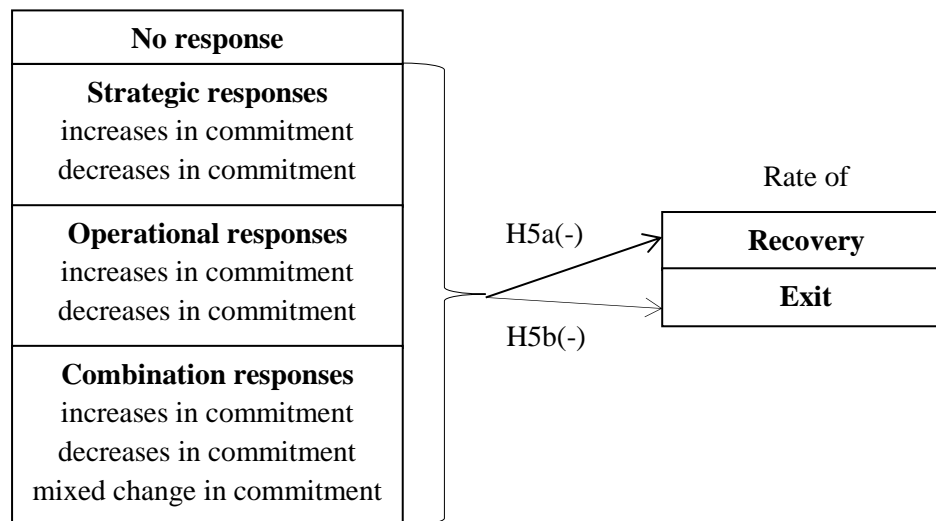
assumption made in this study is that subsidiaries that exhibit subpar performance for at least two years in a row experience a structurally embedded situation that requires a response in order to be overcome. As Schendel and Patton (1976: 240) note, initiating such a response may not come easy, since strong inertial forces may be at work. However, "turnaround usually requires substantial changes in the business".

There are many conditions that may cause subsidiary-level subpar performance to remain unanswered. Ghemawat (1991) argues that the causes for refraining from any strategic response to a new situation may be related to lock-in, lock-out, lags, and inertia. Lock-in and lock-out are reflections of adverse path-dependency, where either leaving a particular path of action or embarking on a particular path of action is more costly than persisting with the current strategic path. Lags are based on the logic of hysteresis and time compression diseconomies, whereby accelerated responses to negative performance signals can be very unlikely and/or costly (this aspect will be explored in more depth in Chapter 7 ("synchronizing")). Moreover, if a non-response to subpar performance signals is due to organizational inertia (which can be caused by a structurally and psychologically embedded resistance to change), the effectiveness of sensing, seizing, and managing threats and/or transforming may also be dampened. As a result, no (or a significantly delayed) response occurs in reaction to the subpar performance situation.

Moreover, the occurrence of a response may be related to the concept of dynamic capabilities itself. The basic notion of dynamic capabilities is that they are a contributing factor to the firm's competitive advantage. As Eisenhardt and Martin (2000: 1111) note, the benefits of dynamic capabilities come from them being "valuable, somewhat rare, equifinal, substitutable, and fungible[5]". One source that leads to these benefits and ultimately the desired superior competitive positioning is the notion that dynamic capabilities such as resource orchestration are difficult and time-consuming to develop. Moreover, "[s]ometimes even the managers themselves do not know why their dynamic capabilities are successful." (Eisenhardt & Martin, 2000: 1114), suggesting a certain degree of causal ambiguity inherent in the process. This causes the

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[5] Fungible refers to mutually interchangeable subjects that are identical (e.g. cash for cash), while substitutable subjects are subjects that can act in place of each other (e.g. cash for purchased good).

capability to be less imitable by competitors and therefore in turn allows for a superior competitive positioning.

On the flipside, the implication from this is also that not all companies possess such superior dynamic capabilities. This would become especially apparent in the international context, where sensing, seizing, and managing threats and/or transforming is especially made more difficult by geographic and cultural distance between the headquarters and the foreign subsidiaries. If an MNE is able to respond to a subpar performance situation at the subsidiary level rather quickly and decidedly, this may indicate the existence of a dynamic resource orchestration capability. On the other hand, if a response is non-apparent or considerably delayed, there may be processes, structures, and other factors hindering the MNE from responding effectively.

Thus, if subpar performance is likely to be structurally embedded and a response hints at a dynamic capability which would constitute a competitive advantage, a response (as opposed to no response) may be necessary to help the subsidiary turn around. The occurrence of a response in general can have a different impact in the short-term and the longer-term. In the short-term, a response may bring about a certain degree of disruption, as described in Chapter 3: even change that is known to be ultimately beneficial to the business unit may cause demotivation, confusion, and dissatisfaction in the short-run, causing performance (subjective and/or objective) to remain negative for a longer period of time. Moreover, as Chung and Beamish (2010: 1000) note, "Time, attention, and energy spent on renegotiating [international equity joint venture (IEJV)] agreements divert partners from tasks that generate revenue and from activities that help the IEJV deal with competition (Inkpen and Beamish 1997, Yan 1998)." This is also in line with Tan and Mahoney's (2005: 114) observation of dynamic adjustment costs, which arise when

responses to changes in the internal or external environment of the foreign subsidiary disrupt its ongoing operations. Thus, in the shorter run, a response may cause a delay in the recovery rate at the subsidiary level, compared to not responding at all (which may indicate the impact of contextual volatilities).

In the longer run however, a response is likely going to lead to improvements in the efficacy of the subsidiary's strategic orientation and/or efficiency in the subsidiary's operations. This implies that this improvement in fit caused by a response (or responses) should generally lead to better survival prospects in the longer run. Moreover, the fact that a response is enacted implies that the subsidiary is considered worth saving (Hofer, 1980) which can lead to higher levels of motivation after the initial disruptive phase. Finally, the notion that the subsidiary has experienced a response may hint at the existence of dynamic resource orchestration capabilities ("Responding") in the subsidiary, which will likely continue to be beneficial when applied sensibly to any future threats and opportunities as well. Thus, the subsidiary's longer-term survival prospects are likely going to be improved when a response is triggered, compared to not responding at all.

Thus, responding at all, though perhaps somewhat disruptive in the shorter term, may lead to improved survival prospects in the longer run. We thus propose that a response is generally preferable to not responding:

Hypothesis 5a: *Compared to not responding, any response to subsidiary-level subpar performance increases recovery prospects.*

Hypothesis 5b: *Compared to not responding, any response to subsidiary-level subpar performance increases survival prospects.*

4.2.2 Hypotheses 6a-6d (No Response versus Specific Types of Responses)

Once it has been established that any response is better than no response, the next step is to unravel the aggregated response variable and assess the impact of each of the responses to subpar performance on recovery and exit. We categorize responses based on two dimensions: 1) strategic versus operational and 2) increase versus decrease in commitment. Figure 4.6 summarizes how the two dimensions are proposed to interact, as will be described in more detail below. Rather than a similar figure as the preceding ones, except with many more lines since each hypothesis in the set should be represented, Figure 4.6 depicts the set of hypotheses in a more readable 2x2 matrix.

Table 4.6. Model with Hypotheses for Dimension 2: "Responding": Part 2 - Predicting the Efficacy of Specific Types of Responses.

	Increase in commitment	**Decrease in commitment**
Strategic response	worsens rate of recovery improves survival prospects	worsens rate of recovery worsens survival prospects
Operational response	improves rate of recovery improves survival prospects	worsens rate of recovery worsens survival prospects

First, as early turnaround scholars note (Schendel & Patton, 1976; Schendel et al., 1976; Hofer, 1980), firms can respond in a number of ways to subpar performance but the main differentiating criterion is whether the response is of a strategic or operational nature. While most scholars in the turnaround literature have followed these terms, other (very similar) ways to describe them exist as well. For instance, invention and rigidity (McKinley et al., 2014; Whetten,

1980) are related constructs in that the first addresses the initiatives of efficacy, while the latter addresses initiatives of efficiency.

Although the differentiation between these two broad categories of responses can at times be blurry, the main aspect is that strategic responses are geared less towards short-term performance improvements and more towards longer term improvements of market positioning from which enhanced performance follows. Examples include the reorganization of control structures, investing in long-term innovation, and changing the market positioning, among others. Operational responses on the other hand are the opposite in the sense that they are aimed at bettering short-term performance. Examples include reducing the size of the workforce, eliminating any inefficiency in products, materials, equipment, and services, and streamlining operational processes, among others. Hence, the long-term perspective on performance is less of a consideration (Hofer, 1980: 20). Combinations of strategic and operational responses can also occur.

Strategic and operational responses may have different degrees of impact on recovery and survival prospects. Since *strategic* responses are mostly geared towards improving long-term survival of the subsidiary through focusing on efficacy, their impact may be most visible in a lower rate of exit compared to operational responses. In the shorter run, strategic responses may come with higher managerial complexities, related to the formulation of the strategy itself, the adjustment of organizational structures and budgets, the modification of positions, and more. *Operational* responses on the other hand are mostly geared towards improving shorter-term performance of the subsidiary through focusing on efficiency. Thus, their impact is likely going to be more visible in a better rate of recovery compared to strategic responses. In the longer run, efficiency improvements may not be sufficient to optimize the subsidiary's survival prospects.

Indeed, as Hofer (1980) notes, most corporations utilize an operational response, even though sometimes strategic responses would have helped them to remain in business in the longer run. Whether or not retrenchment action is actually an effective response to subpar performance (and not also a cause for further decline) has been a topic of debate (Barker & Mone, 1994; Pearce & Robbins, 1994; Schmitt & Raisch, 2013).

Second, apart from assessing the impact of the occurrence of a strategic or operational response, the direction of the response may also have an important impact on a subsidiary's recovery and survival rates. In particular, the direction of response is understood here as either an increase or a decrease in investment. As such, this distinction is salient at the subsidiary-level of subpar performance because the direction of response can carry information about the MNE-subsidiary relationship and the degree of commitment the MNE's headquarters is willing to invest. A fitting definition of such a relational commitment is offered by Hebert (1994) who defines commitment in the headquarters-subsidiary relationship as the degree to which a parent feels bound to the stability and success of the JV. This concept of relational commitment is comparably less salient when addressing subpar performance at the corporate-level or business-level (which was the level of analysis in most turnaround studies), leading to a situation in which the different types of relational commitment have been understudied.

Moreover, much of the turnaround literature has emphasized the importance of downsizing and retrenching in times of subpar performance (Pearce & Robbins, 1993; 1994). Despite some criticisms of this heavy emphasis on retrenchment (Barker & Mone, 1994), it is still seen as the foundation of turnaround (Pearce & Robbins, 1994, Trahms et al, 2013). Generally, retrenchment is differentiated into cost retrenchment (e.g. laying off employees) and asset retrenchment (e.g. jettisoning an inefficient business unit). However, such an approach of

"tightening the belt" may have an additional layer in the context of the MNE-subsidiary relationship. The efficiency gains arising from retrenchment may at least partially be offset by the disruptive effects associated with perceived decrease in commitment from the MNE headquarters. This may be an important difference that can have an effect on the impact of retrenchment in the shorter run: instead of a "we're all in this together" approach when the entire corporation is declining, employees in a foreign subsidiary that experiences a decrease in headquarter commitment when performance is subpar may experience a notion of "we've been abandoned". Thus, the short-term effect of retrenchment in the foreign subsidiary may be not only a lower number of employees and tighter budgets but also disappointment, low morale, and a wave of additional talented employees leaving the subsidiary.

When the MNE headquarters increases its investments to the foreign subsidiary during subpar performance, however, a strong signal is sent that it is committed to the foreign subsidiary. While this way of responding may still be somewhat disruptive in the shorter term, it is likely going to infuse the ailing subsidiary with new prospects and morale, and prevent a higher degree of "brain drain" from the subsidiary. Moreover, if increased commitment is expressed by deploying more expatriates to the foreign subsidiary, they can become a conduit for firm-specific advantages (Choi & Beamish, 2004), leading to a strengthening of the subsidiary's resource and capability base. Thus, while retrenchment may be a very valuable approach in corporate-level or business-level turnarounds, the additional layer of an MNE's relational commitment to a foreign subsidiary may cause increases in investment to be more effective at subsidiary-level turnarounds. The following hypotheses are offered:

Hypothesis 6a: *Compared to not responding, increases in commitment affect the rate of recovery such that strategic increases worsen the rate of recovery while operational increases improve the rate of recovery.*

Hypothesis 6b: *Compared to not responding, decreases in commitment affect the rate of recovery such that both strategic and operational decreases worsen the rate of recovery, however strategic decreases more so than operational decreases.*

Hypothesis 6c: *Compared to not responding, increases in commitment improve survival prospects, such that both strategic and operational increases in commitment improve survival prospects, however strategic increases more so than operational increases.*

Hypothesis 6d: *Compared to not responding, decreases in commitment affect the rate of recovery such that both strategic and operational decreases worsen the rate of recovery, however strategic decreases more so than operational decreases.*

This concludes the section on the "responding" dimension of the resource orchestration framework. Next, hypotheses will be developed regarding the "synchronizing" dimension of the framework.

4.3 Hypotheses Regarding "Synchronizing"

The concept of time has always played an important role in organizational decline/turnaround studies, as process models such as by Pearce and Robbins (1993) and Weitzel and Jonsson (1989) suggest. However, rarely was the time concept modelled explicitly. One

exception is Tangpong et al. (2015: 669) who examined the earliness versus lateness of retrenchment responses (layoffs, divestments, geographic market exit). They found that "Early Retrenchment is positively related to Turnaround Success (p<0.05), but Late Retrenchment is negatively related to it (p<0.05)". Two sets of analyses can be built on this study. First, Tangpong et al. (2015) examine the efficacy of the timing of responses but do not investigate the determinants of the time-to-response. They do, however, explicitly call for a deeper examination of such issues (p. 673). We will address this call in the first part of assessing the "Synchronizing" dimension in this study. Second, the efficacy of the timing of the response warrants a deeper analysis with regards to the shape of the relationship and the impact of selected moderating influences. Thus, the guiding research question in this regard is *What factors determine the timing of a response and what role does the timing of responses play in the effectiveness of the chosen response in increasing recovery and survival prospects?*

4.3.1 Hypothesis 7 (Determinants of the Timing of the First Response)

As noted in the analyses regarding the "Identifying" dimension, headquarter attention towards the foreign subsidiary's subpar performance situation can help explain why some would receive a response while others would not. In this section, we refine these arguments by specifically assessing the time until the first response is administered. Since there seems to be some evidence that a timely response improves recovery and survival outcomes (Tangpong et al., 2015), the mechanisms that determine the timeliness warrant closer investigation. Figure 4.6 offers an overview of the proposed hypothesis.

Figure 4.6. Model with Hypothesis for Dimension 3: "Synchronizing": Part 1 - Predicting the Timing of the First Response.
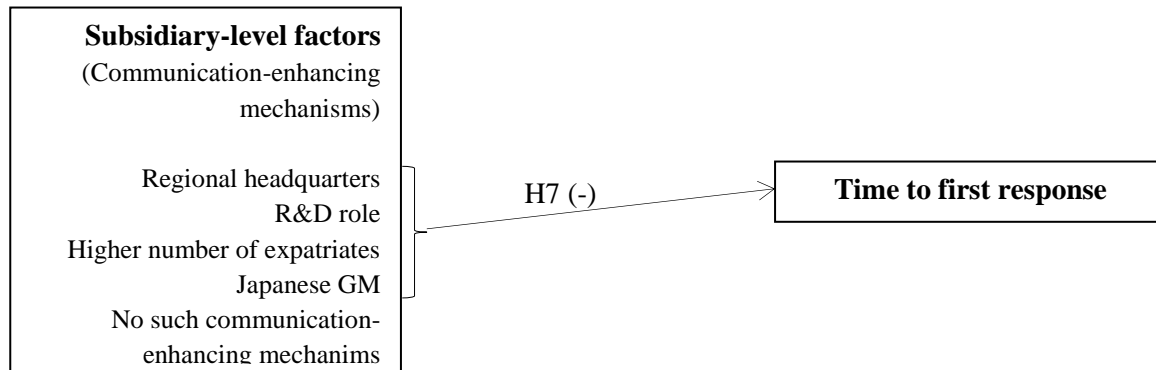
Several scholars have noted the difficulty that foreign subsidiaries may experience, especially those at the periphery of the MNE's network, with regards to receiving headquarter attention (Bouquet & Birkinshaw, 2008). However, subsidiaries may possess distinct communication enhancing mechanisms that allow them to increase their "weight" and "voice" within the MNE network. This is an aspect which is especially salient during times of subpar performance, where weight and voice may shorten the time until the first response is provided. We suggest that such mechanisms could encompass 1) specific roles within the MNE network (such as regional headquarter role, R&D function), 2) a higher number of expatriates, and 3) a Japanese GM. All those mechanisms are proposed to enhance the communication frequency between headquarters and the respective subsidiary, thereby allocating more of the scarce resource of top management attention to the subsidiary. We consider each in more detail. First, specific roles within the MNE network are generally associated with directives being passed to the subsidiary which can then be passed along to other subsidiaries in the region. Likewise, initiatives, innovations, and other aspects may be transferred from other local subsidiaries to the subsidiary with a specific role, where they are bundled and passed on to the headquarters. As such, the subsidiary gains a more amplified voice and weight within the MNE network and communication will be more frequent. Second, a higher number of expatriates within a foreign

subsidiary can help overcome barriers due to cultural distance to the headquarters (Wilkinson, Peng, Brouthers, & Beamish, 2008). This can occur in both directions, such that the expatriates can facilitate the exchange of information from the headquarters to the subsidiary and vice versa. Communication frequency is thus enhanced. Third, if the GM is of Japanese origin, there are likely fewer language and cultural barriers between the subsidiary's leadership (assuming they are Japanese) and the Japanese parent firm which can administer a response. Fewer barriers allow for an easier establishment of trust and thus, communication frequency may be enhanced.

When communication frequency is enhanced, adverse situations at the foreign subsidiary level can be better assessed and decisions can be made faster and with more confidence. Thus, we propose the following.

Hypothesis 7: *Compared to having no such communication enhancing mechanisms, subsidiaries that have mechanisms which facilitate more frequent communication with headquarters exhibit a shorter time to the first response.*

4.3.2 Hypotheses 8a-8b (Shape of the Relationship with Recovery versus Exit)

Building on the arguments from time compression diseconomies, we suspect that the effectiveness of the timing of the response may be curvilinear. We visualize the proposed relationship as a diagram, to aid interpretability (see Figure 4.7).

Figure 4.7. Schematic Model for Dimension 3: "Synchronizing": Part 2 - Shape of the Relationship between the Timing of the First Response and the Probability of Recovery versus Exit.
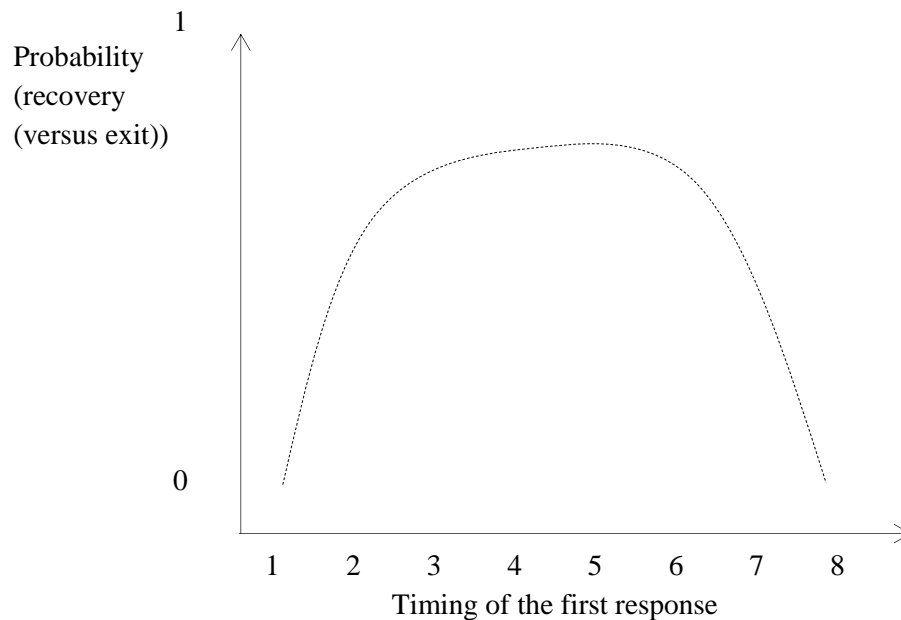
The main argument for differentiating between an early and a late response in Tangpong et al. (2015) is the notion that decline can lead to a vicious cycle of stress and disruption, causing further decline to occur (Tangpong et al., 2015; McKinley et al., 2014). If, however, the right response is initiated at the right time, a virtuous cycle may unfold whereby decline is halted and recovery sets in (Tangpong et al., 2015; McKinley et al., 2014; Weitzel & Jonsson, 1989).

On the other hand, the notion of time compression diseconomies suggests that too fast a response may not be conducive to improved recovery rates after all. Organizations may respond with a "knee-jerk" reaction (Hofer, 1980: 31) in order to exhibit fast action and avoid being blamed for being stuck in inertia. Such a very fast reaction that lacks the appropriate amount of due diligence may in fact be more counterproductive than a non-response would have been, causing disruption, confusion, and frustration. As a result of these arguments, we suspect that the

relationship between the timing of a response and the rate of recovery or exit is curvilinear rather than linear as Tangpong et al. (2015) suggests. Thus, we offer the following hypothesis:

Hypothesis 8a: *The effect of the time-to-first-response on the likelihood of recovery (as opposed to exit) takes an inverted U-shape, such that the likelihood of recovery is highest at medium levels of the time-to-first-response.*

Further, we suspect that the curvilinar relationship is affected by the type of first response that is provided. Specifically, we suspect that at the subsidiary level, increases in commitment will generally be more welcomed (i.e. less disruptive) than decreases in commitment. As such, increases in commitment are likely going to improve the likelihood of recovery. Furthermore, we propose that decreases in commitment are more sensitive to the curvilinear time-effect. If decreases in commitment are made very early on in the subpar performance sequence, the effect may be a perception of a "knee-jerk" response. If the perception is that the retrenchment was conducted merely as an end in itself, morale may sink and talent turnover may increase. If a disruptive response such as a decrease in commitment, however, is provided towards the medium range of the subpar performance sequence, the perception could be that at least due diligence was conducted to support the necessity of the downsizing action. Towards later stages of the subpar performance sequence, however, a decrease in commitment as the first response will likely add to the intense degree of psychological stress decision-makers are already under (Whetten, 1980; Tangpong et al., 2015). As a result, more faulty action may be conducted (Weitzel & Jonsson, 1989) and the likelihood for a recovery may fall again. By way of expressing the moderation effect, we thus suggest that decreases in commitment exhibit a steeper inverted U-shape on the probability of recovery (as opposed to exit) than increases in commitment. (Haans, Pieters, & He, 2015). Figure 4.8 illustrates this proposition.

Figure 4.8. Schematic Model for Dimension 3: "Synchronizing": Part 2 - Shape of the Relationship between the Timing of the First Response and the Probability of Recovery versus Exit, with the Moderating Effect of Response Type.
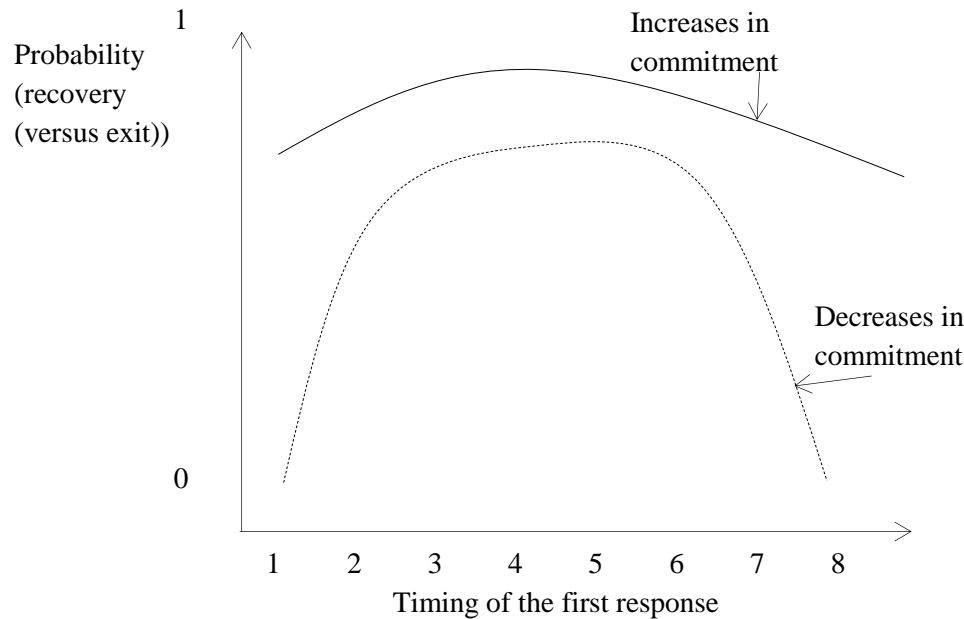
Hypothesis 8b *The effect of the inverted U-shape relationship between the timing of the first response and the probability of a recovery (versus exit) is more pronounced for decreases in commitment than for increases in commitment.*

4.3.3 Hypothesis 9 (Effect of the Timing of a GM Replacement)

A specific type of response which has received attention within the turnaround literature is that of the CEO and/or top management team replacement during a period of subpar performance. Several researchers have suggested that the replacement of the CEO and/or top management is an important factor in achieving turnaround success. The perspectives on the efficacy of CEO and/or top management replacement responses, however, diverge in three different directions. First, one camp views the replacement of the existing top management as a

necessary "precondition for almost all successful turnarounds" (Hofer, 1980: 25). The main rationale for this perspective is that the CEO and/or the members of the top management team are responsible for the subpar performance and those new perspectives and management skills are needed in order to turn the company around (Chen & Hambrick, 2012). The replacement of the CEO and/or top management team is thus hypothesized to be *positively* correlated with the rate of recovery and survival in a turnaround situation. These same arguments may also apply at the subsidiary-level, where the replacement of the general manager may infuse the subsidiary with new life and aid the subsidiary's turnaround.

Second, other researchers have argued that the replacement of the top managers in a company can lead to disruption and trauma (Haveman, 1993) which may indeed lead to worse performance following a leadership succession. The main rationale for this perspective is that CEO and/or top management team replacement in a subpar performance situation may be a form of ritual scapegoating (Rowe, Cannella, Rankin, & Gorman, 2005), whereby boards act in what Hofer (1980: 31) calls a "'knee-jerk' reaction" and Chen and Hambrick (2012: 225) call "ceremonial purging", with the objective to respond to decline as fast as possible. This response for the sake of responding quickly and visibly may have adverse effects on talented managers in other ranks who may become wary of their future in the company (Chen & Hambrick, 2012). The replacement of the CEO and/or top management team is thus hypothesized to be *negatively* correlated with the rate of recovery and survival in a turnaround situation. These same arguments may also apply at the subsidiary-level, where the replacement of the GM could lead to disruptions that may eventually hamper the subsidiary's recovery prospects.

Third, researchers have noted that little empirical evidence exists to support either perspective and the evidence that does exist has been mixed or even insignificant (Barker,

Patterson, & Mueller, 2001; Chen & Hambrick, 2012). For instance, Daily and Dalton (1995) find that while failing firms exhibited higher CEO and director turnover rates, the changes are often not in the direction recommended by key stakeholders (i.e. towards more independent boards, separation of CEO and chairperson positions). Further, Chen and Hambrick (2012) found that leader successions in subpar performing firms only leads to the desired effects if the new CEO creates a better fit with the conditions at hand (i.e. the severity of losses and industry performance severity). CEO replacement without attention to these parameters of fit, however, does not appear to have any effect on the companies' recovery rates. The replacement of the CEO and/or top management team is thus hypothesized to be *contingently* correlated with the rate of recovery and survival in a turnaround situation. These same arguments may also apply at the subsidiary-level, where the efficacy of the GM replacement response may depend on contextual contingencies.

We follow this contingency perspective, suggesting that a GM replacement *per se* does not improve performance. Rather, we aim to advance existing research by suggesting that the concept of time plays an important role, whereby only an early GM replacement will generate the desired beneficial outcomes. If the GM replacement occurs rather late, processes of decline may already have become embedded themselves and too much talent may have left the company already, leading to a downward spiral of decline. Thus, we hypothesize that the early replacement of the GM will likely be beneficial for the rates of recovery and survival.

The rationale behind this is that a new leader at the foreign subsidiary will bring in new ideas and will not be as embedded in inertial structures as the outgoing GM. Moreover, political structures within the subsidiary will be broken by replacing the GM, thereby opening the doors for new processes. Perhaps most importantly, however, a GM replacement is unlikely to occur as

a reaction of public scapegoating since he or she generally has much less media coverage and visibility (compared to a corporate-level CEO) to make this an effective move. Thus, the following hypothesis is proposed.

Hypothesis 9: *An earlier GM replacement during periods of subpar performance leads to better rates of recovery and improved rates of exit than a later GM replacement.*

This concludes the hypothesis development section. Next, the methodology with which these hypotheses will be tested will be reviewed.

CHAPTER 5: SAMPLE DESCRIPTION AND RESEARCH DESIGN

From a philosophical standpoint, we aim to approach the phenomenon of subpar performance in foreign subsidiaries by making some assumptions about three central and hierarchical questions: 1) "What is the form and nature of reality and, therefore, what is there that can be known about it?" (the ontological question), 2) "What is the nature of the relationship between the knower or would-be knower and what can be known?" (the epistemological question), and 3) "How can the inquirer (would-be knower) go about finding out whatever he or she believes can be known?" (the methodological question) (Guba & Lincoln, 1998: 201). To the first question, we assume a post-positivist perspective in this thesis, whereby reality exists (i.e. the goal is to approach the truth) but can only be imperfectly captured by the bounded rationality of humans. Regarding the second question, we favor a perspective of objectivity and falsifiability, whereby findings can potentially be tested and replicated. This leads to the third question being focused on a quantitative approach with hypotheses and variables as the unit of analysis, rather than a qualitative approach emphasising human verbal and nonverbal actions (Rynes & Gephart, 2004).

This is not to say, however, that an interpretivist (qualitative) methodology or in fact pragmatist (mixed methods) methodology would not lead to interesting and valuable outcomes as well. Indeed, as we note in Chapter 7, a qualitative study would likely help deepen the insights gained through the quantitative approach in this thesis by adding more context, offering a richer account of human behavior, differentiating the individual case from the general case, and emphasizing the process of discovery (Guba & Lincoln, 1998). The reason for our preference for a quantitative approach at this point is that we believe the research gap regarding the phenomenon of subpar performance at foreign subsidiaries requires a benchmarking of its

prevalence to provide a foundation from which future studies, including interpretivist and pragmatist studies, can be built.

5.1 Data Sources

Hypotheses were tested using subsidiary-level information from the *Kaigai Shinshutsu Kigyou Souran Kuni-Betsu* dataset, issued annually by Toyo Keizai Inc. (Toyo Keizai, 2014), and MNE-level information from the Nikkei NEEDS tapes. This combined dataset results in a sample of Japanese overseas investments at near-population size, totaling 469,834 subsidiary-year observations representing 49,616 subsidiaries in 160 countries. Collected through surveys at each subsidiary, the observation period spans the years 1990-2013, allowing for a longitudinal analysis and a reduced risk of capturing merely one-time effects.

Additional datasets were utilized to complement the main dataset with further information. Specifically, country-level data was derived from The World Bank Group database (2016), culture-level data was collected from the Cultural Dimensions dataset (Hofstede, Hofstede, & Minkov, 2010) and from the geographic distance dataset by Berry et al. (2010).

5.2 Operationalizing Subpar Performance Sequences

As the review of the literature on corporate-level/business-level decline and turnaround in Chapter 2 revealed, most studies used return on investment as the measure of subpar performance (Barker & Duhaime, 1997; Tangpong, Abebe, & Li, 2015, Schmitt & Raisch, 2013; Francis & Desai, 2005; Bruton et al., 2003; Bruton et al., 1994, Robbins & Pearce, 1992),

followed by return on assets (Schmitt & Raisch, 2013), return on equity (Chen & Hambrick, 2012), and return on sales (Robbins & Pearce, 1992). At the subsidiary-level, such measures are often not readily available and practices such as transfer pricing may distort the image of how much profit is actually generated at the foreign subsidiary.

With this in mind, subpar performance sequences as described in Table 5.1 were derived using four different ways of operationalizing performance during both downturn and upturn phases. This conceptualization is in line with Schendel et al.'s (1976) differentiation between such phases during both of which performance has not yet recovered and actions may thus still be required in order to fully restore pre-decline levels.

First, the *downturn phase* was identified by flagging each year in which sales were lower than in the year before. We also calculated a labor productivity measure by dividing sales by the number of employees in the subsidiary. Again, each year was flagged in which productivity was lower than in the year before. Further, the Toyo Keizai dataset contains information about perceptions of financial performance, containing three categories: gain, break-even, and loss. To ease the calculation of subpar performance sequences based on this measure, we combined the three categories into two. Two different ways of operationalizing this perceptual measure of subpar performance thus resulted; one differentiating between 1) surplus and 2) break-even/deficit and the other differentiating between 1) surplus/break-even and 2) deficit. More specifically, the rationale behind this aggregation of this performance measure is to identify subsidiaries that are currently in a turnaround situation and therefore in need of a managerial response (Pearce & Robbins, 1993). As noted in Chapter 1, included are subsidiaries that are clearly in distress and experiencing directional (organizational decline) problems, potential termination (failure, survival-threatening), and those that are stagnant at a non-profitable level

over a number of consecutive years. These latter types of subsidiaries may equally require a response in order to continue to operate in a global, competitive, and growth-oriented environment. Moreover, subsidiaries may first experience a loss, then improve to the point of a break-even (not gain!), and then fall back into the loss situation. With a three-tiered categorization, these occurrences would not be considered a string of consecutive years of subpar performance and thus likely be dropped from the sample (or shorter pieces of the sequences would be considered under the loss and the break-even categorizations respectively). As such, this aggregated categorization (especially the first way to aggregate perceptual measures of financial performance) is related to Jas and Skelcher's (2005: 198) differentiation into a "'poor' category and […a] 'weak' category [which is characterized as] having a very low capacity to improve'".

Second, the *upturn phase* was identified by flagging the number of years in which the respective subsidiary is recapturing sales again before it fully recovers to pre-decline levels, exits, or the observation period ends (right censoring). Some subsidiaries experienced several years of such upturn phases while others may undergo no such phase at all. The same approach was taken for the labor productivity measure of performance. For the perceptual measures of financial performance, such an approach was not necessary, since the end of the subpar performance categorization automatically indicated the arrival of either a recovery or exit event (or right censoring).

5.3 Pre-Analysis Sample Preparation

After the identification of subpar performance sequences, the sample was prepared in the following steps. First, as Mata and Portugal (2000: 555) note, large datasets like the Toyo Keizai dataset, while very valuable in terms of explanatory power, may contain a higher absolute number of coding errors than hand-picked small datasets. To alleviate this concern of coding errors as best as possible, we scrutinized all the variables in the analysis. A variable that required adjustment was subsidiary age. Subsidiary age was calculated by subtracting the year of foundation from each year of observation. Subsidiaries that had a negative age value were deleted since this suggested a coding/input error in the year of foundation variable. In total, however, only about 0.18 percent of the dataset were affected, leading us to be confident in deleting these subsidiaries without affecting any analysis outcomes.

Second, since this study is only concerned with subsidiaries that are experiencing subpar performance sequences, the sample was cut to only include those sequences. Some subsidiaries may experience a number of such sequences, interrupted by periods of better performance or non-observance. Thus, there are likely going to be gaps (i.e. intervals) between the sequences of subpar performance, if the subsidiary experiences more than one such sequence. Following Cleves, Gould, Gutierrez, and Marchenko (2008: 36), the observations during such gaps were omitted. The same was done with observations that occurred before the first subpar performance sequence (left censoring). Moreover, as will be described in section 5.8, the fact that subsidiaries may encounter more than one subpar performance sequence was accounted for by creating robust standard errors through clustering the analysis by each subsidiary.

Third, Inkpen and Beamish (1998: 38) recommended excluding subsidiaries from the sample which contain fewer than 20 employees. This approach is a now common method to

ensure generalizability to substantive operations, not merely agencies or sales offices. Since the unit of analysis in this thesis is the subpar performance sequence, however, the application of this criterion was not as straightforward as merely deleting these respective observations. For instance, following the simple deletion method, a subsidiary that reported 40 employees at the beginning of the subpar performance sequence and then retrenched to 18 employees would have been included with an incomplete sequence. Similarly, a subsidiary which first reduced its workforce to fewer than 20 employees during the downturn phase and increased it again to more than 20 employees during the upturn phase would have been included into the sample with a holey sequence. Therefore, in an effort to include as many sequences with as much complete and continuous information as possible, we excluded only those sequences where the subsidiary reported fewer than 20 employees for the *entire* duration of the subpar performance sequence.

Fourth, since the objective of this thesis is to assess responses to subpar performance when such subpar performance does not occur by chance or due to short-term fluctuations, we omitted the first two years of each sequence (unless otherwise specified). As described in Chapter 2, this approach is in line with several decline/turnaround scholars, such as Tangpong et al., (2015).

These steps led to final pre-analysis sample sizes and characteristics as illustrated per performance measure in Table 5.1. As Table 5.1 shows, some subsidiaries may experience more than one subpar performance sequence, indicated by the higher number of sequences than subsidiaries. Moreover, given that labor productivity is a ratio of sales over the number of employees, it may seem surprising that the number of observations is higher than for the sales measure of performance. Upon closer inspection, however, the difference occurs when the level of sales does not change but the number of employees does, thereby leading to a higher

probability of being flagged as experiencing subpar performance compared to considering sales only.

Table 5.1. Sample Sizes per Performance Measure.

Performance measure	Number of observations	Number of subsidiaries	Number of sequences	Max length	Mean length	S.D. length	Number of countries
Sales	17,982	5,669	7,406	18	4.41	1.84	94
Labor productivity	21,860	6,307	8,744	22	4.45	1.85	87
Perceptual measures of financial performance							
A: (0=surplus, 1=break-even, deficit)	11,847	3,196	3,360	24	5.24	2.38	73
B: (0=surplus/break-even, 1=deficit)	4,633	1,553	1,592	14	4.75	1.95	56

Note: *Observations* are subsidiary-year occurrences. *Length* refers to subpar performance sequences.

In this thesis, the main operationalization of subpar performance sequences was based on the sales differentials measure of performance. It was selected for three reasons. First, as Weinzimmer, Nystrom, and Freeman (1998: 235) note, sales growth is the "most commonly identified measure of overall organizational performance (Hubbard & Bromiley, 1995)" and any decline in sales may thus indicate a decline in subsidiary growth. Moreover, sales may be a more fitting measure than increases in employees or assets since "a firm can realize growth in sales dollars without achieving any significant change in employees or assets" and thus, "sales data may be more appropriate in studies including organizations" from different industries (Weinzimmer et al., 1998: 252). Second, with a labor productivity measure, decreases in the sales-vs-employees ratio may occur due to the hiring of more employees, with there being a time lag until sales growth has caught up with the increased number of employees. Thus, a common approach to growth by investing in human resources may be flagged as an indication of decline. This can be especially salient in service subsidiaries which tend to be more labor-intensive. A

labor productivity measure may therefore be a more noisy measure of decline than using sales differentials as the measure of performance, especially when including both manufacturing and service subsidiaries into one sample (Weinzimmer et al., 1998: 252). Third, compared to perceptual measures of financial performance, focusing on sales differentials offers a larger sample size and reduces the risk of biases such as retrospective bias or social desirability bias. Nonetheless, the other types of performance will be used as robustness checks in Chapter 6.

5.4 Response Variable

We identified several responses that could occur as a reaction to subpar performance at a foreign subsidiary. Besides assessing each type of response individually, we also noted that the number of observations per response category can become very small when control variables with missing values are added to the regressions. As a result, some categories would fall below the threshold of Roth and Morrison's (1990) guideline for including at least 30-50 observations per category. We thus decided to combine the types of responses into categories that indicate the overarching type of response (strategic vs. operational vs. mixed) and the direction of the response (increase vs. decrease vs. mixed). Such clustering is not uncommon in organizational decline/turnaround studies (see Trahms et al., 2013; Hofer, 1980). Table 5.2 provides a list of each type of response and clustering approach.

5.5 Final Outcome Variable (Exit versus Recovery versus Right Censoring)

At each end of an observation year within the subpar performance sequence, several possible outcomes were recorded. First, the subsidiary could still be performing at subpar levels, a scenario which was indicated as "0". Moreover, right-censored cases were also marked with a"0", following Hsieh et al. (2015). Censoring is defined as a situation in which an "event occurs and the subject is not under observation" (Cleves, Gutierrez, Gould & Marchenko, 2010, p. 29). Thus, no inferences can be made about any recovery or exit events occurring during this period of non-observation. In particular, since the observation span of the dataset reached from 1990 until 2013, all observations in 2013 were tagged with a "0", assuming that they continue (the alternative, assuming that all subsidiaries exit in 2013, is too strong an assumption). Second, the subsidiary could have recovered to the levels of performance before the subpar performance sequence which was tagged with a "1". While the main analysis was conducted with subsidiary-level sales as the measure of performance, robustness checks using subsidiary-level productivity and perceptual measures of financial performance (two different ways of operationalizing) were conducted and are reported in Chapter 6. Third, subsidiaries could exit the following year. The last year they were observed in the dataset was thus marked with a "2". This follows similar studies of exit events, such as Mata and Portugal's (2000) comparison between the determinants of divestitures and closures of foreign subsidiaries. Fourth, based on this approach to operationalizing possible outcomes, recovery and exit are not mutually exclusive events. A subsidiary that recovers in one year could exit in the next year, thereby causing that year to be tagged with both a "1" and a "2". To account for such a situation, outcomes of such a scenario were tagged as "3". However, the reasons for such an occurrence are unclear and thus the focus in the analysis was placed upon outcomes "1" (recovery) and "2" (exit).

Table 5.2. Response Variable.

Type of response	Categorization	Total frequency of response occurrence	Frequency of response occurrence as a first response
No response	No response	6,726	1,841
Increase equity to WOS (>80 percent) Increase equity from even position (> 50 percent) Increase equity from portfolio position (> 10 percent) Increase in the number of expatriates	Increase in strategic commitment (and combinations thereof)	48	32
Decrease equity from WOS (<80 percent) Decrease equity from even position (< 50 percent) Decrease equity to portfolio position (< 10 percent) Decrease in the number of expatriates	Decrease in strategic commitment (and combinations thereof)	205	116
Increase in equity (not resulting in a mode change) Increase in the number of employees	Increase in operational commitment (and combinations thereof)	2,838	1,450
Increase in equity (not resulting in a mode change) Increase in the number of employees	Decrease in operational commitment (and combinations thereof)	2,633	1,265
Combinations of the above occurring in the same year	Increase in strategic and operational commitment (and combinations thereof)	1,387	695
Combinations of the above occurring in the same year	Decrease in strategic and operational commitment (and combinations thereof)	1,566	739
Combinations of the above occurring in the same year	Combination response (increase and decrease in strategic and operational commitment)	2,579	1,268
	Total	17,982	7,406

5.6 Independent Variables

5.6.1 Independent Variables for the Analysis Regarding "Identifying"

At the country-level, two independent variables were used. *GDP growth* was derived from The World Bank annual data (1990-2013) per country. *Geographic distance* is a measure derived from online supplementary material from Berry et al., (2010) and coded as the distance between Japan and each host country. At the MNE-level, one independent variable was identified. A situation of *negative profits* at the MNE-level was indicated as a binary variable, whereby "0" indicated positive (or break-even) profits and "1" indicated negative profits (i.e. losses). At the subsidiary-level, five independent variables were used. A special strategic role of the subsidiary was coded as 1) "1" for the subsidiary having a *regional headquarters* function (or "0" otherwise). The R&D role of a subsidiary was derived from a purpose of investment variable in the Toyo Keizai dataset and marked as "1" when the subsidiary fulfilled such a role and "0" if other purposes of investment were predominant. *Ownership modes* were indicated as "0" for joint ventures and "1" for wholly-owned subsidiaries and lagged by one year. *Subsidiary age* was derived by subtracting the foundation year from each year of observation. The *number of employees* was included to measure the size of the subsidiary. Finally, a variable indicating the *number of expatriates* was included.

5.6.2 Independent Variables for the Analysis Regarding "Responding"

Based on the response variable, subsequent configurations of responses to subsidiary-level subpar performance were devised. Specifically, all strategic responses, all operational responses, and all combinations thereof were combined, respectively, based on Table 5.2.

5.6.3 Independent Variables for the Analysis Regarding "Synchronizing"

For the first set of analyses regarding synchronizing, four independent variables were employed to indicate a communication-channel enhancing mechanism. A special strategic role of the subsidiary was coded as 1) "1" for the subsidiary having a *regional headquarters* function (or "0" otherwise). The R&D role of a subsidiary was derived from a purpose of investment variable in the Toyo Keizai dataset and marked as "1" when the subsidiary fulfilled such a role and "0" if other purposes of investment were predominant. The *number of expatriates* was included directly as it was provided by the Toyo Keizai dataset. The *nationality of the GM* was derived by transforming the Toyo Keizai dataset (which contains some variables with Japanese characters as strings) into Unicode, to make it readable in Stata. Then, we created a variable that indicated a "1" when the name of the subsidiary representative was given in Chinese characters and a "0" otherwise. We confirmed this approach with a Japanese-speaking expert[6] on the dataset and Japanese MNEs more generally, who noted that Japanese names are often spelled in Chinese characters. He also noted that the GMs with names written in Chinese characters outside of China, Taiwan, Hong Kong, and Korea are likely going to be Japanese, while this may not be so obvious within these selected countries. Following this logic, we added a robustness check to Model 2a in Table 6.14, excluding these four countries (plus Singapore which has similar characteristics) from the analysis. We also conducted a random search of such names and confirmed that these individuals were indeed in leadership positions at the subsidiary.

In the second set of analyses, the timing of the first response variable becomes the independent variable. This continuous variable was derived by marking the occurrence of the first response to subpar performance and the year in which it occurred. In our sample, the first

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[6] Email correspondence with Professor Shige Makino available upon request.

response occurred between the first and eighth year of a subpar performance. Those subsidiaries that did not respond at all were not included in this part of the analysis. In order to capture the proposed curvilinear effect of the time-to-first-response variable, we created the squared term of it. Further information on the methodological approach can be found in section 5.8.4. Finally, we created a *GM replacement* variable which assumed a value of "0" when the name of the GM was the same as in the year before and a value of "1" if the name was different.

5.7 Control Variables

Several control variables were employed to reduce the omitted variable bias as best as possible (Antonakis et al., 2010). Since the causes of subpar performance may stem from the external and/or internal environment (Cameron, Sutton & Whetten, 1988), control variables were included which reflect both aspects. The control variables are reviewed below per each dimension regarding "Identifying", "Responding", and "Synchronizing".

5.7.1 Control Variables for the Analysis Regarding "Identifying"

Control variables were also included at three different levels of analysis. At the country-level, the host country's market size was captured by including an annual *population* measure. *Cultural distance* scores were calculated from Hofstede et al. (2010) most established cultural value dimensions (uncertainty avoidance, power distance, masculinity-femininity, and individualism-collectivism) using Kogut and Singh's (1988) composite score equation. At the level of the MNE, *network size* was determined by a cumulative count of the subsidiaries for the dominant Japanese parent firm. Benito & Welch (1997: 18) suggest that as the MNE network

size increases, the commitment to each individual subsidiary may decrease, potentially leading to a higher probability of divestments. At the subsidiary-level, *industry similarity* was included since studies have found that over-diversified MNEs are more likely to divest their unrelated subsidiaries (Benito, 2005). In order to assess the relatedness between the Japanese headquarters and its foreign subsidiary, a dummy variable was derived which assumes a value of "0" when the two operate in different sectors and a value of "1" when they operate in the same industry and "0" if it did not.

5.7.2 Control Variables for the Analysis Regarding "Responding"

To account for environmental aspects (Berry, 2013), an annual *population* measure and *average GDP growth* were included as control variables. Further, the *geographic distance* (Berry et al, 2010) and *cultural distance* between the MNE headquarters and the foreign location could affect the efficacy of the chosen response and the likelihood of being divested (Benito, 2005). Cultural distance was derived from cultural values scores (Hofstede et al., 2010) and converted into composite distance measures using Kogut & Singh's (1988) operationalization. At the MNE, level, *network size* was determined by a cumulative count of the subsidiaries for the dominant Japanese parent firm and a binary variable indicating whether the MNE was performing poorly ("1") or not ("0") was included. To assess the strategic importance the subsidiary may hold for the MNE headquarters, a measure of *industry similarity* was included. Subsidiaries that are in a different sector than the headquarters may be at a higher risk of being divested (Benito, 2005). Further, MNE headquarters may be hesitant to divest larger subsidiaries, so a subsidiary size measure was added by way of including the *number of employees* (Barker & Duhaime, 1997). The *number of expatriates* was also included to account for the notion that the rate of recovery

may be improved by the presence of expatriates. There may also be a difference in managerial complexity and likelihood of exit or recovery between *joint ventures and wholly-owned subsidiaries*, so these different configurations were controlled for. Following Dhanaraj and Beamish (2004), joint ventures were defined as subsidiaries in which at least two parent firms each own at least 20 percent equity and wholly-owned subsidiaries as those in which one parent firm owns 80 percent or more of the equity. Finally, subsidiaries that function as *regional headquarters* may be less likely to be divested and thus, a dummy variable flagging such subsidiaries was included.

5.7.3 Control Variables for the Analysis Regarding "Synchronizing"

For the first set of analyses, we included several control variables which were described above. In order to avoid redundancies, these variables will be mentioned here but not reintroduced at length. We included *population size*, *GDP growth*, *geographic* and *cultural distance* at the environmental level. *Network size, MNE profit situation*, and *industry similarity* were included at the MNE-level. At the subsidiary level, we included the *ownership mode*, and the *number of subsidiary employees*.

For the second set of analyses, we included *population size*, *GDP growth*, *geographic* and *cultural distance* as well as *regional headquarters, industry similarity*, and *subsidiary age, number of employees,* and the *number of expatriates.*

5.8 Methodological Approach

The overarching preparation of the dataset for the regression analyses (especially those described in sections 5.8.2, 5.8.3, and 5.8.4 involved four further steps. First, all variables which were time-variant were lagged by one year to allow for better causal inference between a predictor and an outcome variable such as a response. This also ensured that the ownership mode was not measured in the same year that a response in form of an ownership mode change occurred. Second, continuous independent variables were mean-centered to avoid any concerns of multicollinearity (Aiken & West, 1991). Third, all continuous variables were subjected to Stata's "ladder" command which tests whether the respective variable requires a transformation to achieve a more normal distribution. No such transformation was required. Finally, since some subsidiaries exhibited more than one subpar performance sequence and the observations were thus not independent of each other, we clustered by the unique subsidiary identifier to create robust standard errors.

5.8.1 Sequence Analysis

In order to gain more insights into the nature of the subpar performance sequences in this thesis, sequence analysis lent itself as a suitable method. Brzinsky-Fay et al. (2006: 435) note that in sequence analysis, "the positions in a sequence refer to the relative, not absolute, time point. Moreover, sequences are generally seen as an entity of their own and the interest is in the sequential character of all elements together". In this method, sequences are conceptualized as shown in Figure 5.1.

Since this study is concerned with subpar performance sequences as the central unit of analysis, this perspective on the data appears appropriate. Sequence analysis will be used to identify subpar performance sequences and explore the nature of such sequences.

Figure 5.1. Sample Sequence from Brzinsky-Fay et al., (2006: 425).
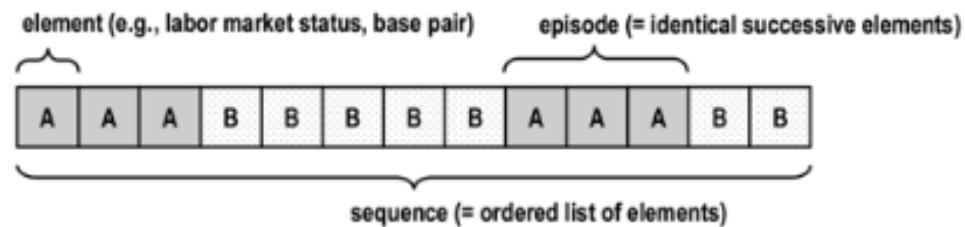
5.8.2 Analytical Approach for "Identifying"

The dependent variable in this part of the analysis, regarding "Identifying", was the response that was observed as a reaction to the foreign subsidiary's subpar performance. Of particular interest at this point was thereby the first response (after the two initial years of subpar performance), since we assumed it to best reflect the process of identifying an appropriate response to a subpar performance situation at the subsidiary level. As a result, any subsequent responses were ignored for this analysis, essentially creating a cross-sectional subsample.

Since the outcome variable in this study takes on discrete values, it is a nonlinear limited dependent variable for which conventional OLS regression is inappropriate (Wiersema & Bowen, 2009). This leads to the possibility of applying a multinomial logit model which allows for the assessment of the influence that independent variables have on the choice for a specific response relative to a base case (Cameron & Trivedi, 2010: 498; Berry, 2015). In this study, the

base case is selected to be subsidiaries that never experience a response for the duration of their subpar performance sequence. Thus, the coefficients indicate the probability of each response category to be selected over not responding at all. Comparisons regarding the impact of predictor variables across response categories can only be made with respect to the base category. This notion of relative interpretation of coefficients means that the signs and coefficients in multinomial logit models need to be assessed carefully - an aspect which has fallen short in much strategy research (see criticisms by Bowen & Wiersema, 2004; Wiersema & Bowen, 2009; Wulff, 2015). More analytical effort is required to derive absolute inferences (irrespective of the base category) of the impact a predictor variable has on the probability of a certain outcome.

In this study, the best practice approach by Wulff (2015) is followed, which recommends adherence to two steps: 1) the reporting of the regression results for each outcome category relative to the base case and 2) the calculation and visualization of average marginal effects at representative values of the predictor variable to assess the significance of each predictor variable on outcome categories regardless of the base category. The latter step is especially important to assess whether the continuous variable is significant over the entire data range. Results from this analysis are reported in Chapter 6.

5.8.3 Analytical Approach for "Responding"

Given that the outcome of interest constitutes the rate of two types of events (recovery or exit), a gap time competing-risk event history analysis was selected for testing the hypotheses. This choice was based on several considerations. First, we were interested in the duration from the start of the subpar performance sequence until a specific event (recovery or exit). Although

the outcome variable is categorical, logistic or multinomial logit regression are not appropriate because of the existence of right censoring (i.e. the end of the observation period) for some subsidiaries. Thus, although we expect all subpar performance sequences to end in either a recovery or exit, we cannot observe such an event for some subsidiaries and therefore cannot make any inferences about any events that may occur during unobserved times. Event history analysis techniques can account for this and thus provide unbiased estimates[7] (Clark, Bradburn, Love & Altman, 2003). Conventional event history analysis is often termed survival analysis and finds much application in biostatistics, where the duration until death is estimated. The survival probability can then be estimated as "the probability of being alive at time t_j, $S(t_j)$, is calculated from $S(t_{j-1})$, the probability of being alive at t_{j-1}, n_j, the number of patients alive just before t_j, and d_j, the number of events at t_j, by

$$S(t_j) = S(t_{j-1})(1 - \frac{d_j}{n_j})$$

where $t_0=0$ and $S(0)=1$." The value of $S(t)$ is constant between times of events, and therefore the estimated probability is a step function that changes value only at the time of each event" (Clark et al., 2003: 233). From this, the hazard rate can be determined, which indicates the event rate at time t, conditional on the event not having occurred yet. Cox proportional hazard models are among the most common ways of applying survival analysis, whereby the hazard rate is estimated dependent on a set of covariates (Bradburn, Clark, Love, & Altman, 2003).

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[7] Note the difference to the application of the multinomial logit regression in the "Identifying" section. In the "Identifying" section, the application of a multinomial logit regression was appropriate even though some subsidiaries experienced a non-response (which may appear like a case of right censoring) because the non-response was modeled as a specific outcome of interest. A nonresponse was thus inferred to be an outcome, rather than the end of the observation period as in event history analysis.

Second, in applying an event history analysis approach, several aspects related to the structure of the data needed to be considered. While in conventional event history analyses subjects experience the onset of risk[8] at a certain time point (e.g. end of schooling, birth) and the analysis time ends with an event (e.g. employment, death), the subsidiaries in this study could have several onsets of risk (every time a subpar performance sequence begins) and each analysis time could end with a different event (e.g. recovery, exit, or right censoring). Following Hsieh et al., (2015), this condition was accounted for by applying a gap time model, in which each subpar performance sequence was marked as a spell (see Table 5.3). Within each spell, the time between the beginning and the end of the spell was indicated by the gap time. This approach leads to the result that "the clock is reset to zero for a subject every time an event occurs" (Rabe-Hesketh & Skrondal, 2012: 859), by setting the onset of risk to the beginning of each subpar performance sequence. Thus, at the beginning of a subsidiary's first subpar performance sequence, the subsidiary starts to become at risk for recovery or performance-related exit. Once an event occurs, the clock (i.e. the time of being at risk of recovery or performance-related exit) stops until the subsidiary experiences another subpar performance sequence, which is when it restarts from zero. This allows for each subpar performance sequence to have its own event-specific baseline hazard (Rabe-Hesketh & Skrondal, 2012). To account for similarities between sequences within the same subsidiary, we clustered the standard errors by the unique subsidiary identifier.

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[8] Note that the historical origins of event history analysis (otherwise known as survival analysis) cause it to come with terminology that carries a rather negative connotation. For instance, a subject may be indicated as "failing" whenever it exhibits an event of interest - regardless of whether such event is death, the acceptance of employment, or getting married. Similarly, "onset of risk" demarcates the start of the period during which a subject could potentially experience such an event, even if no one would conventionally speak of the "risk" of accepting employment or getting married.

Third, conventional survival analysis assumes that the event and censoring distribution are independent of each other. For instance, if a subsidiary is right-censored due to the end of the observation period, this fact is not going to affect the likelihood of the event (recovery or exit) to occur. However, if the subsidiary is right-censored due to it exiting, it cannot experience the recovery event any longer (Putter, Fiocco, & Geskus, 2007: 2394). These two aspects are thus not independent of each other and a competing-risk event history analysis (Fine & Gray, 1999) approach is employed. This methodology takes into account that a subsidiary may experience multiple outcomes, whereby "the occurrence of either removes the subject from the risk of the

Table 5.3. Example of Subsidiary Histories to Illustrate the Structure of the Dataset.

Subsi-diary	Begin time span	End time span	Event	Spell	Gap time	Cova-riates	Remarks
A	1990	1991	0	#1	1	$X(t)$	Start of 1st subpar performance spell
A	1991	1992	0	#1	2	$X(t)$	
A	1992	1993	1	#1	3	$X(t)$	Recovery at the end of the 3rd year of subpar performance
A	2001	2002	0	#2	1	$X(t)$	Start of 2nd subpar performance spell
A	2002	2003	0	#2	2	$X(t)$	
A	2003	2004	0	#2	3	$X(t)$	
A	2004	2005	0	#2	4	$X(t)$	
A	2005	2006	1	#2	5	$X(t)$	Exit at the end of the 5th year of subpar performance
B	1998	1999	0	#1	1	$X(t)$	Start of 1st subpar performance spell
B	1999	2000	1	#1	2	$X(t)$	Recovery occurs at the end of the 3rd year of subpar performance
B	2010	2011	0	#2	1	$X(t)$	Start of 2nd subpar performance spell
B	2011	2012	0	#2	2	$X(t)$	
B	2012	2013	0	#2	3	$X(t)$	Right censoring

other" (Cannella & Shen, 2001: 261). This does not imply that the events are mutually exclusive but that they are allowed to rely on asymmetric mechanisms and thus have their own subhazards, i.e. covariates may affect each outcome differently. For example, as the extant literature has

shown, the determinants of subsidiary exits may be different from the determinants of other outcomes, such as divestitures (Mata & Portugal, 2000). The same is assumed in this study, suggesting that the determinants of the rate of recovery may be different from the determinants of the rate of exit. Moreover, while conventional Cox proportional hazards regressions focus on the survivor function, indicating "the probability of surviving beyond a given time", competing-risks regressions center "on the cumulative incidence function, which indicates the probability of the event of interest happening before a given time." (Stata Competing-risks regression, N/A).

Thus, the choice for a gap time competing-risk event history analysis approach to testing the proposed hypotheses has three key advantages (e.g. over using a multinomial logit regression for this part of the analysis as well). First, the element of time is specifically modelled by way of incorporating durations. Time is a crucial factor in this part of the analysis since the duration between a response and an outcome allows for implications regarding the effectiveness of that response. Second, this approach is able to account for the fact that subsidiaries experience subpar performance sequences at different points in time and for different durations. Third, the competing-risk event history analysis approach allows for the simultaneous assessment of one event while controlling for the occurrence of the other. This leads to a more accurate adjustment of hazard functions than other methods (including sequential Cox proportional hazard regressions) would offer (Canella & Shen, 2001). Fourth, the method adjusts for right-censored cases that have a spell end in neither recovery nor exit (but the end of the observation period).

An important assumption in event history analyses is the proportionality of hazards. This implies that "the hazard of the event in any group is a constant multiple of the hazard in any other" (Bradburn et al., 2003: 432). If the assumption holds, the hazard ratio (i.e. the event probability) remains the same for any two observations across time. Often, this assumption can

be violated, i.e. the hazard ratio can decrease or increase over time. An example for a hazard ratio that *decreases* over the analysis time would be a case where the rate of recovery is estimated (i.e. the outcome) and the concentration of a specific drug decreases in the blood stream over time (i.e. a time-variant predictor of recovery). An example for a hazard ratio that *increases* over the analysis time would be a case where the rate of survival is estimated (i.e. the outcome) and the patient's age increases over time (i.e. a time-variant predictor of survival).

Without further specification, the inclusion of predictors that violate the proportional hazards assumption can produce incorrect results. There are several proportionality assumption tests available after running a conventional Cox proportional hazards model. For competing-risks analyses, however, there are much fewer tests available (as has been criticized repeatedly but no further tests have been added yet (status: Stata version 14)). One proposed approach is to interact each variable with the analysis time and specify those variables that are significant in Stata's tvc option (Coviello, 2009; Clayton, 2013). The disadvantage of this approach is that graphs are not readily available when such variables are specified. Thus, we were forced to choose rigor over visualizations and therefore only able to produce graphs for the prediction of exits, after we had asserted that no such specification was necessary.

5.8.4 Analytical Approach for "Synchronizing"

The analytical approach for the set of hypotheses in the "Synchronizing" section was slightly different than that for the preceding sections. The rationale behind this was to capture as much of a time-based effect as possible. In particular, we expanded the subpar performance sequences to also include the first two years in an effort to better map the effects of a "knee-jerk"

reaction (Hofer, 1980). For the first set of hypotheses which offer determinants of the time-to-first response variable, we employed a linear OLS regression while clustering standard errors by the unique subsidiary identifier. For the second set of hypotheses, assessing curvilinear effects of the time-to-first-response variable (also by subgroups) on the probability of recovery (versus exit), we used a logit regression and analysed the marginal effects statistically and graphically. Again, we clustered the analysis by the unique subsidiary identifier, to adjust standard error for those cases where subsidiaries experienced more than one subpar performance sequence.

CHAPTER 6: RESULTS

Before reviewing the results for each part of the resource orchestration framework ("identifying", "responding", and "synchronizing"), it is worthwhile to generate a deeper understanding of the frequency and composition of the subpar performance sequences contained in our pre-analysis sample. To this end, we utilized a sequence analysis approach and review the results next.

6.1 Sequence Analysis

Table 6.1 shows that about 60 percent of all response sequences in the sample experience subpar performance that lasts up to four years. About 90 percent of the subsidiaries experience a sequence that lasts up to seven years.

Table 6.1. Maximum Length of Subpar Performance Sequences.

Maximum length of sequences	Number of sequences	Number of subsidiaries	Difference between sequences and subsidiaries	Percentage of sequences in the sample	Cumulative Percentage of sequences
3	2,973	2,657	316	40.14	40.14
4	1,769	1,643	126	23.89	64.03
5	1,250	1,197	53	16.88	80.91
6	595	585	10	8.03	88.94
7	333	323	10	4.50	93.44
8	181	181	0	2.44	95.88
9	123	123	0	1.66	97.54
10	73	73	0	0.99	98.53
11	38	38	0	0.51	99.04
12	26	26	0	0.35	99.39
13	17	17	0	0.23	99.62
14	15	15	0	0.20	99.82
15	8	8	0	0.11	99.93
16	4	4	0	0.05	99.99
17	0	0	0	0.00	99.99
18	1	1	0	0.01	100.00
Totals	7,406	6,891	515	100.00	100.00

Table 6.1 also illustrates that a total of 7,406 subpar performance sequences were observed and some subsidiaries experienced more than one sequence (indicated by the difference between the number of observations (i.e. sequences) and the number of distinct subsidiaries). Additional analysis regarding the concentration of sequences revealed that the total amount of 7,406 sequences can be categorized into 1,451 distinct sequence types. About 14.93 percent of all observed sequences are unique, with only one subsidiary each following that respective trajectory. The overarching measure of concentration of sequences is 19.59 percent, suggesting that there is a wide variety of different trajectories a subsidiary can experience in terms of the duration and the specific responses occurring during the sequence.

Regarding the occurrence of actions per subpar performance sequence, the following pattern emerges. 9 sequences contain seven different types of responses (including the non-response), while the majority (>50 percent) only contain one to two different types of responses. Table 6.2 provides an overview of the frequencies of different responses observed in the sample.

Table 6.2. Frequency of Different Response Types in the Sample.

Number of different elements in sequence	Number of observations	Percentage of all observations in the sample	Cumulative percentages
1	5,299	29.47	29.47
2	5,245	29.17	58.64
3	4,011	22.31	80.94
4	2,253	12.53	93.47
5	981	5.46	98.93
6	184	1.02	99.95
7	9	0.05	100
Total	**17,982**	**100.00**	**100.00**

Note: *Observations* indicates subsidiary-year occurrences.

The frequency of each type of sequence and the responses (or non-responses) it contains can be especially informative. Sequence analysis reveals that most common type of sequence is that which contains no discernible response (see Table 6.3). Again, each sequence recorded in

the table is already preceded by two years of subpar performance during which time the responses are not considered (similar to the approach in Tangpong et al., 2015).

Table 6.3. Frequency of the Types of Sequences (Without Specifications).

Type of sequence	Number of sequences
NR	1,185
oper. increase	513
combination response	421
NR → NR	402
oper. decrease	359
strat./oper. increase	258
strat./oper. decrease	185
NR → NR → NR	179
NR → oper. increase	96
oper. decrease → NR	80
oper. increase → NR	78
NR → oper. decrease	76
oper. increase → oper. increase	75
NR → combination response	65
oper. decrease → oper. decrease	57
combination response → combination response	53
combination response → NR	52

NR=no discernible response; the list was cut off at sequences with fewer than 50 observations.

Considering that longer periods of subpar performance may hint at even more embedded structural challenges, we also listed the most common types of sequences when subpar performance lasted for at least five years. With such a qualification, the results are depicted in Table 6.4 (the list being cut off at sequences with at least 30 observations each).

Again, Table 6.4 reveals that most sequences that last at least five years consist of a string of non-responses. At first glance, this may appear surprising because Pearce and Robbins (1993: 615) noted that continuance (or non-action) rarely proves to be sufficient for turning around a subpar performance situation. Upon closer consideration, however, it might be exactly the prevalence of non-responses that may cause these sequences to become this prolonged in the first place. Moreover, it appears that most longer sequences contain operational increases or decreases as opposed to any strategic changes, perhaps hinting at the insufficiency of purely operational

responses in shortening a subpar performance sequence. This is mirrored in Hofer (1980: 30) who notes that many failed turnarounds may be due to management choosing an operational response when a strategic response was needed.

Table 6.4. Frequency of the Types of Sequences (Length of Sequence>=5 Years).

Type of sequence	Number of sequences
NR → NR → NR	179
NR → NR → NR → NR	47
NR → NR → oper. decrease	26
NR → oper. increase → NR	25
oper. decrease → NR → NR	24
NR → NR → oper. increase	23
oper. increase → NR → NR	23
NR → oper. decrease → NR	18
NR → NR → combination response	16
NR → strat./oper. decrease → NR	15
NR → NR → NR → NR → NR	15
oper. increase → oper. increase → NR	15
oper. decrease → NR → oper. decrease	15
combination response → NR → NR	15
NR → oper. increase → oper. decrease	14
oper. increase → oper. increase → oper. increase	14

NR=no discernible response

Finally, differences in terms of sequence lengths were assessed regarding the respective subsidiary's ownership mode, sector membership, and age. It appears that the means and standard deviations do not differ much between joint ventures and wholly-owned subsidiaries. Service subsidiaries experience somewhat longer subpar performance sequences than manufacturing subsidiaries. In terms of age, older subsidiaries tend to experience longer subpar performance sequences on average. Table 6.5 summarizes the results.

In the next section, we present the results for the "identifying" part of the resource orchestration framework.

Table 6.5. Comparison across Subsidiaries (Based on Selected Characteristics).

		Observations	Years of subpar performance between 1990 and 2013	
			Mean	SD
ownership mode	Joint ventures (80-20)	6,619	3.87	2.65
	Wholly-owned subsidiaries	8,459	3.85	2.61
sector membership	Manufacturing	9,065	3.56	2.36
	Services (wholesale, retail, other)	8,486	4.11	2.83
categorical subsidiary age	3-4 years	130	2.58	2.18
	5-9 years	2,899	2.98	2.08
	10-19 years	7,141	3.83	2.55
	20-29 years	4,038	4.12	2.78
	30-39 years	1,846	4.51	2.90
	40-49 years	523	4.20	2.81
	50+ years	123	3.37	2.01

6.2 Results for the Set of Hypotheses around "Identifying"

The concern of multicollinearity was alleviated by mean-centering all continuous independent variables. Pairwise correlations were assessed (see Table 6.6) and variance inflation factors (VIFs) calculated. The mean VIFs for the model always remained close to 1.00 (the exact score was 1.28) and the VIFs for the individual variables always remained below 1.7, which was well below the rule-of-thumb threshold of 10 (Hair, Anderson, Tatham, & Black, 1998) and even below the stricter threshold of 5 (Menard, 1995). Thus, multicollinearity did not pose a threat to the reliability of this study's findings.

By way of reporting the comparative results of the multinomial logit regression, Table 6.7 illustrates the effect of each predictor variable (including control variables) on the probability of each response (as opposed to the base category). The results reported there allow for an assessment of whether a certain response is more probable than not responding at all ("no response" is the base category), given specific predicting determinants. However, following Wulff (2015), the hypotheses will be interpreted based on Table 6.8, which provides information on average marginal effects that follow from the multinomial regression, and require no

specification of a base category. Overall, the results for each response category are in the hypothesized directions.

Table 6.6. Descriptive Statistics and Pairwise Correlations ("Identifying").

		M	SD	1	2	3	4	5	6	7	8
	Country-level determinants										
1	Population (million)	290.00	444.00	1.00							
2	GDP growth	4.37	4.42	0.49*	1.00						
3	Geographic distance	6,131.40	3,423,28	-0.27*	-0.32*	1.00					
4	Cultural distance	3.47	1.05	-0.15*	0.09*	-0.36*	1.00				
	MNE-level determinants										
5	Network size	43.54	120.31	-0.05*	-0.06*	0.04	-0.01	1.00			
	Subsidiary-level determinants										
6	Age	16.11	9.05	-0.25*	-0.19*	0.20*	-0.03	0.07*	1.00		
7	Number of employees	270.89	583.04	-0.01	-0.02	-0.06*	0.02	0.02	0.08*	1.00	
8	Number of expatriates	4.77	8.44	-0.04	-0.06*	0.07*	-0.02	-0.02	0.10*	0.39*	1.00

* $p < 0.05$; Factor variables are omitted from this table.

6.2.1 Hypotheses 1a-1c (No Response)

The first three hypotheses suggest that whether an MNE responds to subpar performance at the subsidiary level may depend on several country-level, MNE-level, and subsidiary-level determinants. First, Hypothesis 1a suggests that *a non-response to subpar performance at a foreign subsidiary is more likely to occur with higher geographic distance between the headquarters and that foreign subsidiary.* This hypothesis did not receive significant support in this analysis. Second, Hypothesis 1b indicates that *a non-response to subpar performance at a foreign subsidiary is more likely to occur when the MNE as a whole is experiencing profit losses.* This hypothesis is supported at $p < 0.05$. Third, Hypothesis 1c offers the notion that *a non-*

response to subpar performance at a foreign subsidiary is more likely to occur when there are fewer expatriates in the subsidiary. This hypothesis receives support, with $p < 0.001$.

6.2.2 Hypotheses 2a-2c (Increases in Strategic, Operational, and Mixed Commitment)

The next set of hypotheses predicts the occurrence of increases in commitment, be it strategic, operational, or a combination thereof. First, Hypothesis 2a suggests that *an increase in strategic commitment is more likely to occur when the subpar performing subsidiary is located in a host country with higher GDP growth rates*. This hypothesis did not receive significant support in this analysis. Second, Hypothesis 2b indicates that *an increase in operational commitment is more likely to occur when the subpar performing subsidiary is located in a host country with higher GDP growth rates*. This hypothesis is supported at $p < 0.05$. Third, Hypothesis 2c offers the notion that *an increase in both strategic and operational commitment is more likely to occur when the subpar performing subsidiary is located in a host country with higher GDP growth rates*. This hypothesis did not receive significant support. Interestingly, however, a decrease in both strategic and operational commitment is significantly ($p < 0.001$) less likely to occur when the subpar performing subsidiary is located in a host country with higher GDP growth rates.

6.2.3 Hypotheses 3a-3f (Decreases in Strategic, Operational, and Mixed Commitment)

The next set of hypotheses predicts the occurrence of decreases in commitment, be it strategic, operational, or a combination thereof. First, Hypothesis 3a suggests that *a decrease in strategic commitment is more likely to occur when the subpar performing subsidiary is not a*

regional headquarters. This hypothesis received support at $p < 0.001$. Second, Hypothesis 3b proposes that *a decrease in operational commitment is more likely to occur when the subpar performing subsidiary is not a regional headquarters*. This hypothesis does not receive statistical support. Third, Hypothesis 3c suggests that *a decrease in strategic commitment is more likely to occur when the subpar performing subsidiary does not fulfill an R&D purpose*. This hypothesis received support at $p < 0.001$. Fourth, Hypothesis 3d suggests that *a decrease in operational commitment is more likely to occur when the subpar performing subsidiary does not fulfill an R&D purpose*. This hypothesis received support at $p < 0.001$. Fifth, Hypothesis 3e indicates that *a decrease in operational commitment is more likely to occur when the subpar performing subsidiary is older*. This hypothesis was supported at $p < 0.05$. Sixth, Hypothesis 3f offers the proposition that *a decrease in operational commitment is more likely to occur when the subpar performing subsidiary is larger (in terms of the number of employees)*. This hypothesis was not supported.

6.2.4 Hypothesis 4 (Combination Response)

Hypothesis 4 states that *a combination response is more likely to occur when the subpar performing subsidiary is a joint venture.* This hypothesis received support, at $p < 0.05$. By way of conducting robustness checks, the average marginal effects were plotted for each continuous independent variable. As Wulff (2015: 6) notes, marginal effects indicate the "slope of the prediction function at a given value of the explanatory variable and thus inform us about the change in predicted probabilities due to a change in a particular

Table 6.7. Comparative Effects: Multinomial Logit Results with "No Response" as the Base Category ("Identifying").

	Strat. increase	Strat. decrease	Operat. increase	Operat. decrease	Mixed increase	Mixed decrease	Combination response
Country-level determinants							
Population (billion)	-2.550 (0.935)**	-0.660 (0.662)	-0.770 (0.217)***	-0.114 (0.226)	-0.525 (0.253)**	-0.422 (0.252)*	-0.375 (0.223)*
GDP growth	0.111 (0.112)	0.042 (0.055)	0.035 (0.025)	-0.049 (0.023)**	0.003 (0.028)	-0.066 (0.024)**	-0.003 (0.024)
Geographic distance (thousand)	0.047 (0.140)	0.099 (0.055)*	0.004 (0.028)	0.019 (0.029)	-0.023 (0.034)	-0.028 (0.032)	0.065 (0.029)**
Cultural distance	-0.787 (0.489)	0.037 (0.239)	0.058 (0.086)	0.080 (0.096)	0.025 (0.097)	-0.129 (0.113)	0.190 (0.093)**
MNE-level determinants							
Network size	-0.012 (0.010)	-0.002 (0.003)	0.000 (0.001)	0.000 (0.001)	0.000 (0.001)	-0.001 (0.001)	0.000 (0.001)
Positive profits	(reference)	(reference)	(reference)	(reference)	(reference)	(reference)	(reference)
Negative profits	0.109 (0.940)	-0.571 (0.449)	-0.208 (0.164)	-0.481 (0.175)**	-0.416 (0.189)**	-0.317 (0.182)*	-0.205 (0.166)
Subsidiary-level determinants							
No regional HQ	(reference)	(reference)	(reference)	(reference)	(reference)	(reference)	(reference)
Regional HQ	-13.661 (1.545)***	-14.900 (0.579)***	-0.473 (0.703)	0.577 (0.569)	0.864 (0.594)	0.367 (0.599)	0.535 (0.580)
No R&D purpose	(reference)	(reference)	(reference)	(reference)	(reference)	(reference)	(reference)
R&D purpose	-13.309 (1.502)***	-16.035 (0.890)***	-16.096 (0.716)***	-16.141 (0.800)***	-16.761 (0.956)***	-1.255 (0.1765)	-0.036 (0.835)
Joint venture	(reference)	(reference)	(reference)	(reference)	(reference)	(reference)	(reference)
WOS	-16.014 (0.870)***	-0.433 (0.413)	0.038 (0.173)	0.075 (0.180)	0.227 (0.193)	-0.088 (0.196)	-0.331 (0.173)*
Same industry	(reference)	(reference)	(reference)	(reference)	(reference)	(reference)	(reference)
Different industry	-0.142 (0.845)	0.928 (0.412)**	0.081 (0.176)	-0.031 (0.185)	0.233 (0.198)	0.389 (0.196)**	0.070 (0.174)
Age	0.056 (0.043)	0.016 (0.019)	-0.014 (0.010)	0.011 (0.010)	-0.009 (0.011)	-0.005 (0.010)	-0.018 (0.009)*
Number of employees	-0.002 (0.003)	-0.002 (0.001)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)
Number of expatriates	0.219 (0.097)**	0.140 (0.048)**	0.076 (0.038)**	0.030 (0.047)	0.190 (0.036)***	0.225 (0.036)	0.176 (0.035)***
Constant	-4.224 (1.175)***	-2.681 (0.552)***	0.278 (0.175)	0.227 (0.187)	-0.329 (0.194)*	-0.302 (0.188)	0.465 (0.167)**

* p < 0.1, ** p < 0.05, *** p < 0.001; Standard errors are in parentheses. Results of complete mlogit model. Betas are reported. Number of observations: 1,735.

Table 6.8. Absolute Effects: Marginal Effects from the Multinomial Logit Regression ("Identifying").

	No response	Strat. increase	Strat. decrease	Operat. increase	Operat. decrease	Mixed increase	Mixed decrease	Combination response
Country-level determinants								
Population (billion)	0.061 (0.023)**	-0.007 (0.004)*	-0.004 (0.009)	-0.074 (0.026)**	0.042 (0.024)*	-0.016 (0.022)	-0.004 (0.023)	0.003 (0.027)
GDP growth	0.001 (0.003)	0.000 (0.000)	0.001 (0.001)	0.008 (0.003)**	-0.007 (0.002)**	0.002 (0.002)	-0.007 (0.002)***	0.001 (0.003)
Geographic distance (thousand)	-0.002 (0.003)	0.000 (0.000)	0.001 (0.001)	-0.002 (0.003)	0.001 (0.003)	-0.004 (0.003)	-0.005 (0.003)*	0.010 (0.003)**
Cultural distance	-0.008 (0.010)	-0.003 (0.002)	0.000 (0.003)	0.002 (0.009)	0.005 (0.009)	-0.002 (0.007)	-0.023 (0.010)**	0.028 (0.010)**
MNE-level determinants								
Network size	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)
Positive profits	(reference)	(reference)	(reference)	(reference)	(reference)	(reference)	(reference)	(reference)
Negative profits	0.042 (0.018)**	0.001 (0.003)	-0.004 (0.006)	0.009 (0.019)	-0.035 (0.017)**	-0.018 (0.016)	-0.006 (0.016)	0.011 (0.019)
Subsidiary-level determinants								
No regional HQ	(reference)	(reference)	(reference)	(reference)	(reference)	(reference)	(reference)	(reference)
Regional HQ	-0.044 (0.053)	-0.004 (0.001)**	-0.015 (0.003)***	-0.106 (0.044)**	0.047 (0.061)	0.080 (0.053)	0.000 (0.043)	0.042 (0.062)
No R&D purpose	(reference)	(reference)	(reference)	(reference)	(reference)	(reference)	(reference)	(reference)
R&D purpose	0.247 (0.185)	-0.003 (0.001)**	-0.014 (0.003)***	-0.191 (0.009)***	-0.165 (0.009)***	-0.123 (0.008)***	-0.034 (0.139)	0.284 (0.172)*
Joint venture	(reference)	(reference)	(reference)	(reference)	(reference)	(reference)	(reference)	(reference)
WOS	0.007 (0.018)	-0.012 (0.007)*	-0.005 (0.006)	0.016 (0.019)	0.019 (0.018)	0.033 (0.016)**	-0.003 (0.017)	-0.055 (0.020)**
Same industry	(reference)	(reference)	(reference)	(reference)	(reference)	(reference)	(reference)	(reference)
Different industry	-0.017 (0.019)	-0.001 (0.003)	0.011 (0.005)**	-0.006 (0.020)	-0.023 (0.018)	0.013 (0.016)	0.034 (0.017)**	-0.011 (0.020)
Age	0.001 (0.001)	0.000 (0.000)	0.000 (0.000)	-0.002 (0.001)	0.003 (0.001)**	0.000 (0.001)	0.000 (0.001)	-0.002 (0.001)**
Number of employees	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)*	0.000 (0.000)
Number of expatriates	-0.017 (0.004)***	0.000 (0.000)	0.000 (0.000)	-0.006 (0.004)	-0.012 (0.005)**	0.009 (0.002)***	0.014 (0.002)***	0.012 (0.002)***

$* p < 0.1$, $** p < 0.05$, $*** p < 0.001$; Coefficients are the derivative of f at x (dy/dx). Betas are reported. Standard errors are in parentheses.

predictor." Assessing marginal effects is thus a key tool for assessing whether the effect of a continuous predictor is significant over the entire data range of that variable. Specifically, this can be achieved by deriving a graphical representation of these marginal effects and assessing whether the 95 percent confidence interval crosses the zero line. As Wulff (2015: 14) further notes, "The fact that marginal effects are second-order relationships makes them harder to interpret than predicted probability curves [, i.e. conventional graphical representations of regression results]. But what we lose in intuition we gain in information [, allowing us to assess the] significance of the relationship between a predictor and the choice outcomes" more precisely. The results are displayed in Figures 6.1 to 6.5 below, where the solid lines indicate the marginal effect of the predictor on the respective outcome category and the two dotted lines indicate the confidence interval. Note that the y-axis scale is automatically derived by the analysis.

Geographic distance was not significant over the entire data range as a predictor of the likelihood of a non-response (Figure 6.1). Further, the effect of the number of expatriates on the likelihood of a non-response was negatively significant most strongly when the number of expatriates is between 0 and 10 expatriates (Figure 6.2). Next, as the collection of graphs in Figure 6.3 show, the impact of GDP growth on the likelihood of a strategic increase as a first response is not significant across the entire data range. For the operational increases, GDP growth is a significant predictor, however, not at negative levels of GDP growth. In contrast, GDP growth is a significant indicator for mixed increases in commitment when GDP growth is at the lower end of its data range. Furthermore, subsidiary age loses some of its significance levels at higher subsidiary ages (Figure 6.4). Finally, for the number of subsidiaries, the confidence interval crosses zero across the entire data range (Figure 6.5).

Figure 6.1. Average Marginal Effects of Geographic Distance ("Identifying").

No discernible response
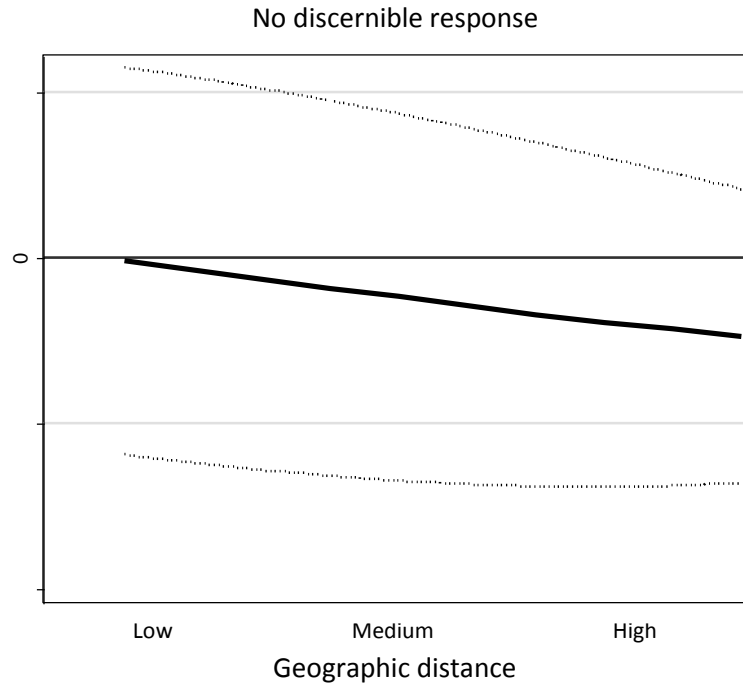
Figure 6.2. Average Marginal Effects of the Number of Expatriates ("Identifying").

No discernible response

No discernible response
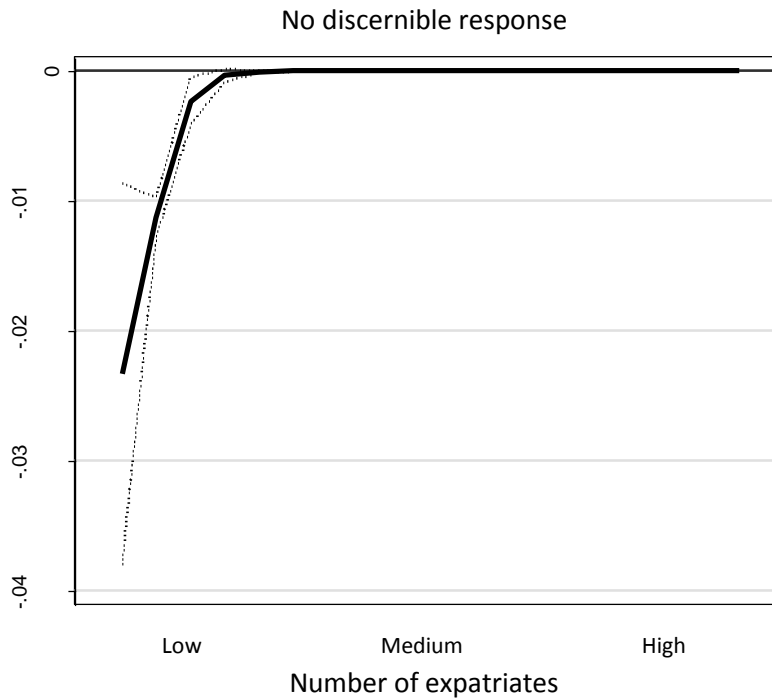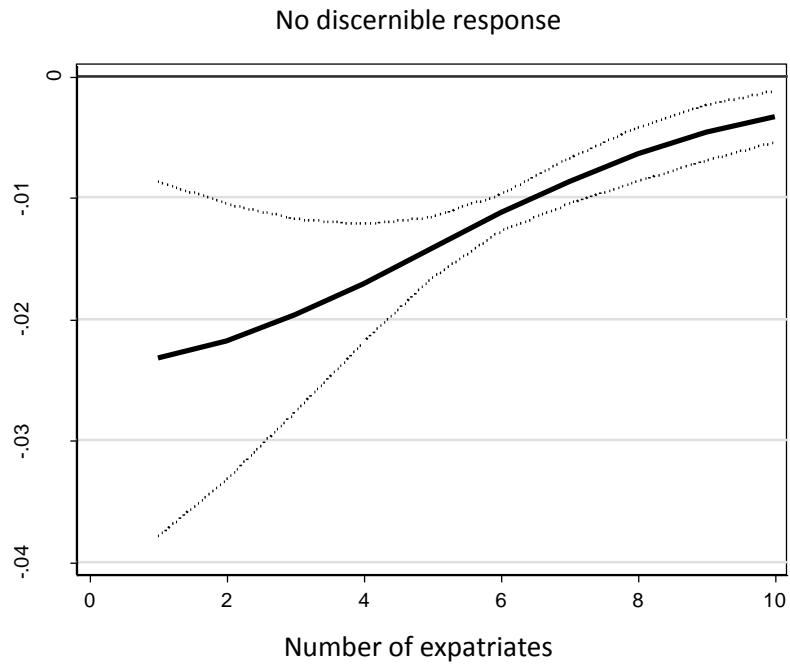
Figure 6.3. Average Marginal Effects of GDP Growth ("Identifying").

Strategic increase

Operational increase

GDP growth

Mixed increase

GDP growth
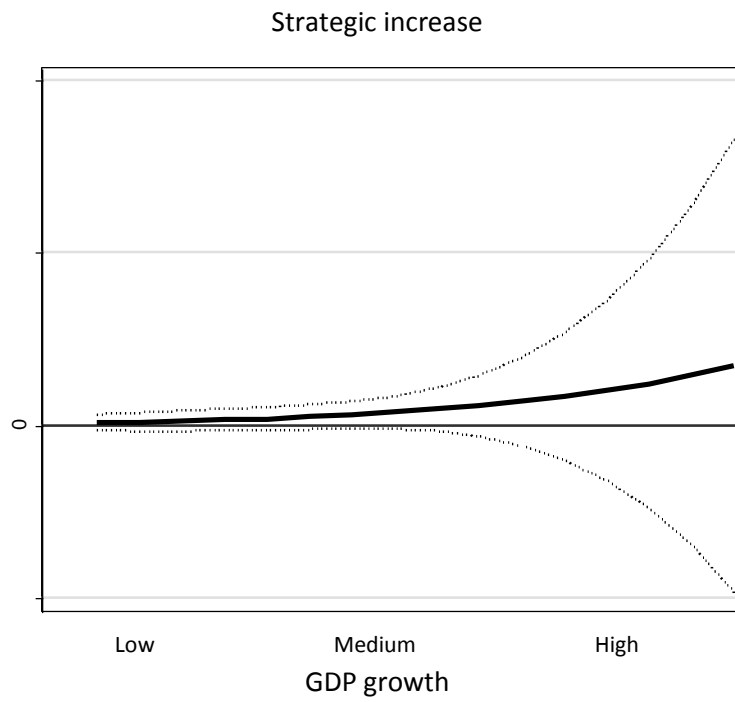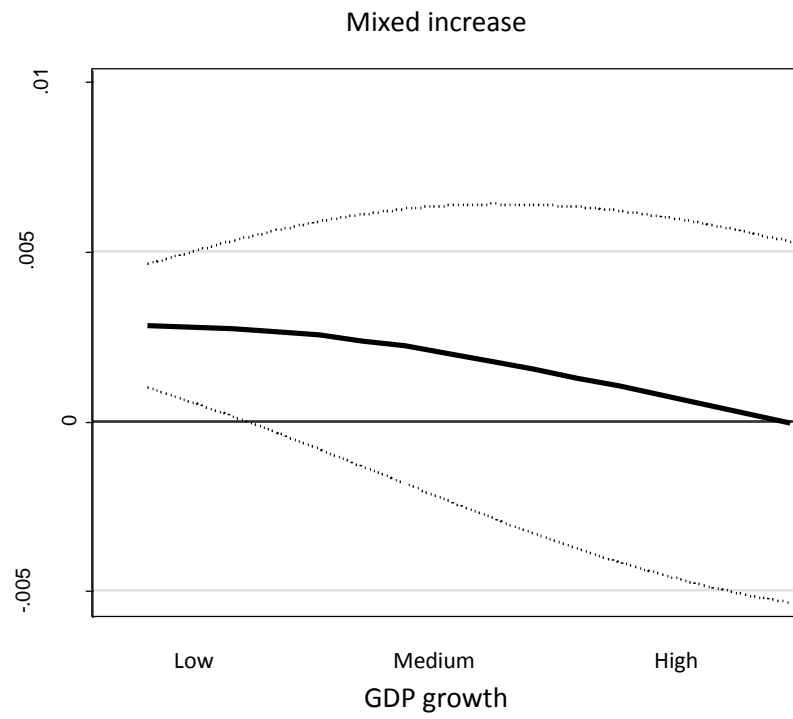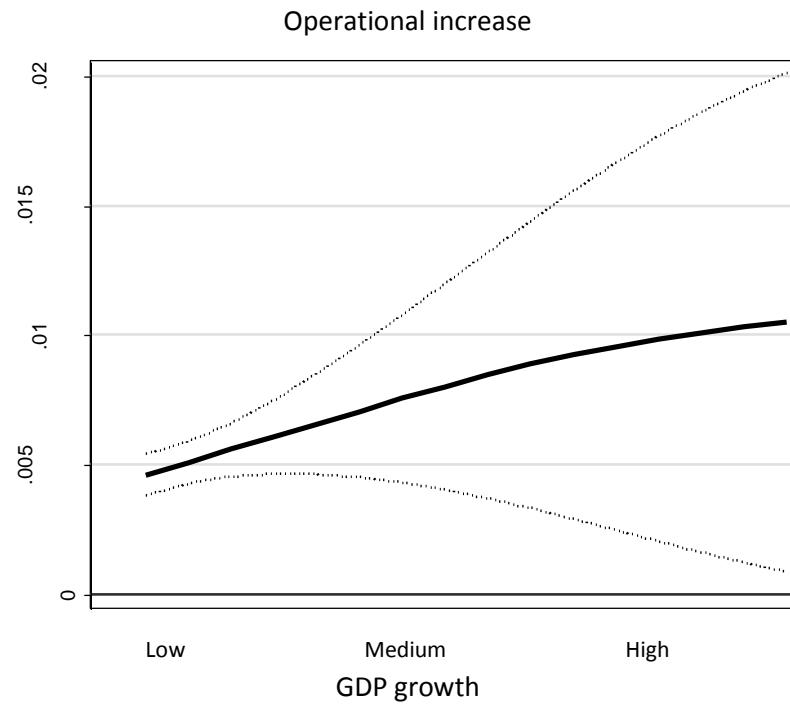
Figure 6.4. Average Marginal Effects of Subsidiary Age ("Identifying").

Operational decrease

Subsidiary Age
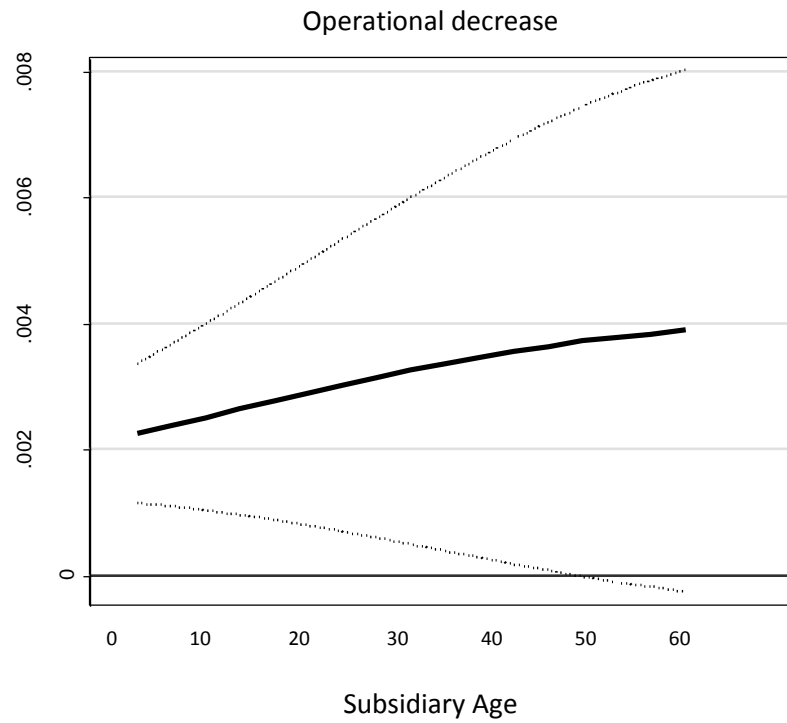
Figure 6.5. Average Marginal Effects of the Number of Employees ("Identifying").

Operational decrease

Number of employees
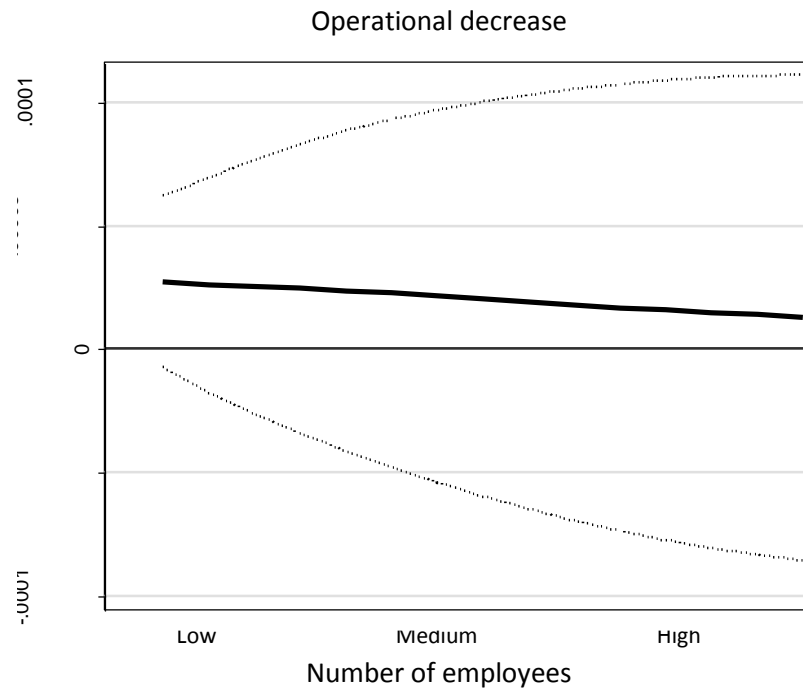
6.3 Results for the Set of Hypotheses around "Responding"

To address possible multicollinearity, the mean VIFs were assessed for each model. They always remained close to 1.00 and the VIFs for the individual variables always remained below 1.2. Further, Table 6.9 illustrates the descriptive statistics and pairwise correlations. Thus, multicollinearity did not pose a threat to the reliability of this study's findings.

Table 6.9. Descriptive Statistics and Pairwise Correlations ("Responding").

		M	SD	1	2	3	4	5
	Country-level determinants							
1	GDP growth	4.05	3.87	1.00				
2	Cultural distance	3.44	1.10	0.12*	1.00			
	MNE-level determinants							
3	Network size	71.75	167.57	-0.04*	-0.01	1.00		
	Subsidiary-level determinants							
4	Number of employees	288.27	969.60	0.05*	0.02	0.03	1.00	
5	Number of expatriates	4.13	6.63	-0.04*	0.01	-0.05*	0.27*	1.00

$* p < 0.05$; Factor variables are omitted from this table.

6.3.1 Hypotheses 5a-5b (No Response versus Any Response)

Hypotheses 5a and 5b explore the notion of performing any action versus refraining from action. Specifically, Hypothesis 5a states that *compared to not responding, any response to subsidiary-level subpar performance increases recovery prospects*, while Hypothesis 5b suggests that *compared to not responding, any response to subsidiary-level subpar performance increases survival prospects.* As Table 6.10 shows, responding in any form at all does not exert an impact on the rate of recovery per se, perhaps due to the aggregated nature of the variable in this model. Responding in any form appears to be marginally beneficial for survival prospects, such that the

rate of exit is reduced by about 27 percent[9] ($p < 0.1$). This suggests that any action is potentially better than none, at least in the longer run. Figure 6.6 illustrates this finding graphically[10].

Table 6.10. Results for Hypotheses 5a-5b ("Responding": No Response versus Any Response).

Variables	Rate of Recovery	Rate of Exit
Response variable		
No response	(reference)	(reference)
Any response	0.037 (0.059)	-0.310 (0.181)*
Control variables		
Population (billion)	-0.086 (0.078)	0.451 (0.242)*
GDP growth	0.037 (0.009)***	0.014 (0.026)
Geographic distance (thousand)	-0.009 (0.009)	0.055 (0.030)*
Cultural distance†	-0.109 (0.040)**	0.085 (0.089)
MNE network size	0.000 (0.000)	0.001 (0.000)**
Positive profits	(reference)	(reference)
Negative profits	-0.299 (0.057)***	-0.049 (0.184)
No regional HQ	(reference)	(reference)
Regional HQ	-0.262 (0.188)	-1.155 (1.023)
Joint venture (20-80)	(reference)	(reference)
Wholly-owned subsidiary	0.023 (0.057)	0.014 (0.201)
Same industry	(reference)	(reference)
Different industry	-0.103 (0.058)*	0.021 (0.202)
Number of subsidiary employees (thousand)	-0.069 (0.047)	-0.304 (0.287)
Number of expatriates†	0.001 (0.004)	-0.098 (0.045)**
N of observations	4,771	4,771
Prob > chi²	0.000	0.000

***p<0.001, **<0.05, *p<0.1; variables marked with an † were identified as time-variant variables for the prediction of recovery. No such specification appeared necessary for the prediction of exit.

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[9] These effect size percentages were derived from hazard ratios. In the tables, coefficients are reported instead of hazard ratios.

[10] Note that the graphs are depicted in the stepwise fashion that is typical for event history analyses (because the state is assumed to be constant between two time points). While the graphs can be smoothed using a kernel option after conventional Cox proportional hazard functions, this is not possible after a competing-risk event history analysis (Stata stcurve, N/A: 1).

Figure 6.6. Results for Hypothesis 5b ("Responding": No Response versus Any Response).
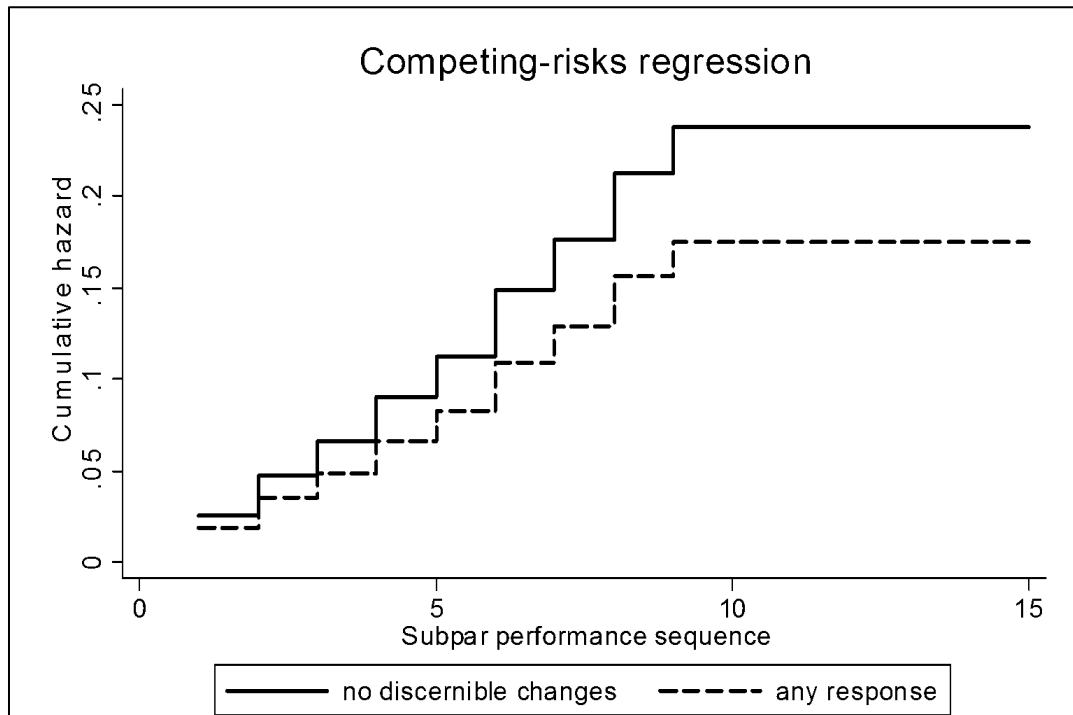
Note: Outcome=exit, only illustrative graphs and the comparison group are shown. *Subpar performance sequence* is measured in years.

6.3.2 Hypotheses 6a-6d (No Response versus Specific Types of Responses)

The next set of hypotheses is concerned with the specific combinations of strategic and operational (or combined) increases or decreases (or combined) in commitment. Overall, the findings confirm that the determinants of recovery are different from the determinants of exit. Specifically, Hypothesis 6a states that *compared to not responding, increases in commitment affect the rate of recovery such that strategic increases worsen the rate of recovery while operational increases improve the rate of recovery.* The findings summarized in Table 6.11. illustrate that Hypothesis 6a is not supported for strategic increases but fully supported for operational increases ($p < 0.05$), such that the foreign subsidiary has a faster recovery rate of about 22 percent when such a response is used. This effect becomes even stronger when a

combination of strategic and operational responses is used, whereby the rate of recovery is improved by about 46 percent ($p < 0.001$).

Next, Hypothesis 6b suggests that *compared to not responding, decreases in commitment affect the rate of recovery such that both strategic and operational decreases worsen the rate of recovery, however strategic decreases more so than operational decreases*. As reported in Table 6.11., this hypothesis is partially supported such that strategic decreases are not significant but operational ($p < 0.05$) decreases in commitment worsen the rate of recovery by about 17 percent. A combination of strategic and operational decreases in commitment also reduces the rate of recovery ($p < 0.05$), by about 26 percent.

Further, Hypothesis 6c offers the proposition that *compared to not responding, increases in commitment improve survival prospects, such that both strategic and operational increases in commitment improve survival prospects, however strategic increases more so than operational increases*. This hypothesis is supported for strategic increases, where the rate of exit falls to almost zero percent ($p < 0.001$). For operational increases, this hypothesis does not generate statistical significance ($p = 0.148$), although the coefficient points in the suggested direction. For combinations of strategic and operational increases, the effect is significant at $p < 0.05$, such that survival prospects are improved by about 68 percent.

Finally, Hypothesis 6d states that *compared to not responding, decreases in commitment affect the rate of recovery such that both strategic and operational decreases worsen the rate of recovery, however strategic decreases more so than operational decreases*. This hypothesis did not receive statistical significance, although the coefficient for strategic decrease points in the proposed direction.

Figure 6.7 illustrates the significant graphs and the reference category (no response) for the prediction of exit rates.

Table 6.11. Results for Hypotheses 6a-6d ("Responding": No Response versus Specific Types of Responses).

Variables	Rate of Recovery	Rate of Exit
Response variable		
No response	(reference)	(reference)
Strategic increase	-0.945 (0.980)	-13.250 (0.384)***
Strategic decrease	-0.578 (0.359)	0.634 (0.588)
Operational increase	0.199 (0.080)**	-0.409 (0.283)
Operational decrease	-0.187 (0.093)**	-0.083 (0.252)
Mixed increase	0.376 (0.086)***	-1.130 (0.515)**
Mixed decrease	-0.307 (0.107)**	0.210 (0.302)
Combination response	0.078 (0.083)	-0.732 (0.329)**
Control variables		
Population (billion)	-0.070 (0.077)	0.441 (0.242)*
GDP growth	0.033 (0.009)***	0.018 (0.026)
Geographic distance (thousand)	-0.008 (0.009)	0.053 (0.030)*
Cultural distance†	-0.112 (0.040)**	0.083 (0.089)
MNE network size	0.000 (0.000)	0.001 (0.000)**
Positive profits		
Negative profits	-0.300 (0.057)***	-0.058 (0.183)
No regional HQ		
Regional HQ	-0.215 (0.184)	-1.198 (1.026)
Joint venture (20-80)		
Wholly-owned subsidiary	0.023 (0.057)	-0.003 (0.197)
Same sector		
Different sector	-0.100 (0.057)*	0.011 (0.203)
Number of subsidiary employees (thousand)	-0.081 (0.048)*	-0.281 (0.285)
Number of expatriates†	0.002 (0.004)	-0.105 (0.048)**
N of observations	4,771	4,771
Prob > chi²	0.000	0.000

***$p<0.001$, **<0.05, *$p<0.1$; variables marked with an † were identified as time-variant variables.

Figure 6.7. Results for Hypotheses 6a-6d ("Responding": No Response versus Specific Types of Responses).
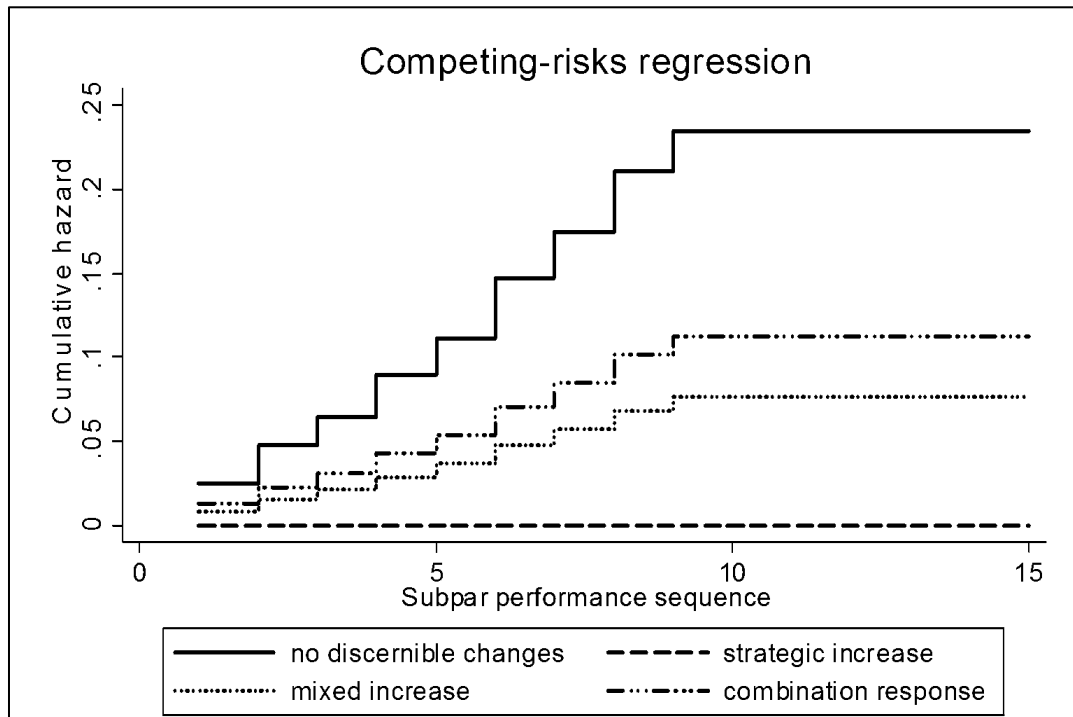
Note: Outcome=exit, only illustrative graphs and the comparison group are shown. *Subpar performance sequence* is measured in years.

6.4 Results for the Set of Hypotheses around "Synchronizing"

Multicollinearity was judged to not pose a threat, since the mean VIFs for models remained close to 1.00 and for individual variables below 1.6. Table 6.12 illustrates the descriptive statistics and pairwise correlations. The analysis regarding time-related aspects of the subpar performance phenomenon was split into two main subsections. First, the determinants of the time-to-first-response were assessed.

Table 6.12. Descriptive Statistics and Pairwise Correlations ("Synchronizing")

		M	SD	1	2	3	4	5	6	7
	Country-level determinants									
1	Population (million)	342.00	476.00	1.00						
2	GDP growth	4.58	4.13	0.58*	1.00					
3	Geographic distance	6,150.14	3,382.30	-0.35*	-0.41*	1.00				
4	Cultural distance	3.42	1.03	-0.13*	0.13*	-0.34*	1.00			
	MNE-level determinants									
5	Network size	67.40	160.36	-0.05*	-0.06*	0.10*	-0.05*	1.00		
	Subsidiary-level determinants									
6	Number of employees	324.58	1,371.97	0.00	0.01	-0.02	-0.02	-0.01	1.00	
7	Number of expatriates	4.86	7.92	-0.04*	-0.06*	0.11*	-0.03*	-0.02	0.22*	1.00

6.4.1 Hypothesis 7 (Determinants of the Timing to the First Response)

Hypothesis 7 suggests that *Compared to having no such communication enhancing mechanisms, subsidiaries that have mechanisms which facilitates more frequent communication with headquarters exhibit a shorter time to the first response.* This hypothesis is supported for R&D subsidiaries ($p < 0.005$) and a Japanese GM manager ($p < 0.05$) in Model 2a. After excluding the countries China, Korea, Hong Kong, Singapore, and Taiwan (see Model 2b), R&D subsidiaries were significant at ($p < 0.001$) and Japanese GM managers were marginally significant at ($p < 0.1$). Table 6.13 summarizes the results.

Table 6.13. Results for Hypothesis 8 ("Synchronizing": Determinants of the Timing of the First Response).

	Model 1	Model 2a	Model 2b
Control variables			
GDP growth	0.002 (0.002)	0.002 (0.002)	0.002 (0.003)
Geographic distance (thousand)	-0.003 (0.003)	-0.003 (0.003)	-0.004 (0.004)
Cultural distance	-0.007 (0.007)	-0.007 (0.007)	-0.008 (0.008)
Network size (thousand)	0.106 (0.108)	0.102 (0.108)	0.152 (0.128)
Positive MNE profits	(reference)	(reference)	(reference)
Negative MNE profits	0.031 (0.017)*	0.029 (0.017)*	0.036 (0.019)*
Same industry	(reference)	(reference)	(reference)
Different industry	0.033 (0.017)	0.035 (0.017)**	0.024 (0.020)
Number of subsidiary employees (thousand)	-0.029 (0.012)***	-0.023 (0.012)*	-0.054 (0.012)***
Communication channels			
No regional headquarters		(reference)	(reference)
Regional headquarters		0.003 (0.061)	0.003 (0.056)
No R&D role		(reference)	(reference)
R&D role		-0.179 (0.055)**	-0.212 (0.057)***
Number of expatriates		-0.002 (0.001)	-0.002 (0.001)
Non-Japanese GM		(reference)	(reference)
Japanese GM		-0.040 (0.020)**	-0.035 (0.021)*
Constant	1.218 (0.014)***	1.252 (0.022)***	1.256 (0.023)***
Observations	4,730	4,730	3,331

***$p<0.001$, **<0.05, *$p<0.1$; Note: Model 2b contains a sample without China, Hong Kong, Taiwan, Singapore, and Korea.

6.4.2 Hypotheses 8a-8b (Shape of the Relationship with Recovery versus Exit)

Second, the effects of the time-to-first-response on the probability of recovery (versus exit) were derived. Table 6.15 summarizes the model-building approach, where Model 1 contains control variables only, Model 2 adds the time-to-first-response predictor, Model 3 incorporates the squared term of the time-to-response variable and Model 4 adds the types of responses. Hypothesis 8a suggests that *the effect of the time-to-first-response on the likelihood of recovery (as opposed to exit) takes an inverted U-shape, such that the likelihood of recovery is highest at medium levels of the time-to-first-response.* This hypothesis is supported in Model 3,

with $p < 0.05$ and the negative sign of the squared term of the time-to-response variable suggesting an inverted U-shaped relationship as hypothesized. Figure 6.8 underscores this finding visually.

Figure 6.8. Results for Hypothesis 8a ("Synchronizing": Shape of the Relationship between the Timing of the First Response and the Probability of Recovery versus Exit, by Response Types).
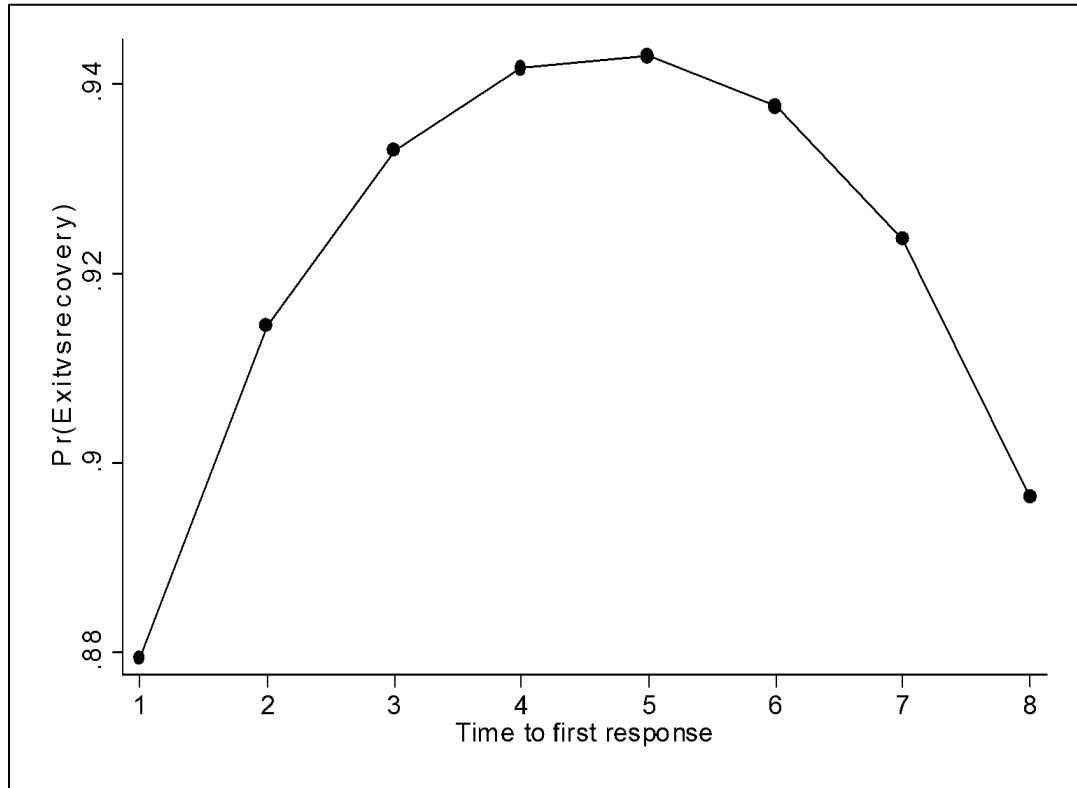
Note: *Time to first response* is measured in years.

Hypothesis 8b suggests that *the effect of the inverted U-shape relationship between the timing of the first response and the probability of a recovery (versus exit) is more pronounced for decreases in commitment than for increases in commitment.* This hypothesis is supported in Model 4 for increases and decreases in commitment. Both exhibit a significance level of $p < 0.001$. As Figure 6.9 illustrates, the line for "Increases in commitment" is indeed higher and less pronounced than the line for "Decreases in commitment". We interpret this finding as an

indication that the timing of a decrease in commitment is more salient and potentially harmful to the likelihood of recovery than the timing of an increase in commitment. The implications of this finding will be discussed further in Chapter 7.

Figure 6.9. Results for Hypothesis 8b ("Synchronizing": Shape of the Relationship between the Timing of the First Response and the Probability of Recovery versus Exit, by Response Types).
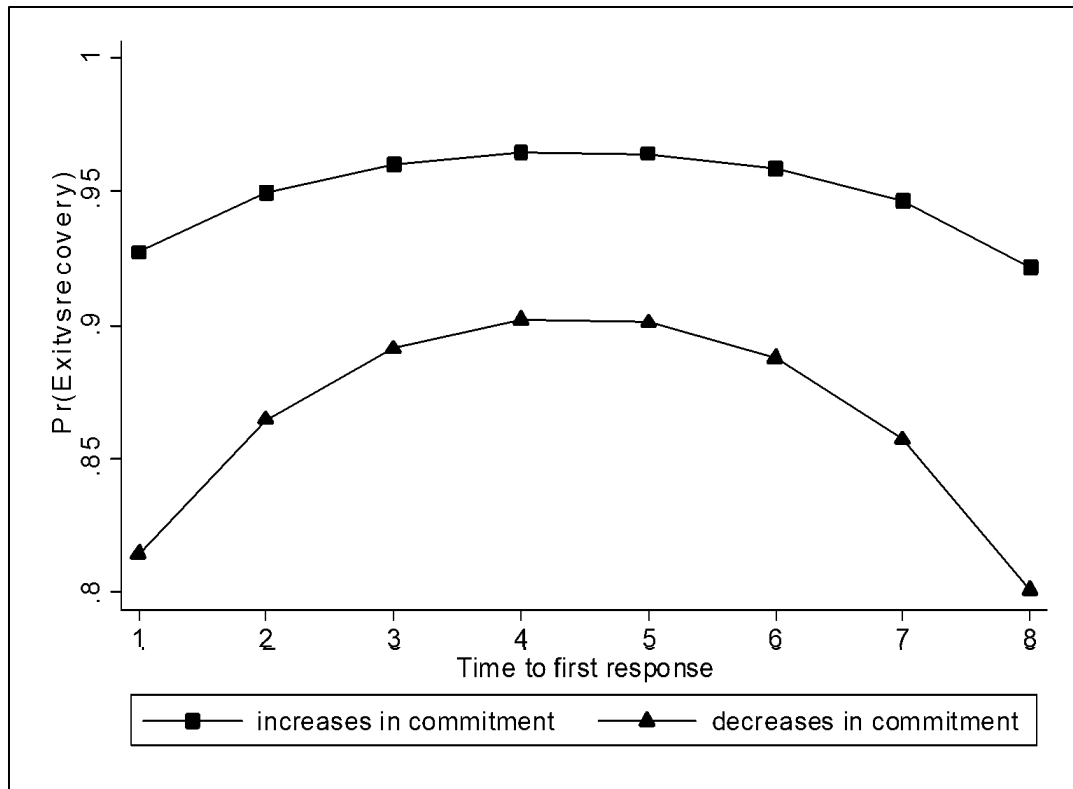
Note: *Time to first response* is measured in years.

6.4.3 Hypothesis 9 (*Effect of the Timing of a GM Replacement*)

Finally, Hypothesis 9 suggests that *an earlier GM replacement during periods of subpar performance leads to better rates of recovery and improved rates of exit than a later GM replacement.* As illustrated in Table 6.15, this hypothesis was supported at ($p < 0.05$). When

Table 6.15. Results for Hypotheses 8a-8b ("Synchronizing": Shape of the Relationship with Recovery versus Exit).

	Model 1	Model 2	Model 3	Model 4
Control variables				
Population (billion)	0.029 (0.115)	0.003 (0.012)	0.003 (0.012)	0.012 (0.012)
GDP growth	-0.019 (0.013)	-0.021 (0.013)	-0.021 (0.013)	-0.035 (0.014)**
Geographic distance (thousand)	-0.075 (0.014)***	-0.076 (0.014)***	-0.076 (0.014)***	-0.074 (0.014)***
Cultural distance	-0.003 (0.044)	-0.001 (0.044)	-0.001 (0.044)	0.018 (0.044)
Network size	-0.001 (0.000)***	-0.001 (0.000)***	-0.001 (0.000)***	-0.001 (0.000)***
No regional HQ	(reference)	(reference)	(reference)	(reference)
Regional HQ	0.554 (0.336)*	0.549 (0.337)	0.556 (0.337)*	0.530 (0.342)
Same industry	(reference)	(reference)	(reference)	(reference)
Different industry	-0.130 (0.085)	-0.132 (0.085)	-0.133 (0.085)	-0.152 (0.085)*
Subsidiary age	0.008 (0.005)*	0.007 (0.005)	0.007 (0.005)	0.010 (0.005)**
Number of subsidiary employees (thousand)	0.245 (0.116)**	0.266 (0.121)**	0.267 (0.121)**	0.326 (0.140)**
Number of subsidiary expatriates	0.014 (0.010)	0.017 (0.011)	0.017 (0.011)	0.022 (0.013)*
Independent variables				
Time-to-first-response		0.325 (0.080)***	0.575 (0.163)***	0.591 (0.169)***
Time-to-first-response (squared)			-0.061 (0.030)**	-0.067 (0.032)**
Increases in commitment				(reference)
Decreases in commitment				-1.102 (0.098)***
Combination response				-0.473 (0.113)***
Constant	2.174 (0.063)***	1.756 (0.118)***	1.558 (0.168)***	2.153 (0.187)***
Observations	6,645	6,645	6,645	6,645

***$p<0.001$, **<0.05, *$p<0.1$

visualizing the relationship, an interesting shape is revealed (see Figure 6.10): if the GM is replaced rather early, the likelihood of recovery (versus exit) is higher than if the GM was not replaced. However, if the GM is replaced later than in year two, the effect becomes reversed and a GM replacement may be harmful to recovery prospects.

Table 6.15. Results for Hypothesis 9 ("Synchronizing": Effect of the Timing of a GM Replacement).

	Model 1	**Model 2**
Control variables		
Population (billion)	-0.002 (0.016)	0.001 (0.016)**
GDP growth	-0.011 (0.018)	-0.014 (0.019)
Geographic distance (thousand)	-0.061 (0.019)**	-0.062 (0.019)**
Cultural distance	0.015 (0.060)	0.019 (0.060)
Network size	-0.001 (0.000)***	-0.001 (0.000)***
Positive MNE profits Negative MNE profits	-0.322 (0.108)**	-0.318 (0.108)**
Same industry Different industry	-0.160 (0.118)	-0.166 (0.118)
Joint venture Wholly-owned subsidiary	0.068 (0.114)	0.079 (0.114)
Number of subsidiary employees (thousand)	0.116 (0.134)	0.134 (0.145)
Number of subsidiary expatriates	0.042 (0.021)**	0.046 (0.022)**
Independent variables		
Time-to-first-response		0.477 (0.118)***
No GM replacement GM replacement		0.691 (0.341)**
Time-to-first-response x GM replacement		-0.489 (0.245)**
Constant	2.423 (0.112)	1.810 (0.187)***
Observations	3,978	3,978

***p<0.001, **<0.05, *p<0.1

Figure 6.10. Results for Hypothesis 10 ("Synchronizing": Shape of the Relationship between the Timing of the First Response and the Probability of Recovery versus Exit, by GM Replacement Status).
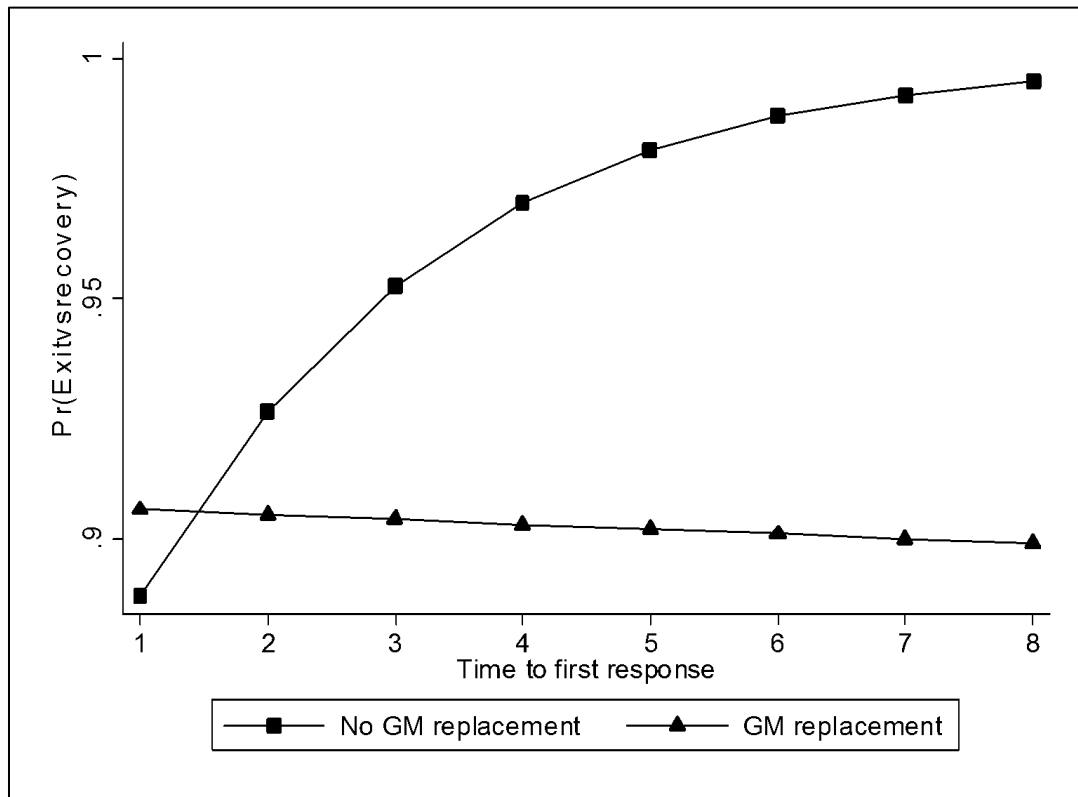
Note: *Time to first response* is measured in years.

6.5 Robustness Checks

In general, method-specific robustness checks were incorporated directly into each respective subsection. This includes e.g. the visualization of average marginal effects for the "Identifying" section and the exclusion of five countries in Model 2b in the "Synchronizing" section. Using different measurements of subpar performance, however, is an overarching robustness check which assesses our findings with different measures of performance sequences. Unless otherwise stated, hypotheses are supported in the same way as in the main analysis.

As noted earlier, we used a decline in sales measure of performance to construct subpar performance sequences. In order to test for other operationalizations of subpar performance, we first used labor productivity as an alternative measure of subpar performance. The findings regarding the "Identifying" dimension remained largely robust. The only exceptions were with regards to Hypothesis 1b (the impact of MNE-level subpar performance on the occurrence of a non-response) which became insignificant, Hypothesis 2b/2c (the impact of GDP growth on the likelihood of an operational/mixed increase in commitment) which switched significance such that the increase in operational commitment lost significance but mixed increase in commitment gained significance. This may be due to a stronger effect being picked up in the mixed category which contains strategic and operational responses. Hypothesis 3a (the impact of a regional headquarters on the occurrence of a decrease in strategic commitment) became insignificant, and Hypothesis 4 (the likelihood of a joint venture receiving a combination response) which became insignificant.

The findings regarding the "Responding" dimension remained largely robust as well. The effect presented in Hypothesis 5b became stronger, at $p < 0.05$. Hypothesis 6a is now not significant while Hypothesis 6c now does received significance at $p < 0.05$, suggesting that operational decreases worsen the rate of exit. Moreover, we did find some marginal support now for Hypothesis 6d, whereby strategic decreases in commitment worsen the rate of exit ($p < 0.1$). The findings regarding the "Synchronizing" dimension also remained largely intact. For Hypothesis 7, the significance levels dropped into the marginal area ($p < 0.1$). Regarding Hypothesis 9 (assessing the effect of the timing of a GM replacement), the findings were non-significant.

Second, we used the first operationalization of the perceptual measurement of subpar financial performance (with loss and break-even in one category) as a robustness check. Regarding the "Identifying" dimension, Hypotheses 1a-1c were not supported. However, similar to what was proposed in Hypothesis 1a, higher cultural distance significantly led to a higher likelihood of receiving no response. The effect of GDP growth was supported for strategic / operational increases in commitment. The effects of subsidiary roles were supported for R&D subsidiaries. The number of employees was now a significant predictor of operational decreases, supporting Hypothesis 3f. The role of a joint venture on receiving a combination response was not supported.

Regarding the "Responding" dimension, responding in any way is found to reduce the rate of recovery but to have no effect on the rate of exit. The effect of a strategic increase alone on the rate of exit was not supported; however, mixed increases in commitment reduced the rate of exit significantly. Within the "Synchronizing" dimension, the communication enhancing mechanisms were marginally supported for Japanese GMs in Model 2a. Hypotheses 8a-8b were not significant. Hypothesis 9 was supported.

Third, we used the second operationalization of the perceptual measurement of subpar financial performance (with gain and break-even in one category) as a robustness check. Regarding the "Identifying" dimension, Hypothesis 1a (assessing the effect of geographic distance on the likelihood of a non-response) was now significant at $p < 0.05$. Hypotheses 1b-1c were not supported, as in the previous robustness check. Hypothesis 3c was also supported, the rest of the hypotheses in this section were not. Regarding the "Responding" dimension, any response (Hypothesis 5a) had a significant beneficial effect on the rate of recovery. Other hypotheses received support.

Finally, within the "Synchronizing" dimension, the effect of a Japanese GM was not significant. The timing of a response (Hypothesis 8a) was a significant predictor of the probability of a recovery versus exit. However, the shape was no longer curvilinear but negatively linear. Hypotheses 8b-9 were not significant although the shape of the relationship for Hypothesis 9 was similar to the ones from the main analysis.

In sum, many hypotheses are also supported and sometimes even strengthened when using other measures of performance. The largest deviation seems to occur with the second operationalization of the perceptual measure of subpar financial performance. This may be due to the much smaller sample size that results from that operationalization. Future research could map this measure of performance onto truly subjective measures of performance, such as managerial satisfaction, and assess whether it is more highly correlated with those than accounting-based measures of performance. If that is the case, the perceptual measure of performance may indeed capture more than financial performance and may thus warrant further exploration.

CHAPTER 7: DISCUSSION, LIMITATIONS, AND CONCLUSION

7.1 Discussion of Key Findings

The objective of this thesis was to examine the phenomenon of subpar performance in foreign subsidiaries from a holistic perspective that encompasses 1) consideration of the antecedents of the choice of responses (or non-responses), 2) assessment of the impact of such responses on the rate of recovery and survival, and 3) exploration of the effects of time by way of investigating the determinants and outcomes of the timing of the first response. We combined these three dimensions into a theoretical framework that was guided by a resource orchestration perspective, distinguishing between dimensions of "Identifying", "Responding", and "Synchronizing". Given that we are not aware of any study that has examined said phenomenon from three such angles, with a variety of different response types, and in an international context, there are several contributions to research and practice of this work.

The main research questions guiding the analyses in this thesis were: *When a foreign subsidiary experiences (repeated) subpar performance, what determines which specific type of response is chosen (if any at all)? Which type of response (if any) is most conducive to increasing recovery and survival prospects? What factors determine the timing of a response and what role does the timing of responses play in the effectiveness of the chosen response in increasing recovery and survival prospects?* After the analysis, we find answers to all of these questions, at least in the context of our dataset and sample.

The four perhaps most substantive contributions are first, that this thesis allows us to get a glimpse into the frequency and nature of the phenomenon. One interesting insight this study brought to light, for instance, is that non-response to subpar performance is surprisingly

common. We supplied frequencies of sequence occurrences and brought forward some potential explanations for this observation and found some support for the importance of communication frequency enhancing mechanisms of subsidiaries in grasping headquarter attention and initiating a response. Second, we aimed to expand both the organizational decline/turnaround literature and the international divestment literature by specifically mapping the phenomenon of declining organizations to an international, subsidiary-level context. As our analyses revealed, the phenomenon is not a rare one, making it imperative for research to offer some evidence-based guidelines for managers to navigate turnaround challenges. Third, this study contributes to the nascent research on time-related aspects of turnaround responses. As our analysis revealed, however, the timing of a response may be important for its effectiveness. Tangpong et al. (2015) is one of the very first studies to explicitly model time and our study builds on this by responding to their call for exploring the antecedents of response timing more, along with discovering a curvilinear relationship between the timing of responses and the probability of recovery (versus exit). Fourth, the framework we provide offers a guideline for structuring the investigation of the subpar performance phenomenon at the foreign subsidiary-level. As many turnaround scholars have lamented, a unifying theory of turnaround is lacking and new approaches such as the one offered may be instrumental in advancing future research. In the following section, these contributions will be discussed in more detail per analysis type.

7.1.1 Regarding the Sequence Analysis

The sequence analysis revealed that there are hundreds of subsidiaries that experience subpar performance sequences for 10 years or more. Some subsidiaries experience more than one

such sequence. This suggests that the subpar performance phenomenon at the level of foreign subsidiaries is a rather prevalent phenomenon which befalls many foreign subsidiaries. It is thus rather surprising that not more studies exist which specifically examine subpar performance and appropriate responses (apart from only divestments) at the level of foreign subsidiaries. Given that these subsidiaries may play an important role in the MNE's overall performance, offer employment opportunities to individuals at the foreign location, and provide an empirical context for exploring the boundaries of current decline/turnaround and international divestment studies, the study of this phenomenon seems to hold merit for practitioners, policy makers, and scholars alike. The goal should be to generate a deeper understanding of the factors and mechanisms at play in this context, in order to eventually offer guidelines to managers as to how the likelihood of recovery can be enhanced.

Furthermore, many organizational decline/turnaround scholars agree that when decline occurs, a first response should occur in the form of retrenchment (Tangpong et al., 2015; Robbins & Pearce, 1993; Pearce & Robbins, 1994). However, the findings from our sequence analysis reveal that the most common sequences are those where the subsidiary does not experience any response at all, especially if the subpar performance lasts for at least five years. We found this to be a rather intriguing finding, since early turnaround scholars such as Schendel et al. (1976) noted that responses are generally necessary to break the inertia of decline. Our results may potentially be interpreted in support of Weitzel and Jonsson's (1989: 97) stage-model of organizational decline, which consists of the following stages: blinded, inaction, faulty action, crisis, and dissolution. At the beginning of the decline, firms may be *blinded*, such that they lack the appropriate monitoring systems to detect the decline in a timely fashion. This aspect may be especially salient in the relationship between an MNE headquarters and its foreign

subsidiary, where communication channels may be insufficiently developed or prone to language barriers, time zone differentials, and a general lack of attention due to its geographic and cultural distance.

Over time, the MNE headquarters will notice the decline but often, firms will remain stuck in the *inaction* stage. This stage can last several years, especially if the decline is not in the form of a plummeting of performance but at a slower rate of decline. Weitzel and Jonsson (1989: 100) offer two main reasons for inaction despite clear signs of decline. First, the decline may be abrupt and thus costly to turn around. Leaders at the headquarters may be hesitant to undertake any bold move necessary to initiate turnaround. Second, the decline may be perceived as temporary and leaders may assume a "wait and see" approach, hoping that performance will regress to the mean eventually. The result are "responses to declining performance [which include] denial, avoidance, resistance, or procrastination" (p. 100). Generally, such a delay of action is not conducive to turnaround success and instead increases stress on the organization and the decision-maker. The result of inaction that lasts too long may thus be a vicious cycle (Tangpong et al., 2015; Lindsley et al., 1995), which can quickly lead the organization to the subsequent stages of *faulty action* and *crisis*. At these stages, it is much more difficult for an organization to be turned around. If all attempts fail, the *dissolution* stage becomes inevitable.

Another, perhaps related, aspect the sequence analysis revealed is that the most frequent sequences (apart from non-responses) contained operational responses, rather than strategic responses. This mirrors Hofer's (1980) observation that even if a strategic response might have been the more fitting response, most organizations use operational responses instead. Several reasons may account for this: 1) strategic responses usually take a long-term perspective. Any effects from it may take longer to pay off, forcing the subsidiary to be able to weather the

continued short-term decline; and 2) strategic moves such as market repositioning may not always be available, given the current competitive landscape. Despite these considerations, however, Hofer (1980: 30) notes that "even if both of these observations are true, it still appears that management is systematically overlooking or excessively discounting the benefits of strategic turnarounds in many situations."

In sum, the sequence analysis approach allowed us to gather a picture of the subpar performance sequence picture in foreign subsidiaries and assess how similar it is to what we already know about organizations in decline more generally. It seems that while there are important factors at the international level, key notions such as the stages of decline and predispositions to certain response types may also be applicable to the foreign subsidiary level. In order to explore the determinants of responses in more depth, we conceptualized an "Identifying" dimension in our overarching resource orchestration framework. The findings and contributions from this section are discussed next.

7.1.2 Regarding the "Identifying" Dimension

The first dimension in the resource orchestration framework was designed to assess the determinants of responses to subpar performance, guided by the question: *When a foreign subsidiary experiences (repeated) subpar performance, what determines which specific type of response is chosen (if any at all)?* The ABV provided a useful framework to organize the determinants of headquarters-level responses to subpar performance at the subsidiary level, especially with regards to non-responses. In general, this study thus contributes to the literature by exploring the effect of determinants that are particularly salient in an international context,

such as specific roles of subsidiaries within the MNE network, GDP growth rates of the host country, and the number of expatriates. Moreover, this study offers a finer-grained categorization of responses than the dichotomous responses that have been prevalent in the turnaround literature (strategic vs. operational, retrenchment vs. non-retrenchment, strong retrenchment vs. weak retrenchment).

We find that inaction as a "response" to subpar performance at the subsidiary level is more likely to occur when the MNE as a whole is declining. Following the logic offered by the ABV, this suggests that the leaders at the headquarters are likely preoccupied with turning the entire organization around, rather than focusing their attention responding to subpar performance at the individual subsidiary. We are not aware of any study in the decline/turnaround realm that has considered the notion that there may be different performance levels within an MNE. This is likely due to the preoccupation with the corporate-level or business-level of analysis in the decline/turnaround literature. Thus, we contribute by suggesting that responses to subpar performance at a subsidiary may depend on factors at the corporate-level or business-level of the MNE network.

In contrast, we find that inaction is less likely if the subsidiary has more expatriates. These individuals may act as directors of headquarter attention and can provide important information and assessment to the decision-makers at the corporate-level or business-level. Likewise, expatriates can act as advocates for the subsidiary and channel/translate headquarters directives to the subsidiary-level. As a result, inaction as described by Weitzel and Jonsson (1989) is less likely to occur.

We did not find significance for an effect of distance on the likelihood of a response. Perhaps geographic distance per se is not a hindrance to a response, given modern telecommunications and travel technology. Future research could assess this aspect further, e.g. by exploring different notions of distance such as travel time (Boeh & Beamish, 2011).

Regarding increases in commitment, we find that the country-level determinant of GDP growth rates does indeed impact which response is chosen. Our results are in line with Berry (2013) who found that subsidiaries are less likely to be divested if they are located in a host country with high growth rates. We extend Berry's (2013) finding by differentiating between more types of responses than just divestment. Indeed, our results show that the likely response when GDP growth is high is to increase operational commitment, while decreases in commitment are unlikely to occur in that context. This finding may suggest that decision-makers see potential in the market and associate the poor performance of the foreign subsidiary with it not having enough resources to match that potential. As a result, they increase resource commitment to that subsidiary. While we were able to support this logic for operational responses, we did not find significance for strategic increases in commitment. This may be due to the smaller number of observations in that category. Future research could explore this aspect further by focusing specifically on strategic responses and gathering a larger sample specifically for this category.

Next, regarding decreases in commitment, we find that if a subsidiary holds a specific role in the MNE's network, it is less likely to be subjected to decreases in commitment. This is in line with Bouquet and Birkinshaw's (2008) work on subsidiary weight and voice, whereby a subsidiary can influence certain outcomes based on its importance in the network. Moreover, decreases in operational commitment were predicted by the age of the subsidiary. Age may serve

as a proxy for the existence of slack and a higher risk of inefficiencies. Thus, our finding is in line with the retrenchment stream of the literature (Pearce & Robbins, 1994; Schmitt & Raisch, 2013). This stream suggests that organizations can be turned around by jettisoning superfluous resources. We did not, however, find support for the existence of slack in terms of the size of the workforce as a determinant of retrenchment. Future research could explore further whether and how the type of the source of slack (age versus size of the workforce) may affect the retrenchment decision.

Finally, we developed a hypothesis regarding the choice for a combination response, despite Hofer's (1980) warning that these may be too managerially complex and confusing to truly facilitate turnaround. In the international context, one determinant of a combination of responses may, however, be the case where more than one headquarters determines a response. This is the case in joint ventures, where both the foreign and the local partner may initiate responses. Indeed, we found support for this notion. This aspect thus adds to the organizational decline/turnaround literature by differentiating between the impact of different organizational forms at the subsidiary level. It may also contribute to the literature on international joint ventures, such that these organizations may be more prone to combination responses. Given the risk associated with these types of responses, future research is warranted to explore whether the combination response is the result (or trigger) of conflict between joint venture partners or whether it represents a concerted (and effective) effort to turn the subsidiary around.

In sum, the findings from the "Identifying" dimension of the resource orchestration framework highlighted that the determinants differ for each type of response. Further, several factors that are relevant in an international context (and have been relatively neglected in single-country decline/turnaround studies) impact the choice of response significantly as well.

Therefore, this study offers an expansion of concepts from the decline/turnaround literature to the international context. Next, we discuss the second dimension in the resource orchestration framework, "Responding", where the efficacy of each response is assessed.

7.1.3 Regarding the "Responding" Dimension

The second dimension in the resource orchestration framework considers the question: *Which type of response (if any) is most conducive to increasing recovery and survival prospects?* We first assess the impact of responding versus not responding at all and find that at least for survival prospects, responding appears to be beneficial. Broken down by response type, we find that increases in operational commitment tend to improve the rate of recovery, while decreases in operational commitment tend to worsen it.

This suggests that prescriptions for the corporate-level or business-level may not hold for the subsidiary-level, at least without further specification. Retrenchments at the subsidiary-level, in particular, may have an adverse effect since the gains from efficiency may be offset by negative rippling effects resulting from the perceived decrease in headquarter commitment. This adds to the discourse between the two camps within the organizational decline/turnaround literature, suggesting that 1) retrenchment is a necessary first response (Pearce & Robbins, 1994) and 2) that retrenchment may be a reflection of further decline and thus not welcomed (Barker & Mone, 1994). We offer a broader perspective by moving away from a focus on decreases in commitment and emphasizing the importance of increasing investments into the foreign subsidiary.

In general, it appears that the determinants for the rate of recovery are different from the determinants of the rate of exit. This may suggest that MNE headquarters need to consider which outcome they desire more: short-term financial recuperation or longer-perspective ensuring of survival. Future research could investigate the specific characteristics of the subsidiary further which would cause an MNE to aim for short-term or long-term recuperation.

7.1.4 Regarding the "Synchronizing" Dimension

Following Tangpong et al., (2015), we emphasized the importance of the timing of the first response and explored its effect on the probability of recovery (versus exit). Specifically, we asked *What factors determine the timing of a response and what role does the timing of responses play in the effectiveness of the chosen response in increasing recovery and survival prospects?*

Our findings suggest that some subsidiaries may receive earlier headquarter attention which may aid them in their recovery, since it can decrease the risk of being stuck in inaction. The factors that may lead to more headquarter attention can be summarized as communication channels which enhance the frequency of communication between the headquarters and its subsidiary. We find that especially when the subsidiary has an R&D focus, it receives earlier headquarter attention. Also, if the GM was Japanese, the response was more likely to be administered earlier rather than later. This may be due to fewer cultural and language barriers between the Japanese headquarters and the subsidiary, and thus a more trusting flow of information. We are not aware of any studies that have examined the determinants for the timing

of a response and indeed, Tangpong et al. (2015) call for exploring this aspect further. Our study contributes an initial look at what may impact the timing of a response.

To better assess the notion of the timing of a response, we then explored the impact of the timing on the probability of recovery versus exit. We combined arguments about time compression diseconomies (Dierickx & Cool, 1989) with arguments about the detrimental effects of inaction (Weitzel & Jonsson, 1989) and hypothesize an inverted U-shape in the relationship between the timing of a response and the probability of recovery versus exit. We did indeed find support for this hypothesis, suggesting that very early responses to subpar performance (i.e. in the first two years of subpar performance) may be counterproductive. This qualifies and extends Weitzel and Jonsson's (1989) recommendation to respond as early as possible. Indeed, extensive due diligence may be required before an appropriate response can be administered. Further, this finding may be interpreted in support of cutting the first two years of subpar performance sequences from analyses, since they may contain "knee-jerk" reactions which are not good indicators of the effectiveness of a thoroughly orchestrated response.

We then qualified this finding of a curvilinear relationship by introducing the moderating effect of response type and GM replacement. Regarding response types, we found that different responses are time-sensitive to differing degrees. In particular, while increases in commitment may be more beneficial to the likelihood of recovery than decreases in commitment, we also find that the timing of a decrease in commitment response matters more than it does for an increase in commitment. If, as our findings suggest, a retrenchment was conducted very early on or very late, the outcome may indeed be counterproductive to recovery rates. Thus, including the aspect of the timing of a response may be an important contingency factor that can advance the debate on whether retrenchment is a necessary aspect to successful turnarounds or not. We also advance

Tangpong et al.'s finding that earlier retrenchment actions appear to be better than later ones by considering the entire sequence range for this analysis and thus exposing a curvilinear effect.

Regarding the replacement of the top leadership during subpar performance, we build on contingency arguments put forward in the extant literature. We particularly build on Chen and Hambrick (2012) who note that GM replacements per se do not hold much value for the subsidiary's turnaround but that certain contingency factors (fit or misfit in their study) may explain when GM replacements are a valuable approach. We extend their perspective by offering the timing of GM replacement as a contingency factor. Our findings suggest that only when the GM replacement was done very early did it have a productive effect; beyond that, GM replacements were counterproductive to recovery rates. We also suspect, however, that the replacement of a GM at the subsidiary level will be less impactful than the replacement of a CEO at the corporate level, as the decline/turnaround literature suggests. This may potentially be due to the fact that a replacement of the GM at a foreign subsidiary has a different (less visible) effect than replacing the corporate-level CEO in the declining firm's headquarters. Future research could explore this notion further.

The construct of time is multidimensional and in our study, we assessed the aspect of a timing of the first response on the probability of recovery versus exit. It would be interesting to explore other dimensions of time in future research, such as the specific ordering of responses. For instance, is a retrenchment followed by a strategic response most effective (Schmitt & Raisch, 2013) or should this be reversed or simultaneous? What contingencies affect the effectiveness of the ordering of events? Although Schendel & Patton (1976) called for research on the ordering of responses, not much progress has been made in this regard.

In sum, the findings from this thesis may expand current knowledge about organizational decline/turnaround in the international context in several directions. Furthermore, we offer a theoretical framework which could act as guidance when examining the subpar performance phenomenon in an international context.

In particular, using a resource orchestration perspective, we devised three dimensions "identifying", "responding", and "synchronizing" through which mechanisms could be categorized. This approach allows us to view the phenomenon less from a phenomenon-driven perspective as much of the existing literature has done (Trahms et al., 2013) and more from a theory-driven perspective. Moreover, we moved the concept of time into the foreground. Most extant research has treated time as a latent construct but responses to subpar performance are time-critical - thus, temporal concepts such as timing, duration, ordering, and synchronization should be explicitly modeled (Tangpong et al., 2015). It would be interesting to see future research follow resource orchestration from its initiation to its completion. Although some studies on resource orchestration exist (e.g. Chadwick et al., 2015), a qualitative study following the process of resource orchestration in the case of addressing subpar performance sequences at foreign subsidiaries would be enlightening.

The findings from this thesis thus contribute most strongly to two main literatures within this realm: 1) regarding the organizational decline/turnaround literature, this thesis expands the field of vision from a domestic, corporate-level or business-level perspective to an international, headquarters-subsidiary perspective. While some notions of that literature hold (e.g. the importance of retrenchment when slack is present), other constructs were not even considered in that literature yet (e.g. regional headquarter role, MNE network, cultural distance). Moreover, this expansion allows for a different take on devising a theoretical framework to guide the

analysis. 2) Regarding the international divestiture literature, this thesis offers a more comprehensive analysis of a subsection of the literature, which considers subpar performance as one predictor of divestitures. By focusing only on those subsidiaries that are performing poorly, divestitures can be seen as one type of response and the perspective opens up for other types of responses.

Other literatures may be tangential to this thesis as well. For instance, the literature on organizational resilience touches upon exploring what makes some firms weather a crisis and others to fold under pressure. Perhaps the model devised in this thesis allows for a more international perspective of influencing factors and mechanisms that are at play in such situations.

7.2 Managerial Implications

While this thesis by no means claims any normative power, it does reveal an important aspect that is relevant to MNE-level managers. When a subsidiary experiences subpar performance, whether and how a response follows depends in part on how attention is allocated throughout the organization. How misaligned attention structures can be is illustrated by anecdotal evidence by Beamish (2008: 100) from a training module with 40 executives from a Fortune 500 bank. The executives were asked to indicate the number of alliances and joint ventures within the bank's network - the best estimate was off by about 77 percent of the actual number. The reason for this gross underestimation could be that beyond about a dozen subsidiaries, it is difficult to know and keep track of the subsidiary network as a whole. As a result of larger networks, each individual unit may receive less headquarter attention and thus be

less likely to experience a response to subpar performance. Thus, if the goal is to aim for a response when a foreign subsidiary experiences subpar performance, improving the allocation of attention within the MNE network may be desirable.

Further, our analysis revealed that MNEs can counteract some attention-related aspects inherent in a foreign subsidiary by assigning strategic roles to subsidiaries or placing importance on the selection of the GM. These are but two options for enhancing communication frequency and thus increase attention to the subsidiary. However, to reduce the out-of-sight-out-of-mind phenomenon, managers can also allocate sufficient resources to personal visits to headquarters. Especially then the subsidiary is many flight hours away from the headquarters, making travel time-consuming (Boeh & Beamish, 2011) or in a country that is associated with travel-related hassles (Schotter & Beamish, 2013), the trip is likely going to be worth it in the longer run. When communication channels are well established, future responses to challenging situations such as subpar performance are likely going to be easier and faster.

The arguments brought forward in the thesis, particularly in the "Identifying" section, reinforce the view that managerial attention is a scarce and valuable resource. The allocation of said attention is an important matter since it may be translated into monetary losses when an ailing subsidiary is overlooked because it is further away or otherwise distant from the headquarters. Thus, managers should monitor and evaluate not only where their individual attention is directed but also how attention is embedded in organizational structures. For instance, is the organization too entrepreneurially-oriented that the risk management department is easily outvoted? Is the management team so opportunity-driven that longer-term perspectives may be neglected?

Further, the findings in the "Synchronizing" section underscore the importance of rigor when conducting responses to subpar performance. It appears that very early responses to subpar performance may, on average, not be conducive to enhancing the subsidiary's likelihood of recovery. A careful information gathering process may take time but prove to be more effective in the longer run. Perhaps because retrenchment has become known as a go-to response to subpar performance, firms may administer that response right away without anticipating the negative effects this may have on morale and productivity. Thus, the findings from this thesis may offer some caution with regards to resorting to retrenchments as the very first response. GM replacements however, are likely to be more effective if done right after decline is detected. The reason for this could be that the outgoing GM may have contributed to the decline, e.g. by inaction, and a new GM may boost morale, bring in fresh ideas, break up political groups within the organization, and thus facilitate the subsidiary's recovery. Decision-makers should thus consider the timing and the type of the response in unison when considering how to best address subpar performance at a foreign subsidiary.

Finally, as the decline/turnaround literature has repeatedly emphasized and this thesis has again confirmed: identifying the accurate causes of decline is a very complex and challenging endeavor with much uncertainty. Usually, decline occurs as a result of a combination of non-time variant and time-variant factors that are very difficult to discern. Since managers are required to make decisions quickly, as stakeholder pressure increases, psychological stress can increase considerably. Indeed, Whetten (1980: 583) notes that "One of the most pronounced effects of decline is that it increases stress". Under very high degrees of stress, decision-makers may become paralyzed in their decision-making or jump to inaccurate, "knee-jerk" reactions, leading to faulty action (Weitzel & Jonsson, 1989). It may be useful to proactively counteract negative

stress from building up, since it is likely going to lead to adverse outcomes such as faulty actions. Both the manager as an individual and the organization as a structural background should account for such challenges before a decline occurs.

7.3 Limitations and Future Research Directions

Several limitations of the analyses presented in this thesis lend themselves to future research directions. First, the study on "Identifying" has the potential of being expanded in several directions, starting from its current limitations. The selection of response categories resulted from a careful consideration of the tension between offering a sufficient amount of detail and the requirement to create categories with at least 30 observations each (Roth & Morrison, 1990). Future research could build on this study by going into more detail about each specific type of response.

Second, although the Toyo Keizai dataset offers a rich amount of information, some forms of responding may not have been captured. For instance, responses to subpar performance such as hiring a consulting company, intensifying advertisement efforts at the subsidiary-level, process-reorganizations, product-line adjustments, or utilization of credit options are not information that is offered in the TK dataset. This notion is true for all parts of the analysis that involved a response variable measure. Future research could go into more detail regarding types of responses by exploring this research question with a qualitative study design. However, some confidence regarding the usefulness of the chosen responses is derived from their similarity to Barker and Duhaime's (1997) list of actions that were verified through a mail questionnaire sent to CEOs of 208 U.S. manufacturing firms.

Third, the common denominator in this study is the fact that each subsidiary in the sample is at least in part owned by a Japanese parent firm. This has the advantage of creating a more homogenous sample and thus eliminating one source of variability while maintaining a large sample size. At the same time, however, this aspect may affect the results if Japanese parent firms have idiosyncratic ways of responding to subpar performance at the subsidiary level. For instance, Japanese MNEs have traditionally relied more on expatriates as a means to control foreign subsidiaries than MNEs from other home countries (Gong, 2003; Peterson, Napier & Shim, 1996). Another aspect may be the notion that Japanese managers and expatriates are likely to be influenced by the cultural values of their home countries, at least to a certain extent. For instance, as Hofstede et al. (2010) identified, the dimension of long-term orientation is much higher in Japanese cultures (a score of 88/100) than in the U.S. culture (a score of 26/100). This could potentially influence the types of responses administered and whether any detectable response occurs at all. Therefore, the findings from this study are most directly generalizable to subsidiaries within Japanese MNE contexts, although we suspect that many findings will also apply to foreign subsidiaries from other contexts. Future research could extend this study by expanding the sample to subsidiaries with other combinations of host country MNE parent firms.

Fourth, this thesis controlled for sector membership (particularly the similarity between the headquarters and the foreign subsidiary) is controlled for. There may, however, be differences between subsidiaries from the manufacturing sector and those from the service sector. For instance, since the value generated in service industries is predominantly derived from the interaction between a customer and an employee, a service-sector organization experiencing subpar performance may rely less on reductions in the number of employees than a manufacturing-sector organization. Future studies could explore this aspect in more depth.

Fifth, the "identifying" analyses focused on first responses (after at least two years of subpar performance) while ignoring subsequent responses. Future studies could consider those subsequent responses and their determinants in more depth. Moreover, Chung & Beamish (2010) may be a fitting reference here, who examined the impact of a first and all subsequent change in ownership. A study similar to theirs could be informative to the context of first and subsequent responses to subpar performance as well.

Sixth, the study on "responding" is also not without limitations. As Mata and Portugal (2000) note, exit of a subsidiary from the dataset does not necessarily mean that it was closed or went bankrupt. Instead, it is possible that the equity held by the Japanese parent firm(s) was sold to another company, including the local partner, or the subsidiary as a whole was fully acquired by another company. As it is the case with many large secondary data sources, it is not possible to discern which fate befell the subsidiary. As Benito (2005) and Berry (2013) note, divestments can occur as a result of a number of causes. What can be reasonably implied, however, is that the Japanese parent firm likely did not envision further investment into the subsidiary anymore, suggesting that the perceived value of the subsidiary has declined. As such, exit is an important indicator of the subsidiary's status within the MNE. Future studies could aim to refine this approach by gathering data which specifically differentiates between exits due to closure, bankruptcy, and other reasons. Furthermore, the longer the duration of the subpar performance sequence, the fewer observations are available each year. Mata and Portugal (2000) encountered the same concern and suggest that while analysing the full length of available subpar performance sequences is informative, the findings towards the right tail of that duration should be interpreted with caution.

Seventh, in this thesis, we assess the "Identifying", "Responding", and "Synchronizing" parts of the model separately, while aiming for as much rigor in the choice and execution of each of the methodological approaches as possible. Future research could combine these parts (or aspects of these parts) into one model, to carry the effect of a specific determinant of a response all the way through to the eventual outcome, while accounting for temporal aspects. We believe that such an approach could be possible with a structural equation modeling technique (SEM). However, in order to not lose rigor within each subpart of such a model, much computational power and a very large dataset are likely going to be necessary. Perhaps the SEM technique itself will have to be more advanced before it can be used to adequately investigate such a model which combines a multinomial logit regression with a competing-risk gap time event history analysis, and a moderation effect. Nonetheless, a combined approach would likely generate new insights about the overarching impact of determinants and may thus be an important endeavor for future research.

Eighth, in an ideal world (and what is often approximated in laboratory settings), the assignment of treatment (i.e. action) will be conducted in a random manner, to ensure that any differences between groups are truly attributable to the effects of the treatment. Such a randomized experimental design is the optimal approach for making causal inferences. With real-world, observational data (as predominant in most social sciences settings), however, such a randomization is often not possible: we cannot create a randomized sample by forcing some subsidiaries to change their ownership and others to refrain from doing so. Although we followed some of Antonakis et al.'s (2010) best practice steps for managing endogeneity, e.g. including control variables to reduce the risk for omitted variable bias, future studies could refine the analyses with regards to addressing endogeneity. As such, this limitation connects to the

preceding one, whereby SEM may be the most fitting approach to include instrumental variables or endogenous treatment designs (which have only been started to be published in Stata) into the analyses.

7.4 Conclusion

The model offered presented in this study provides a mapping of the mechanisms that are at work when subpar performance occurs at a foreign subsidiary. A theoretical framework devised from resource orchestration, consisting of the sub-processes of "identifying", "responding" and "synchronizing" was developed. We hope that this work will spark more studies into the analysis of the subpar performance phenomenon in an international context, thereby fostering a deeper exploration of the next chapter in the decades-old decline/turnaround literature.

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