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What Types of Top Management Teams' Experience Matter to the Relationship Between Political Hazards and Foreign Subsidiary Performance?

ABSTRACT

Although the relationship between political hazards and foreign subsidiary performance has been well documented in the prior literature, the contingent roles of the top management team (TMT) in managing political hazards have largely been ignored. Drawing upon the institution-based view, upper echelon theory, and TMT experience literature, in this study we focus on foreign subsidiaries' TMT and contend that TMT's different types of experience will distinctively influence the degree to offset substantial costs associated with political hazards so as to obtain superior performance. More specifically, in the current study, we consider duration, location, distance, and the direction of distance as the main dimensions of TMT experience. Using a panel dataset of 11,292 foreign subsidiaries across 53 countries from 2004 to 2013, we find that the duration of TMT's international experience exacerbates the negative impact of political hazards on subsidiary performance, while the duration of TMT's local experience does not have a significant moderating effect. In addition, we also find that the negative performance impact of political hazards is significantly alleviated only for subsidiaries whose TMT experienced a higher level of political hazards than the focal country in the past. Our study offers a comprehensive understanding of what types of top managers' experience matter to the management of political hazards.

Keywords: political hazards, foreign subsidiary performance, top management team, international experience, institution-based view, upper echelon theory

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1. Introduction

Political hazards, defined as the presence of instability in a country's political institutions (Delios & Henisz, 2003; Henisz, 2000a; North, 1990), is one of the most important dimensions in the institutional environment and has drawn substantial attention from international business scholars and practitioners (Delios & Henisz, 2000, 2003; Getachew & Beamish, 2017). In politically hazardous countries, multinational corporations (MNCs) are more likely to limit their exposure to political hazards in various ways, such as deterring entry (Delios & Henisz, 2003), reducing foreign direct investment flows (Busse & Hefeker, 2007; Feinberg & Gupta, 2009), lowering equity entry mode (Delios & Henisz, 2000; Lu, Li, Wu, & Huang, 2018), and choosing diversification (Jiménez, Benito-Osorio, & Palmero-Cámara, 2015). Undoubtedly, prior political hazards studies have dominantly agreed that political hazards inhibit firm performance (Dai, Eden, & Beamish, 2013; Getachew & Beamish, 2017; Lee & Song, 2012; Song, 2014; Song & Lee, 2017; Zhong, Lin, Gao, & Yang, 2019). Conversely, very few researchers have found an insignificant or positive impact of political hazards on performance, arguing that managing political hazards effectively can also be the root of profits because, for example, markets in political hazardous countries are underdeveloped and less competitive compared to stable markets (Click, 2005; Cuervo-Cazurra, Ciravegna, Melgarejo, & Lopez, 2018; Jiménez & Delgado-García, 2012; Kobrin, 1979; Liu, Gao, Lu, & Lioliou, 2016). Such contrasting ideas implicitly highlight that the proactive management of political hazards is the key to firm success (Jiménez & Delgado-García, 2012).

However, researchers of political hazards have thus far paid less attention to managers, especially TMT, who are actually managing and are responsible for foreign subsidiaries in the

context of political hazards. Such an incomplete understanding of the TMT's impact on the management of political hazards in foreign subsidiaries would be problematic for two reasons. First, TMT members in the foreign subsidiaries (interchangeably used as TMT or local TMT) have first-hand information on the local environment and are direct decision-makers with substantial power in the upper echelons of subsidiaries (Giambona, Graham, & Harvey, 2017; Hambrick & Mason, 1984; Rickley, 2019). Their characteristics, especially their prior experience, will significantly affect their responses to political hazards and, consequently, determine whether MNCs are able to reduce costs and capture the growth opportunities associated with political hazards in their subsidiaries (Giambona et al., 2017; Hambrick & Mason, 1984; Maitland & Sammartino, 2015; Vahlne & Johanson, 2017). Therefore, we cannot sufficiently resolve the aforementioned inconclusive findings regarding the political hazards–performance relationship if we omit *TMT factors* (see also a summary of prior political hazards studies in Appendix A1). Second, it is established in the TMT experience literature that TMT's experience, particularly international experience, homogenously facilitates MNCs' internationalization and performance (e.g., Carpenter, Sanders, & Gregersen, 2001; Herrmann & Datta, 2006; Nielsen, 2010). However, in the context of political hazards, which is highly uncertain and dynamic, it is likely that TMT's experience cannot necessarily contribute to foreign subsidiaries' performance. Thus, an underestimated but important question emerges: *When does TMT's experience mitigate or exacerbate the negative impact of political hazards on subsidiary performance?*

In this study, we attempt to address the aforementioned gap by investigating the divergent roles of different types of TMT's experience in the relationship between political hazards and subsidiary performance. First, we build on the institution-based view by arguing that political hazards, as an important component of the institutional environment, significantly increase the costs of doing business and thus inhibit subsidiary performance

(North, 1990; Peng, Wang, & Jiang, 2008). Second, drawing upon upper echelons theory and the TMT experience literature (Hambrick, 2007; Hambrick & Mason, 1984), we propose that TMT's experience is multifaceted, having a *time* dimension (i.e., *when* the experience was accumulated) and *spatial* dimension (*where* the experience was accumulated). Following this, we particularly investigate *the duration of TMT's local experience*, defined as the length of time on average a TMT has worked in a country where the subsidiary was situated, and *the duration of TMT's international experience*, which is defined as the length of time on average a TMT has worked outside of the focal country. On the one hand, we expect that long duration of both TMT's local experience and international experience make foreign subsidiaries more capable of mitigating costs and taking advantage of the growth opportunities associated with political hazards. On the other hand, we also propose a competitive hypothesis that, as a result of managers' bounded rationality (Cyert & March, 1963), the long duration of both types of experience may also cause managers' overconfidence regarding their prior knowledge and skills, making decision-making less adaptable and efficient in a highly uncertain environment (Ener, 2019; Kiesler & Sproull, 1982), which in turn increases costs of coping with political hazards in the focal subsidiary.

Then, to further deconstruct TMT's international experience effect, we particularly incorporate "distance" and the "direction" of distance into TMT's international experience. *Distance* has been the central topic in international business (IB) studies for decades and plays a significant role in interpreting and applying prior experience to a new context (Berry & Zhou, 2010; Johanson & Vahlne, 1977; Xu & Shenkar, 2002). Resonating with other distance in IB, we define *political hazards distance* as the extent of dissimilarity in political instabilities between the focal country and the foreign country. In addition, recent authors have recommended the inclusion of the direction of distance and suggested that positive distance (i.e., international experience in higher political hazards [HPH] countries than the

focal country) and negative distance (i.e., international experience in lower political hazards [LPH] countries than the focal country) may have asymmetric effects on foreign operations (Hernández & Nieto, 2015; Zaheer, Schomaker, & Nachum, 2012). In this light, we separate TMT's international experience into that in HPH countries and that in LPH countries. We further contend that TMT's international experience in HPH countries is more supportive for mitigating the adverse impact of political hazards than the experience in LPH countries that, on the contrary, is harmful for coping with the highly dynamic environment.

Through a large sample of global MNCs from the Orbis dataset, this study endeavors to make two contributions. First, we go beyond the existing literature that limits their focus to the direct influence of political hazards on performance while ignoring the human factors, namely TMT's different types of experience. The significant interplays between TMT's experience and political hazards in determining various levels of subsidiary performance add a missing piece in the political hazards literature that not only highlights the imperative role of top managers in managing political uncertainties but also offers a contingent explanation for the inconclusive findings on the political hazards–subsidiary performance relationship. We also respond to the recent call for considering subsidiary managers in the subsidiary management research (Meyer, Li, & Schotter, 2020).

Second, our divergent moderations of different types of TMT's experience significantly advance the TMT experience literature whose authors not only assumes homogenous effects of TMT's experience in internationalization but also primarily focuses on “general” international experience without considering *when* and *where* the experiential knowledge and skills were accumulated and developed (Nielsen, 2010; Piaskowska & Trojanowski, 2014; Sambharya, 1996). However, the distinctive interplays between political hazards and different types of TMT's experience delineate that TMT's experience does not always contribute to the mitigation of costs associated with political hazards; sometimes it leads to the opposite

outcome. Such distinctive moderating effects underscore the multifaceted construct of TMT's experience and provide a more comprehensive picture of how different types of learning contribute to subsidiary performance in the context of political hazards. Furthermore, our work on asymmetric effects of TMT's international experience builds on that of prior researchers who assumed the key condition for effective experience and capability transfer is context similarity (Perkins, 2014; Trąpczyński & Banalieva, 2016; Zeng, Shenkar, Lee, & Song, 2013). Our positive moderating effect of TMT's international experience in HPH countries complements this idea and suggests that, under the condition of political hazards, high context dissimilarity in terms of political hazards distance with positive direction is also useful. Empirically, by considering distance and direction, our operationalization of TMT's international experience resonates with the emerging trend for a fine-grained measure of top executives' experience (Le & Kroll, 2017; Rickley, 2019) and serves as a strong case for future researchers to improve theoretical understanding of the asymmetric effects of TMT's international experience.

2. Theory background and hypotheses

2.1. Institution-based view, political hazards, and foreign subsidiary performance

Institutions make the “rules of the game” that “govern societal transactions in the areas of politics (e.g., corruption, transparency), law (e.g., economic liberalization, regulatory regime) and society (e.g., ethical norms, attitudes toward entrepreneurship)” (Peng et al., 2008: 922). The institution-based view has been widely adopted in understanding the interactions between institutions and organizations (Peng et al., 2008). The general logic of this view is that firms operate in the institution that has significant influences on firms' strategic choices and performance (North, 1990; Scott, 2001). In particular, institutional instabilities usually wield adverse influences on firms' international business (Santangelo &

Meyer, 2011). Because political hazards form a significant part of the institution and indicate a source of institutional instabilities, they determine firms' transaction and production costs and therefore the profitability of their economic activities (Henisz, 2000b; Kobrin, 1979; North, 1990; Scott, 2001). A sizable pool of authors have reached a general conclusion that political hazards inhibit firm performance (Dai et al., 2013; Lee & Song, 2012; Song, 2014; Sun, Mellahi, Wright, & Xu, 2015; Tao, Liu, Gao, & Xia, 2017), with only a very few highlighting an insignificant or positive impact of such hazards (Barbopoulos, Marshall, MacInnes, & McColgan, 2014; Click, 2005; Cuervo-Cazurra et al., 2018; Demirbag, Tatoglu, & Glaister, 2007b; Krammer, Strange, & Lashitew, 2018; Liu et al., 2016; Merchant & Schendel, 2000) (See a summary in Appendix A1).

First, foreign subsidiaries face substantial added costs for reducing political unfamiliarity and uncertainties in a foreign country, requiring a budget that should be otherwise available for business purposes (Scott, 1987; Zaheer, 1995). If a host government's policies change frequently and dramatically, subsidiaries are then forced to spend more time and money on understanding such changes and how they can comply to cater to the authorities (Oliver, 1991, 1997). Moreover, the costs for foreign subsidiaries can be even more salient given that politically hazardous countries often lack clarity in the execution of regulations, making subsidiaries' responses to changes ineffective (Cuervo-Cazurra et al., 2018). In the meantime, given that internationalization often relies on inherited models that earlier investments serve long-term business plans (Alessandria & Choi, 2007; Janeba, 2002), those changes caused by political hazards may not only increase adjustment costs for a single business project but also impose huge burdens of expenditure on long-term investments (Jandhyala & Weiner, 2014). Therefore, firms exposed to high levels of political hazards would need to divert their available resources away from the focal business operations, leading to poor performance.

Second, political hazards also mean that host governments could arbitrarily enforce policies that aim to appropriate foreign subsidiaries' earnings. This could be particularly true when host governments view local firms as priorities while treating foreign subsidiaries as outsiders (Cuervo-Cazurra et al., 2018; Lu et al., 2018; Zaheer, 1995). Even if some foreign subsidiaries are competitive and gain considerable profits in the host country, host governments sometimes still implement policies to protect local firms by imposing discriminatory regulations on foreign firms (White, Boddewyn, Rajwani, & Hemphill, 2018). Thus, foreign subsidiaries' competitive advantages could be offset by political disadvantages (Zoogah, Peng, & Woldu, 2015). More importantly, host governments can cause devastating damages to foreign subsidiaries by expropriation (Duanmu, 2014; Henisz, 2000b). In extreme cases, almost all foreign subsidiaries' profits or assets could be eroded by higher taxation (Huizinga & Voget, 2009). Therefore, foreign subsidiaries would be vulnerable to local government intervention in countries with high levels of political hazards.

Building on the aforementioned arguments, we align with the dominant logic of the existing literature and adopt the negative effect of political hazards on subsidiary performance as the baseline hypothesis. However, we intend to move beyond the existing literature, which either directly tested the political hazards–performance relationship or considered the contingencies at the firm level, industry level, and country-level, downplaying the role of TMT. Certainly, TMT are major decision-makers in the foreign subsidiaries (Hambrick & Mason, 1984); their knowledge and experience will significantly shape how a subsidiary reacts to political hazards in the host country, which will, in turn, result in different levels of performance. To fill the gap, this study is particularly focused on the contingent role of TMT's experience in the relationship between political hazards and subsidiary performance.

2.2. Upper echelon theory and different types of TMT's experience

According to upper echelons theory, a TMT, which is a group of top executives, consists of the most powerful decision-makers in the organization, and its characteristics play a pivotal role in shaping firms' strategic behaviors and performance (Hambrick, 2007; Hambrick & Mason, 1984). Following this logic, particularly in an international context, prior researchers have acknowledged that TMT's demographics such as age, education, work experience, and functional background have significant influences on various organizational outcomes ranging from international expansion (Carpenter & Fredrickson, 2001; Herrmann & Datta, 2005; Sambharya, 1996; Tihanyi, Ellstrand, Daily, & Dalton, 2000), entry mode (Piaskowska & Trojanowski, 2014), international alliance formation (Lee & Park, 2008), and innovation (Boone, Lokshin, Guenter, & Belderbos, 2019) to firm performance (Nielsen, 2010). In this study, we purposively focus on TMT in the foreign subsidiary and their work experience that is of most relevance for managing political hazards.

Under the upper echelons theory, top executives have bounded rationality that each decision-maker will bring his or her own set of "givens" (i.e., values and cognitive bases) to interpret the environment and make appropriate responses (Cyert & March, 1963; Hambrick & Mason, 1984; March & Simon, 1958). In this case, TMT's experience, as an observable characteristic of values and cognitive bases of decision-makers (Hambrick & Mason, 1984), will shape how they interpret and respond to external uncertainties (Hambrick & Mason, 1984; Maitland & Sammartino, 2015). In this way, we intend to advance the IB literature that exclusively on TMT's international experience and assumes that it homogenously enhances firm performance (Carpenter & Fredrickson, 2001; Nielsen, 2010). We argue that TMT's experience is not always effective for alleviating political hazards in foreign operations; rather, it depends on *how TMT accumulated their experience*. In other words, we need to look at different types of TMT's experience so as to understand when it is a burden or a buffer for subsidiary success in the context of political hazards.

In general, it is well accepted in the IB literature that MNCs counter substantial liability of foreignness in the foreign market, which leads to high costs of doing business abroad (Hymer, 1976; Zaheer, 1995), especially in high-political-hazard countries. To offset such liability of foreignness and perform well in the foreign market, a foreign subsidiary has to develop and exploit its firm-specific advantage (Zaheer, 1995). Following such logic and the upper echelon theory (Hambrick & Mason, 1984), we argue that the performance of the firm (i.e., focal subsidiary) could be seen as a function of how the TMT, aggregated by its individual members, interprets and exploits its previous experience in overcoming liability of foreignness and thus reducing costs associated with political hazards in the focal subsidiary. In particular, we argue that different types of TMT's experience, as important assets for MNCs, will have divergent learning outcomes that distinctively moderate the political hazards–subsidiary performance relationship.

Prior researchers have implicitly highlighted that work experience is a multifaceted concept that varies along several dimensions (see Figure 1a and Figure 1b) (Le & Kroll, 2017; Levitt & March, 1988; Rickley, 2019; Takeuchi, Tesluk, Yun, & Lepak, 2005a). First, experience has a time component, implying “*when*” the experience was accumulated (Le & Kroll, 2017; Levitt & March, 1988; Takeuchi et al., 2005a). At any given time, an experience can be conceptualized as one occurring currently, recently, or a long time ago (see the vertical axis in Figure 1a) (Takeuchi, Wang, & Marinova, 2005b). Scholars of studies in TMT's international experience have used time as a common measure to capture experience (Athanassiou & Nigh, 2000; Carpenter et al., 2001; Herrmann & Datta, 2006; Mohr & Batsakis, 2019; Nuruzzaman, Gaur, & Sambharya, 2019). Similarly, we capture it by calculating the duration of each TMT member's previous experience (Rickley, 2019; Takeuchi et al., 2005a). Second, TMT also differs in the extent of “*where the experience was accumulated*,” the so-called *spatial* dimension of experience (Maitland & Sammartino, 2015;

Rickley, 2019). In the international context, IB researchers have widely recognized the multiplicity of countries with different institutional systems that enable individuals to access diverse knowledge and develop different skills (Eriksson, Johanson, & Sharma, 1997; Johanson & Vahlne, 1977). In this context, by using the focal subsidiary country as a reference, experience could be accumulated either in the local country (i.e., *local experience*) where the focal subsidiary operates, or outside of the focal country (i.e., *international experience*) (see the horizontal axis in Figure 1a) (Eriksson et al., 1997; Johanson & Vahlne, 1977). The local experience emphasizes location-embedded knowledge and capabilities for business operations, while international experience captures the broader knowledge pool and skills of a TMT (Erkelens, Hooff, Huysman, & Vlaar, 2015; Nielsen, 2010). Previous researchers have adequately established that TMT's international experience improves firms' competencies in managing complexities and uncertainties in foreign subsidiaries (e.g., Carpenter & Fredrickson, 2001; Maitland & Sammartino, 2015; Nielsen, 2010). Moving beyond prior international experience, we purposively deconstruct international experience in a more refined way by factoring in the "distance" effect to capture the complex nature of international experience.

***** Figure 1a about here *****

Distance has been the central topic of IB studies for decades. It refers to the extent of similarity or dissimilarity in terms of geography, culture, and institutions between two countries (Berry & Zhou, 2010; Hofstede, 1980; Johanson & Vahlne, 1977; Xu & Shenkar, 2002). Managing distance is the key to foreign success (Fiol & Lyles, 1985; Kostova & Roth, 2002; Zeng et al., 2013). Some scholars argue that when host country institutions or cultures are dissimilar to the focal country, the interpretation and application of prior experience has proven to be an arduous task and can result in mismatching problems that significantly increase the costs of foreign operations (Kostova & Roth, 2002; Perkins, 2014; Trapeczyński

& Banalieva, 2016). Others contend that dissimilarity may bring dissonance, which can stimulate learning (Contractor, Yang, & Gaur, 2016; Le & Kroll, 2017; Song & Shin, 2008) and develop a kind of capability of “managing dissimilarity” (Cuervo-Cazurra et al., 2018; Holburn & Zelner, 2010; Le & Kroll, 2017). Because our study is focused on political hazards, we follow prior distance literature and capture different levels of political instabilities that executives have experienced in the past. In doing so, we define *political hazards distance* as the extent of dissimilarity between political instabilities and uncertainties of two countries.

In addition to the absolute magnitude of distance, recent studies have proposed a need to consider the *direction* of distance, which appreciates the asymmetric effects between positive and negative directions of distance (Hernández & Nieto, 2015; Zaheer et al., 2012). As noted by Trąpczyński and Banalieva (2016), negative and positive institutional distance have contrasting effects on foreign affiliate performance of infant multinationals. Following this, we propose that it is possible that political hazards distance has direction, indicating whether TMT members worked and learned in a country with a higher or lower level of political hazards than the focal country. Such consideration delineates different types of learning from positive and negative directions and acknowledges the asymmetric impacts on firm performance (Trąpczyński & Banalieva, 2016). Especially as shown in Figure 1b, for point B, it denotes a positive direction when TMT members accumulated experience in countries with a higher level of political hazards (i.e., international experience in HPH countries) than the focal country. In contrast, point C shows a negative direction when TMT members accumulated experience in countries with a lower level of political hazards (i.e., international experience in LPH countries). We argue that TMT’s international experience in HPH and LPH countries has asymmetric effects on the management of political hazards in the focal subsidiary. We will discuss further theoretical development in the next section.

***** Figure 1b about here *****

Taken together, we will first develop hypotheses on the moderating effect of duration of both local experience and international experience. Then we further discuss the moderating effect of TMT's international experience in HPH countries and in LPH countries. We propose that different types of TMT's experience will distinctively moderate the relationship between political hazards and subsidiary performance. Figure 2 gives an illustration of our research model.

***** Figure 2 goes about here *****

2.3. The duration of TMT's experience (local experience and international experience)

Learning is an incremental process that takes time (Johanson & Vahlne, 1977). For TMT members, managing a subsidiary without local experience is challenging because of unfamiliarity with the local environment and challenges of legitimacy from different actors, such as shareholders, subordinates, suppliers, and local government (Zaheer, 1995). Time spent in the local country provides TMT with a deeper understanding of business practices, cultural norms, and political environment (Maitland & Sammartino, 2015). In addition, time enhances TMT's development of networks with local partners and political actors (Peng & Luo, 2000) because a strong relationship requires long-term commitment and interactions (Sun, Mellahi, & Wright, 2012). Because political hazards create constant political instabilities in subsidiaries' operations, firms have to pay substantial costs and make great efforts to identify, interpret, and react to disruptive policy changes and protect themselves from government intervention (Delios & Henisz, 2000). However, when subsidiaries with TMT on average have long experience in the local environment, such costs could be offset. With strong locally embedded knowledge and networks, TMT could have access to privileged information on potential changes and political preferences (Holburn & Zelner, 2010); this supports subsidiaries to efficiently interpret and predict changes and be better prepared before changes come into effect. This

is essential in that highly politically hazardous countries as they often lack transparent regulation or strict enforcement of regulations (Cuervo-Cazurra et al., 2018). New operations, especially for foreign firms, normally suffer greatly in a weak institutional environment.

At the same time, we also propose a competitive hypothesis. Although subsidiaries benefit from the long length of TMT's experience accumulated in the local environment, it is possible to witness a contrasting effect. Aligned with upper echelon theory, managers follow bounded rationality assumption (Cyert & March, 1963; Hambrick & Mason, 1984). Studies have shown that managers' bounded rationality may raise cognitive constraints, with which managers tend to search for solutions from their existing knowledge base rather than trying new ideas (Kiesler & Sproull, 1982; March & Simon, 1958). This is evident from the studies on TMT's tenure in which longer tenure in the organization or an industry is associated with a narrower knowledge as a result of stronger commitments to the status quo (Finkelstein & Hambrick, 1990; Herrmann & Datta, 2006) than strategic change (Finkelstein & Hambrick, 1990; Herrmann & Datta, 2006; Wiersema & Bantel, 1992). A similar scenario can be found in our research context. Holding others constant, long-embedded experience in a given environment breeds a mental model that may make TMT feel more comfortable with exploiting their local experience and less aware of the drawbacks of their decisions, resulting in increasing rigidity and resistance to exploring new ideas (Ener, 2019; Staw, Sandelands, & Dutton, 1981; Wiersema & Bantel, 1992). We expect such a constrained mental model will not be helpful in overcoming costs associated with political hazards in a country where the acceptance of flexible adaptations and constant explorations of new solutions are essential mindsets.

Furthermore, TMT's long-term duration in a local context may disconnect them from headquarters, leaving room for TMT members to act opportunistically against the interests

of headquarters (Muellner, Klopff, & Nell, 2017). As with time in the local environment, TMT members' accumulated experience and networks cause them not only to rely less on headquarters' knowledge and resources but also to be resistant to guidance/demands from headquarters (Muellner et al., 2017). Consequently, combining such an opportunistic attitude with the notion of bounded rationality, TMT members' decisions may deviate from the interests of the parent country, worsening the negative impact of political hazards. Based on the aforementioned argument, we propose:

Hypothesis 1a (H1a): The negative relationship between political hazards and subsidiary performance will be weakened as the duration of a TMT's local experience in the focal subsidiary country increases.

Hypothesis 1b (H1b): The negative relationship between political hazards and subsidiary performance will be strengthened as the duration of a TMT's local experience in the focal subsidiary country increases.

Similar to the local experience, a longer period spent overseas (i.e., international experience) broadens a TMT's mindset and solution pool. Researchers have been making increasing efforts in international business with a view to gaining a better understanding of how TMT's international experience contributes to firm performance. In general, TMT members with rich international experience possess a deep knowledge of foreign environments and cultures, the skills to cope with complexities associated with foreign operations, and the global networks necessary for international success (Herrmann & Datta, 2005; Hutzschenreuter & Horstkotte, 2013; Nielsen, 2010; Sambharya, 1996). Over time, the increasingly intensive management skills and diverse networks resulting from the previous international assignment will significantly reduce the costs induced by political hazards. Therefore, despite a high level of political hazards in the focal country,

TMT that, on average, possess long international experience will still be efficient in mitigating the negative impact of political hazards.

At the same time, we also develop a competing hypothesis here. Compared with TMT with short international experience, those with long international experience may rely overly on using prior knowledge and problem-solving patterns consolidated outside of the focal country, even if this may not be adaptable to local political demand (Cyert & March, 1963). Often, some knowledge is “sticky” and developed in a specific context to serve specific stakeholders (Erkelens et al., 2015). This is the case especially in high-political-hazard countries where more location-specific knowledge and skills are required (Erkelens et al., 2015). We expect that a long duration of international experience causes TMT to rely heavily on its prior knowledge and to be less motivated to learn and adapt its mindset to the focal subsidiary. This can be detrimental for foreign subsidiaries because it may lead to inappropriate responses to changing policies and government demand, resulting in substantial penalties. Conversely, TMT with short international experience will be more motivated to explore new ideas and learn from local knowledge rather than rely excessively on prior international experience. Hence, we propose:

Hypothesis 2a (H2a): The negative relationship between political hazards and subsidiary performance will be weakened as the duration of a TMT’s international experience increases.

Hypothesis 2b (H2b): The negative relationship between political hazards and subsidiary performance will be strengthened as the duration of a TMT’s international experience increases.

2.4. The distance and direction of TMT’s international experience

Distance matters in foreign operations (Cuervo-Cazurra, Maloney, & Manrakhan, 2007; Xu & Shenkar, 2002). As mentioned earlier, we divided TMT’s international

experience into that in HPH countries and that in LPH countries. We expect that the former would be more helpful in mitigating the costs caused by political hazards than the latter.

A high level of TMT's international experience in HPH countries means that TMT, on average, has worked in countries that are far more hazardous and uncertain than the focal country. A higher level of political hazards evidences more frequent and unexpected changes in government policies, government intervention in business, and inadequate means of enforcing regulations (Hernández & Nieto, 2015). We suggest that TMT with international experience in HPH countries would possess adequate competencies for managing uncertainties so as to further weaken the baseline performance costs in the subsidiary. Notably, TMT that have experienced more hazardous environments would not only be more sensitive to the adverse signals and better at interpreting political events (Beaulieu, Cosset, & Essaddam, 2006) but would also react to those issues more quickly and responsively (Bourgeois III & Eisenhardt, 1988; Jiménez, Benito-Osorio, Puck, & Klopff, 2018). For example, experienced TMT have been accustomed to interacting with host country politicians in attempts to develop political networks, nurture political strategies (Jiménez et al., 2015), and then influence policy-making (Eisenhardt & Martin, 2000). Meanwhile, through intensive interactions, TMT can gradually enhance their confidence (Cuervo-Cazurra et al., 2018; Sambharya, 1996; Tihanyi et al., 2000). Confidence is crucial for decision-making in highly politically hazardous countries because it motivates TMT to actively anticipate political hazards, be willing to make significant commitments, and take swift actions to capture growth potential (Giambona et al., 2017; Herrmann & Datta, 2005). Therefore, TMT's international experience in HPH countries not only makes them more conscious of the hidden costs and opportunities of

political hazards but also enables them to take effective actions to mitigate the costs and capture the opportunities that would otherwise be ignored by peers (Sun et al., 2012).

In contrast, when subsidiary TMT have only experienced countries with relatively stable environments, they may not be ready and able to respond to the changing environment in the focal country, and they may also feel less confident because they have just experienced the volatile environment for the first time. Consequently, their decisions would be delayed or mismatched, resulting in higher costs or missed business opportunities (Jiménez et al., 2015). In addition, knowledge and skills obtained in a relatively stable environment are not transferrable to a highly dynamic environment (Bourgeois III & Eisenhardt, 1988). In this case, TMT's international experience in LPH countries would be detrimental to the relationship between political hazards and performance. Thus, we contend the following:

Hypothesis 3a (H3a): The negative relationship between political hazards and subsidiary performance will be weakened when TMT members on average have experienced a higher level of political hazards than in the focal country in their careers.

Hypothesis 3b (H3b): The negative relationship between political hazards and subsidiary performance will be strengthened when TMT members on average have experienced a lower level of political hazards than in the focal country in their careers.

3. Methodology

3.1. Data

We tested these hypotheses using panel data on foreign subsidiaries from the Orbis database. This database, compiled by the consulting firm Bureau van Dijk, is widely used in the international business field (Bhaumik, Driffield, & Pal, 2010; Contractor et al., 2016). The Orbis database provides detailed accounting and financial information on listed and unlisted

firms around the globe. More importantly, it records the ownership relationship between headquarters and their foreign subsidiaries. This allows us to match foreign subsidiaries with their headquarters. We used several selection criteria to select our sample subsidiaries: (a) subsidiaries located in foreign countries (i.e., the subsidiary's country is different from its headquarters); (b) subsidiaries whose minimum 20% equity is controlled by a parent firm that should hold the largest equity among all other partners (Makino & Beamish, 1998); and (c) subsidiaries that have complete information on the variables used in this study.

We also sourced the TMT's information from Orbis, which has also been used in recent studies (Albino - Pimentel, Dussauge, & Shaver, 2018; Kulchina, 2017). TMT-level data in Orbis offers diverse information for each TMT member such as name, position, tenure, appointment date, retirement date, gender, age, nationality, résumé, department, and amount of holding equity in the company. In this database, each TMT member has a specific ID number, which allowed us to track their working records in different firms across different countries based on information on the appointment date and retirement date. First, following previous studies (Barkema & Shvyrkov, 2007; Nielsen & Nielsen, 2013; Tihanyi et al., 2000), we identified TMT members who comprised the heads of main functional departments and the firm's main governing body for strategic decisions. We screened TMT members based on the variable "board committee or department" in the Orbis database. We selected TMT members with titles such as "Chief Executive Officer," "Chief Financial Officer," "Chief Marketing Officer," "Chief Operation Officer," "Chief Information Officer," "Financial Controller," "Treasurer," "Executive Committee," and "Senior Management." We also cross-checked with two other items in the database (i.e., "Job Title in English," "Level of Responsibility"). We obtained 1,576,968 records of all possible TMT members and used these to match with the subsidiary-level data, before calculating related variables accordingly. We noted that the missing TMT information in foreign subsidiaries may potentially bias our

results. However, given the large size of our data set, this would not be a major concern. The political hazards information of host countries was collected from the Political Constraint Index (POLCON) Dataset. The other country-level data were collected from the World Bank database. After merging all the data sources, the final sample included 11,292 foreign subsidiaries and 7,287 headquarters covering 53 host economies and 85 industries between 2004 and 2013, resulting in 36,519 total observations. All monetary variables were reported in U.S. dollars.

3.2. Variables

Dependent variables

To measure subsidiary performance, we used return on assets (ROA), calculated as the net profit divided by total assets. ROA has been widely used in the IB literature (Contractor et al., 2016; Lu & Beamish, 2004; Qian, Li, Li, & Qian, 2008). This also helped us compare our results with those of previous studies.

Independent variables.

Political hazards. We employed the POLCON developed by Henisz (2000b) to measure host country political hazards. POLCON has been widely used in the literature (Delios & Henisz, 2003; Demirbag, Glaister, & Tatoglu, 2007a; Jiménez et al., 2018; Khoury, Junkunc, & Mingo, 2015) as a proxy for political hazards. POLCON measures how easily a government can change its rules arbitrarily and the credibility of its commitments to maintaining the policies unchanged. The score of POLCON ranges from 0 to 1. The lower the value, the more political discretion the executive has, and the more easily the existing policies would be changed. Therefore, a lower value implies high political hazards (Henisz, 2000b). To avoid potential confusion in interpreting the results, we reverse-coded POLCON using equation $\text{Political Hazards}_{jt} = 1 - \text{POLCON}_{jt}$ (Holburn & Zelner, 2010). This meant that the

higher the value of Political Hazards_{jt}, the higher the level of political hazards in country *j* in year *t*.

Duration of TMT's local experience. We first counted the length, in years, of each TMT member's working experience in the focal subsidiary country prior to the focal year (Rickleby, 2019). Then we summed the total duration of all TMT members and divided by TMT size in the focal subsidiary. Prior researchers found that TMT size influences the information-processing abilities of the team and thus determines firms' strategic decision-making and performance (Certo, Lester, Dalton, & Dalton, 2006). Therefore, dividing the TMT size makes the variable comparable across different subsidiaries. In this sense, the higher the value of the variable, the longer the TMT's local experience in the focal country.

Duration of TMT's international experience. Following previous literature (Herrmann & Datta, 2002; Mohr & Batsakis, 2019), we first calculated the total number of years each TMT member spent abroad prior to their appointment in the focal subsidiary. Then, we took the mean number of years of the whole TMT for *Duration of TMT's international experience*.

TMT's international experience in HPH countries or LPH countries. As mentioned earlier, we investigated two types of TMT's international experience by considering both political hazards' distance between the focal country and foreign country where the TMT worked in previous years (i.e., prior to the focal year) and the *direction* of such distance. More specifically, for a subsidiary *i* in country *k* in year *t*, we defined *political hazards distance* as the difference of political hazards' scores between country *j*, where a TMT member *m* worked prior to the focal subsidiary, and the focal country *k*, seen in Equation (1),

$$\text{Political hazards distance}_{m j k t} = \text{Political hazards}_{m j t} - \text{Political hazards}_{m k t} \quad (1)$$

Political hazards was measured in the same way as our aforementioned dependent variable. Clearly, the value of *Political hazard distance*_{m j k t} could be positive or negative. Positive direction means that TMT members have experienced a higher level of political

hazards than the focal country in their prior career, while negative direction indicates that TMT members worked in countries with a lower level of political hazards than the focal country. To better separate different effects of negative and positive directions of political hazards distance, we followed Trąpczyński and Banalieva (2016) and divided the TMT's international experience in politically hazardous countries into two variables, namely *TMT's international experience in HPH countries* and *TMT's international experience in LPH countries*. Based on the distance of political hazards, we used the following equations to calculate the two variables:

$$\begin{aligned} & \text{TMT's international experience in HPH countries}_{iT} \\ &= \frac{\sum_{m=1}^M (\sum_{j=1, t=1}^{J, T} \text{Political hazards distance}_{m jkt})}{M_{iT}}, \text{ if Political hazards distance}_{m jkt} \\ &> 0, 0 \text{ otherwise.} \end{aligned} \quad (2)$$

$$\begin{aligned} & \text{TMT's international experience in LPH countries}_{iT} \\ &= \frac{\sum_{m=1}^M (\sum_{j=1, t=1}^{J, T} \text{Political hazards distance}_{m jkt})}{M_{iT}}, \text{ if Political hazards distance}_{m jkt} \leq 0, \\ &0 \text{ otherwise.} \end{aligned} \quad (3)$$

where m denotes TMT member m , M_{iT} denotes the total number of TMT members in subsidiary i at time T , and J denotes the total number of foreign countries in which TMT m worked in previous years. A higher value of TMT's international experience in HPH countries _{iT} indicates that TMT members on average have experienced a higher level of politically hazardous countries than the focal country in their prior careers, and vice versa. It should be noted that, for each foreign subsidiary, *TMT's international experience in HPH countries* and *TMT's international experience in LPH* are not mutually exclusive, and we can have high values on both variables (see an illustrative examples of operationalizing TMT's international experience in Appendix A2).

Control variables

Country- and industry-specific characteristics. We controlled for market factors in different countries, considering that the market environment plays a crucial role in firm performance (Sheng, Zhou, & Li, 2011). First, we controlled both potential market capacity

and market size. The potential market capacity was measured with the GDP growth rate of a given host country sourced from World Development Indicators. The market size was captured using GDP per capita (Laeven & Levine, 2009). In addition, we controlled for industrial competition as an important component of the market environment in a host country. We employed the host country industry concentration to measure the industrial competition in the host country, which was calculated as one minus top-four-firm sales ratio in each industry (Ho, Wu, & Xu, 2011).

Parent-firm-specific characteristics. To measure parent-level international experience in politically hazardous countries, we followed Feinberg and Gupta (2009) and counted the total number of parent firm's foreign subsidiaries in politically hazardous countries. We controlled for parent firm's international experience, which was operationalized as the ratio of the number of overseas subsidiaries to total subsidiaries. We used the number of partners (i.e., owners of the focal subsidiaries, focal parent firm excluded) to control for other partners' influences on the focal subsidiary's decision-making and performance (Meschi & Wassmer, 2013). We also controlled for the parent firm's commitment to the focal subsidiary (Saunders, Strock, & Travlos, 1990), using the percentage of equity in the subsidiary owned by its parent firm. In addition, we included the number of expatriates sent by the parent firm as another linkage between parent firm and subsidiary. The expatriate was identified using the TMT ID number in the Orbis dataset. Finally, we controlled for the parent firm's age as the number of years since the year of its establishment.

Subsidiary-level firm-specific and TMT-specific characteristics. Prior researchers have suggested that several firm heterogeneities may influence subsidiary performance. Thus, we followed prior studies and controlled for slack available, slack potential (Ref & Shapira, 2017), firm age (Jiménez et al., 2018), sales (Sambharya, 1996), capital (Driffield, Love, & Yang, 2016), and intangibles (Chen & Steiner, 1999). Moreover, we also controlled for

several subsidiaries' TMT characteristics. This is because TMT members take more risks when their equity shares are spread over different companies; namely, their risk-taking strategies in foreign countries would have significant impacts on subsidiary performance. In each TMT member's record, we obtained the information on whether the focal TMT member owned a proportion of equity in the focal firm. Thus, we first calculated the total number of companies for which each TMT member held equity in the focal year. Then we controlled for TMT's equity diversity by taking the average number of firms (i.e., excluding the focal MNC) wherein TMT members held shares. In addition, TMT members with diverse nationalities were more likely to manage complexities in different foreign operations, which may have increased subsidiary performance (Kaczmarek & Ruigrok, 2013; Nielsen, 2010). We controlled for TMT's nationalities as the ratio of the total number of foreign TMT members to the total number of TMT members in the focal subsidiary. TMT members with longer tenure may have been more capable of dealing with challenges in the foreign environment. Therefore, we also controlled for TMT's tenure using the average TMT members' tenure (in years) in the focal subsidiary (Herrmann & Datta, 2005). Table 1 has a detailed specification for our variables.

***** Tables 1 goes about here *****

3.3. Estimation method

Our data are nested in parents, subsidiaries, and years. This structure implies that subsidiary performance in certain year may not only be determined by subsidiaries who have autonomy to manage their own business in local markets, but also be influenced by parent firms because subsidiaries' businesses are partly/fully integrated into their parents (Birkinshaw & Morrison, 1995). To adequately account for this multilevel structure, we tested the hypotheses using a hierarchical panel model (Aguinis, Gottfredson, & Culpepper, 2013; Raudenbush & Bryk, 2002) rather than ordinary least square regression analysis. A

hierarchical panel model is an extension of the multiple regression model including nested random coefficients ¹(i.e., hierarchical random coefficient model). ¹ It allows estimations of variance at a lower level meanwhile accounts for cross-level variance (Alcácer, Chung, Hawk, & Pacheco-de-Almeida, 2018).

In our estimations, the hierarchical random coefficient models disentangle the between-subsidiary (lower-level) effect from the between-parent (cross-level) effect, to test for reliable variance in slowing coefficients. Regarding the lower-level effect, subsidiaries' factors are included in regressions to estimate the variance in intercepts and slopes, explaining how subsidiary's characteristics lead to performance differences between subsidiaries. As to the cross-level effects, parent firms' characteristics such as parent firms' age, parents' experience in HPH countries and expatriates, are regressed to estimate across-level variance in intercepts. This reflects how parent firms' characteristics bring in performance differences between subsidiaries coming from different parent firms.

To do so, we regressed all the models with "xtmixed" command in Stata 15. For parent-level factors. All variables in the study are time varying, and all independent variables have been lagged by one year (Lin, 2014). We also added year dummies and industry dummies in the models.

4. Results

4.1. Results of hierarchical random coefficient model

¹ We also checked the results using different model specifications, including home-country fixed effect, host-country fixed effect, and parent-firm fixed effect. Although we could not find consistently significant results in the fixed effect models, it indicates that we should not ignore variances from multi-levels including home country, host country and parent firms. Therefore, we are confident about the specifications of our model (i.e., hierarchical random coefficient model) which considers impacts at different levels (detailed results are available on request).

Tables 2 and 3 report the descriptive statistics of the variables used in our analysis and the matrix of correlations coefficients, respectively. Table 3 shows that the highest correlation coefficient is 0.76. We also examined the variance inflation factors (VIFs) of each model after our regression analyses. All the VIF scores were below 4, which was below the commonly used cutoff of 10, confirming that multicollinearity was not a major issue in our analyses.

***** Tables 2 and 3 go about here *****

Table 4 presents the results of our hierarchical model. Model 1 contains our country-, industry-, and parent-firm-level and subsidiary-level control variables. Model 2 adds our main variable and moderating variables to test the baseline relationship between political hazards and subsidiary performance. Models 3–6 include the interaction terms to test our Hypotheses 1–3. Model 7 is the full model. We conducted Wald tests on the inclusion of the independent variables and interaction terms in each model. The results further confirmed that the inclusion of the main variables and interaction terms significantly fit each model ($p < .05$).

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

In terms of interest, the baseline assumption is a negative relationship between political hazards and subsidiary performance. When political hazards are added in Model 2, its coefficient is significantly negative ($\beta = -0.0875, p < 0.01$), consistent with prior literature (Dai et al., 2013; Lee & Song, 2012; Zhong et al., 2019). This indicates that political hazards create substantial costs, which deter subsidiary performance.

Hypotheses 1a and 1b predict that the negative relationship between political hazards and subsidiary performance is weakened or strengthened, respectively, when the TMT has a long duration of local experience in the focal subsidiary country. As shown in Model 3, there is a positive coefficient of the interaction term *Political Hazards* Duration of TMT's local experience*, but this effect is not significant ($\beta = 0.0044, p > 0.1$). Therefore, neither

Hypothesis 1a nor Hypothesis 1b is supported, suggesting that the duration of TMT's local experience may not be salient for managing the negative impact of political hazards.

Hypotheses 2a and 2b predict that the negative relationship between political hazards and subsidiary performance is weakened or strengthened, respectively, when the TMT has a long duration of international experience. In Model 4, the coefficient on the interaction term *Political Hazards* Duration of TMT's international experience* is significantly negative ($\beta = -0.0207, p < 0.05$), supporting Hypothesis 2b. This confirms that the negative performance impact of political hazards worsens with the increase in duration of the TMT's international experience.

According to Model 5, the coefficient on interaction term *Political Hazards*TMT's international experience in HPH countries* is significantly positive ($\beta = 1.127, p < 0.01$). This confirms our H3a that a TMT that has experienced more politically unstable environments in the past can effectively support the focal subsidiary to mitigate the negative effect of political hazards. When we compared this with Hypothesis 2a, we noted that the time aspect of international experience has a negative moderating effect, while TMT's experience in HPH countries has a positive moderating effect. Given that both are TMT's international experience, such contrasting effects offer a more complex picture of such experience than that offered by past studies that have been focused solely on experience in general (Carpenter et al., 2001; Hutzschenreuter & Horstkotte, 2013; Sambharya, 1996) and highlight that the types of international experience matter to the political hazards–performance relationship.

In addition, Model 6 presents an insignificant interaction term on *Political Hazards*TMT's international experience in LPH countries* ($\beta = 0.0313, p > 0.05$), suggesting that a TMT's experience in more politically stable countries does not have a significant influence on managing negative political hazards' impact. Thus, only Hypothesis 3a is supported.

To further show our moderating effects in visually, we plotted marginal moderating effects based on Models 4 and 5 in Table 4. Figure 3 shows the interaction between political hazards and moderating variables. In Figure 3a, we change the value of the duration of TMT's international experience from low level (i.e., mean) to high level (i.e., the mean plus three standard deviations). The negative slope in Figure 3a supports our Hypothesis 2b, meaning that the negative relationship between political hazards and subsidiary performance is exacerbated when the TMT has a long duration of international experience. In contrast, in Figure 3b, the positive slope (i.e., from mean to mean plus three standard deviations) evidences that the negative relationship between political hazards and subsidiary performance is weakened when the TMT, on average, has a high level of international experience in HPH countries, which lends support to Hypothesis 3a.

***** Figure 3 goes about here *****

4.2. Robustness checks

To further validate our results, we conducted some robustness checks with alternative measurements and estimation methods. We present the results in Tables 5, 6, 7 and 8. First, subsidiary performance may be sensitive to ownership by parent firms (Tang & Rowe, 2012; Zhao & Luo, 2002). Therefore, we identified foreign subsidiaries using 95% (wholly owned) (Delios & Beamish, 2001) and 50% ownership (Makino & Beamish, 1998) as sample thresholds and reran our models respectively with the same specifications as Table 4. As shown in Table 5, the interaction terms *Political Hazards*Duration of TMT's international experience* (Models 3 and 8) are significantly negative, the interaction terms *Political Hazards*TMT's international experience in HPH countries* (Models 4 and 9) are significantly positive, and the interaction term *Political Hazards*TMT's international experience in LPH countries* (Models 5 and 10) are not significant. These results are clearly consistent with the result in Table 4 and confirm that our findings are robust to different ownership thresholds.

Second, we also changed the measurements of our dependent variable and reran our models. To do so, we included return on capital employed using net income (ROCE) and return on equity using profit before tax (ROE) as alternatives. In Models 1 and 6 of Table 6, the negative and significant results between political hazards and subsidiary performance lend further support to our baseline assumption. As shown in Models 4, 5, 9 and 10, we also find strong support for H3a and H3b with different measurements of the dependent variable. However, we did not find further support for H2b, which may indicate that the effect of duration of international experience would be different across different performance measurements.

Third, there is a concern that the significant results in our study are driven by a single POLCON value of a country that has a high share of subsidiaries in our samples (i.e., China). To address the oversampled concern in China, we added a control variable, which indicates whether a subsidiary is located in China (i.e., *Location in China dummy* equals one if a subsidiary is located in China, and zero otherwise) and reran our models. According to the results in Table 7, the effect of *Location in China dummy* is significant in all models and the results are still consistent with results in Table 4. Therefore, such concern is relaxed.

Fourth, we practiced a panel random regression model to estimate all the hypotheses. As shown in Table 7, the results are all consistent with the results in Table 4.

***** Table 5, 6, 7 and 8 go about here *****

Lastly, there is an endogeneity concern that subsidiaries with low performance get highly experienced TMT assigned by the headquarters. To address this concern, we split the sample subsidiaries into two sub-groups based on their profitability. In doing so, we identified a subsidiary as profitable if its ROA was above zero, otherwise identified as unprofitable. Next, we reran our main models in Table 4 for the two groups. The results show that there is no significant results in the nonprofitable groups which supports the idea that low performance

subsidiary did not get highly experienced TMT who are able to mitigate costs associated with political hazards (results are available on request). As profitability plays a role, we also controlled for the subsidiary's profitability with the measurement of earnings before interest and tax (EBIT) in all regressions and reran our main results. Results are still similar to our main results in Table 4 (results are available on request). Therefore, such an endogeneity concern should not be a major issue for our research.

5. Discussion and conclusion

We aimed to investigate when local TMT's experience is effective in managing political hazards and thus increases subsidiary performance. Through a sample of foreign subsidiaries across 53 countries, we have confirmed the significant contingent roles of TMT's experience in the relationship between political hazards and subsidiary performance. In particular, our results verify that political hazards inhibit subsidiary performance. However, such a negative relationship is significantly exacerbated when the duration of TMT's international experience is, on average, long. In contrast, we have also demonstrated that the negative impact of political hazards on subsidiary performance is significantly mitigated when TMT members, on average, have worked in countries with a higher level of political hazards than the focal country. Our study contributes to the literature on political hazards, TMT, and international business in several ways.

First, the focus on the contingent role of TMT in the relationship between political hazards and subsidiary performance moves beyond political hazards research that has largely constituted investigations into the direct impact of political hazards on firm performance, with inconclusive findings (Dai et al., 2013; Getachew & Beamish, 2017; Jiménez & Delgado-García, 2012; Liu et al., 2016). However, faced with highly uncertain environments, "Firms develop capabilities as their managers and employees learn by accumulating experiential knowledge" (Cuervo-Cazurra et al., 2018: 53). "What managers learn- and their

interpretations- depends heavily on previously acquired knowledge, that is, learning is affected by prior experience” (Vahlne & Johanson, 2017: 1094). Until recently, several scholars, such as Giambona et al. (2017) and Buckley, Chen, Clegg, and Voss (2018), have pointed out the important role of the TMT’s experience and risk preferences in overseas risk management. In line with this, and through integrating the institution-based view with upper echelon theory, we offer an important justification for the prior mixed findings by demonstrating that whether political hazards inhibit or improve subsidiary performance depends on the different types of TMT’s experience. Particularly, we find that the impact of the duration of TMT’s local experience is not significant, while the duration of TMT’s international experience worsens the negative impact of political hazards. In contrast, TMT’s international experience in HPH countries significantly mitigates the negative impact of political hazards. Such significant moderations of TMT’s experience underscore the importance of considering human factors, especially top managers, in improving our understanding of the political hazards–subsidiary performance relationship.

Second, the contrasting moderations of different types of TMT’s experience provide fruitful insights into the multifaceted and heterogeneous effects of TMT’s experience, extending TMT experience literature. On the one hand, the present study confirms upper echelon theory by acknowledging that TMT’s experience matters in terms of international success (Hambrick & Mason, 1984). On the other hand, and more importantly, we advance the TMT experience literature by suggesting that TMT’s experience is a multidimensional construct that should consider multiple components in conceptualizing TMT’s experience impact. This shares similar interests with the emerging call for the deconstruction of managers’ career experience (Rickleby, 2019). In addition, the examination of multifaceted experience advances prior literature whose authors mainly assumed the homogenous and facilitating role of TMT’s experience in internationalization

(Herrmann & Datta, 2005; Nielsen, 2010; Piaskowska & Trojanowski, 2014; Sambharya, 1996). Notably, we suggest that TMT's experience does not homogeneously contribute to international success but depends on the different interplays between different types of TMT's experience and political hazards. We conclude that TMT with extensive international experience in HPH countries will facilitate political hazards management and increase the subsidiary's overall performance. In this we share similar ideas with Cuervo-Cazurra et al. (2018) and Holburn and Zelner (2010) and also build on their thesis that managers develop uncertainty capabilities not only at home but also through accumulating experience in HPH countries outside of the home country. In contrast, we also find that the duration of local experience is not effective; this differs from prior firm-level studies indicating host country experience as a buffer for political hazards (Delios & Henisz, 2000). Meanwhile, we also find that the increased duration of TMT's international experience does not mitigate the negative impact of political hazards but works oppositely by exponentially reducing the TMT's extent of flexibility and adaptability: two crucial concepts for surviving in a politically hostile environment. Taken together, our comprehensive theorization of TMT's experience in the study has demonstrated a novel and in-depth picture of when TMT's experience contributes to international success in the context of political hazards.

Third, our findings on the asymmetric effects of TMT's international experience complement prior studies, which implicitly assumed that the precondition of effective experience and capability transfer is context similarity (Fiol & Lyles, 1985; Kostova & Roth, 2002; Perkins, 2014; Trąpczyński & Banalieva, 2016). We advance this idea and suggest that under the condition of political hazards, the high level of "dissimilarity" in terms of political hazards distance could have a positive learning effect when we also combine it with the direction of distance. More specifically, we suggest that when TMT

experience countries that are far more politically unstable than the focal country, such a high political hazards–low political hazards pattern improves their capability to cope with other highly dynamic environments. On the one hand, this indicates that dissimilarity is not always a burden for knowledge/experience transfer but sometimes serves as a training ground for developing capabilities of managing dynamics and uncertainties (Belderbos, Du, & Goerzen, 2017). On the other hand, we also echo the recent studies whose authors called for adding the “direction” of distance to better examine the asymmetric effects of distance (Hernández & Nieto, 2015; Zaheer et al., 2012).

Furthermore, the operationalization of TMT’s international experience in HPH countries and in LPH countries has important implications for measuring international experience in IB studies. By explicitly capturing both the magnitude and direction of distance effect in international experience, the refined measurements make it possible to investigate asymmetry effects of TMT’s international experience (Hernández & Nieto, 2015; Perkins, 2014), extending the profiling of TMT’s experience in a more delicate way. Such an attempt offers a strong case for future TMT experience studies, improving our theoretical understanding of how different types of TMT’s experience distinctively affect firms’ strategy and performance (Le & Kroll, 2017).

5.1. Implications

Our findings have important implications for practitioners in managing political hazards. First, our study confirms the important role of local TMT in affecting the performance of a foreign subsidiary with a high level of political hazards. For managers in the MNC parent, it is not just focusing on the TMT in the headquarters that has been widely suggested in the prior literature (Carpenter et al., 2001); it is also important to consider local TMT’s experience to obtain superior subsidiary performance because they are direct decision-makers in knowing the local environment, reporting to headquarters, and executing strategic actions.

Second, given the importance of having a proper TMT for foreign operation, our findings suggest that we should be careful in considering TMT's experience as a criterion for hiring, managing, or developing a TMT in the context of political hazards. In general, while international experienced managers are seen as indispensable for today's firms (Rickleby, 2019), our divergent moderation findings suggest that TMT's experience is not always beneficial in buffering the negative impact of political hazards but depends on the types of experience. More specifically, our study has evidenced that TMT's long duration of experience in other foreign countries may be harmful in the context of high level of political hazards. Managers should bear in mind that having TMT members who were deeply embedded in other foreign countries may inhibit their foreign subsidiary's flexibilities to respond to the unique and highly changeable environment. In addition, to cope with high political hazards, managers should consider executives with international experience in HPH countries as an important criterion for attracting, developing, and retaining individuals. Being more cognizant of the hazardous conditions, TMT with international experience in HPH countries could not only improve subsidiaries' agility in mitigating potential hazards but also leverage their knowledge and networks to efficiently capture local opportunities. Finally, managers should also be aware that TMT with long duration of local experience or with international experience in LPH countries would be not as useful as generally assumed in the context of political hazards.

6. Limitations and future research

Despite the several strengths reported in the study, some limitations can be identified to offer opportunities for future research. First, in the current study we focused on the contingent role of TMT's experience in the subsidiary. It would be promising to apply our categorization of TMT's experience to the parent-firm level and assess whether the results found here are

consistent across the different levels of the organization (Czinkota, Knight, Liesch, & Steen, 2010). More interestingly, it would be useful to explore the difference between TMT's experience in the headquarters and that in the foreign subsidiary and to what extent such difference can improve or harm subsidiary performance. Potentially, we would argue that shared experience within an MNC can benefit local business operations because it makes the decision-making more efficient and responsive in a dynamic environment. We believe all these angles can certainly provide a comprehensive understanding of how TMT at different levels can work together for subsidiaries' business success. They will also shed light on how to develop customized human resources development schemes within MNCs for the management of political hazards faced by foreign subsidiaries. Second, as noted, we hypothesized the duration of TMT's local experience based on bounded rationality assumption and opportunistic assumption. However, we cannot confirm which rationale is working in our study, given we mainly follow upper echelon that is based on bounded rationality assumption. We still believe it is a potential avenue for future study to tease out either of the assumptions, which speaks to the question that managers are "irrational and flawed" or "rational and opportunistic." Third, in addition to the dynamics of individuals' experience discussed in the study, there naturally follows an interesting question worthy of future research, namely, how about the dynamics of political hazards in the host country? We believe the investigation of the interactions between TMT's experience and the variance of political hazards could bring new insights to explain heterogeneities of subsidiary performance. Fourth, we changed the measurement of political hazards using International Country Risk Guide and Political IV and reran our results in Table 5. The main results still hold while moderating results vary (results are available on request). After a comprehensive investigation of different measurements for political institutions, we realized a huge variance

across different measures.² Although we are confident that our measurement (i.e., POLCON) is aligned with our theories, we think it is worth launching future studies to investigate the differences across different measures that highlight different aspects of political institutions. Such an attempt could help us make political hazard studies comparable. Fifth, because this is the initial attempt to categorize TMT's experience, we only examine the length of time in TMT's experience. We also note that recent experience may differ from distant experience, which would complicate our findings (Li, Guo, & Xu, 2017). Future scholars could continue this line of research and incorporate the recency aspect of TMT's experience. We believe this could further improve our understanding of the temporal/time dimension of TMT's experience.

² We also reran our model using related measures from <https://qog.pol.gu.se/data> (i.e., Stability of Democratic Institutions, Political stability and Democratic Political Culture) and our results vary across different measures (for brevity, results are available based on request). We noticed that our findings for the hypothesized relationships are specific to POLCON measure.

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TABLES

Table 1 Operationalization of variables

Variable	Operationalization	Source
Subsidiary performance	The focal subsidiary's return on assets.	Orbis
Political hazards	One minus Polconiii in the Political Constraint Index (POLCON) Dataset (2017 Data Release).	POLCON
Duration of TMT's local experience	The duration of subsidiary TMT's previous experience in the focal subsidiary country.	Orbis
Duration of TMT's international experience	The duration of subsidiary TMT's previous experience in countries outside of focal subsidiary country.	Orbis
TMT's international experience in HPH countries	Sum of the scores for each TMT member who experienced in HPH countries in previous years and then divided by TMT size.	Orbis
TMT's international experience in LPH countries	Sum of the scores for each TMT member who experienced in LPH countries in previous years and then divided by TMT size.	Orbis
GDP growth rate	The host country's GDP per capita (%).	WDI
GDP per capita	The logarithm of the host country's GDP per capita (US\$).	WDI
Local country industry competition	One minus top-four-firm sales concentration ratio in two-digit industry in the host country.	Orbis
Expatriates from headquarters	The number of TMT members dispatched from the headquarter to the focal subsidiary. The logarithm transformation was applied.	Orbis
Parent firm's experience in high-risk countries	The number of Parent firm's foreign subsidiaries that are in high-political-hazard countries. The logarithm transformation was applied.	POLCON, Orbis
Number of partners	The logarithm of the total number of partners (focal parent excluded) who have equity ownership of the focal subsidiary.	Orbis
Ownership by parent firm	The level of ownership controlled by the focal parent in the prior year (%).	Orbis
Parent firm's age	The logarithm of the parent firm's duration of the existence since the date of establishment.	Orbis
Parent firm's international experience	The ratio of the number of overseas subsidiaries to total subsidiaries.	Orbis
Slack available	The logarithm of the focal subsidiary's current assets to current liabilities ratio.	Orbis
Slack potential	The focal subsidiary's debt to equity ratio.	Orbis
Subsidiary age	The logarithm of the focal subsidiary's duration of the existence since the date of establishment.	Orbis
Subsidiary sales	The logarithm of the focal subsidiary's total sales.	Orbis
Subsidiary capital	The logarithm of the focal subsidiary's total fixed capital divided by the number of employees.	Orbis
Subsidiary intangible assets	The logarithm of the focal subsidiary's intangible assets (US\$).	Orbis
Subsidiary TMT's equity diversity	The average number of firms (excluding the focal subsidiary) where TMT members hold shares.	Orbis
Subsidiary TMT's nationalities	The ratio of the number of foreign TMT members to total TMT members.	Orbis
Subsidiary TMT's tenure	The average of TMT members' tenure in the focal subsidiary. The logarithmic transformation was applied.	Orbis

Table 2 Descriptive statistics

	Mean	St.Dev
Subsidiary performance	.02	.151
Political hazards	.604	.168
Duration of TMT's local experience	4.557	3.479
Duration of TMT's international experience	.422	1.285
TMT's international experience in HPH countries	.014	.051
TMT's international experience in LPH countries	-.02	.056
GDP growth rate	2.781	3.631
GDP per capital	9.954	.997
Local country industry competition	.713	.146
Expatriates from parent firm	.148	.378
Parent firm's experience in high-risk countries	1.29	1.548
Number of partners	.326	.551
Ownership by parent firm	.831	.241
Parent firm's age	3.228	1.113
Parent firm's international experience	.91	.205
Slack available	1.057	.822
Slack potential	.746	1.335
Subsidiary age	2.204	.987
Subsidiary sales	14.518	4.795
Subsidiary capital	9.905	3.529
Subsidiary intangible assets	4.736	6.082
Subsidiary TMT's equity diversity	.11	.276
Subsidiary TMT's nationalities	.386	.401
Subsidiary TMT's tenure	1.377	.737

Table 3 Correlation matrix

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)	(21)	(22)	(23)	(24)	
(1) Subsidiary performance	1.000																								
(2) Political hazards	-0.024	1.000																							
(3) Duration of TMT's local experience	0.040	0.111	1.000																						
(4) Duration of TMT's international experience	0.031	-0.149	0.093	1.000																					
(5) TMT's international experience in HPH countries	0.017	-0.385	-0.114	0.297	1.000																				
(6) TMT's international experience in LPH countries	-0.014	-0.062	-0.036	-0.316	-0.120	1.000																			
(7) GDP growth rate	0.034	-0.118	-0.066	0.005	0.050	0.053	1.000																		
(8) GDP per capital	-0.048	-0.231	0.141	0.090	0.103	-0.077	-0.130	1.000																	
(9) Local country industry competition	-0.011	-0.014	0.011	0.004	0.004	0.000	0.077	0.012	1.000																
(10) Expatriates from parent firm	0.028	-0.009	0.146	0.226	0.033	-0.191	-0.040	0.158	-0.020	1.000															
(11) Parent firm's experience in high-risk countries	0.007	0.128	0.098	-0.004	-0.007	-0.053	-0.066	0.063	0.009	0.168	1.000														
(12) Number of partners	0.002	0.065	0.027	-0.019	-0.027	-0.009	0.013	-0.134	-0.017	0.136	0.295	1.000													
(13) Ownership by parent firm	0.002	-0.020	-0.026	0.014	-0.009	-0.030	-0.010	0.070	0.023	-0.086	-0.108	-0.335	1.000												
(14) Parent firm's age	0.001	0.014	0.082	-0.018	-0.024	0.030	-0.008	0.034	0.081	-0.011	0.299	0.056	0.031	1.000											
(15) Parent firm's international experience	0.008	-0.001	0.000	-0.010	-0.004	-0.025	0.004	-0.024	0.023	-0.038	0.137	-0.058	0.022	0.011	1.000										
(16) Slack available	0.086	-0.015	0.036	-0.007	0.006	0.006	-0.020	-0.005	0.010	-0.010	-0.034	-0.040	0.015	0.024	-0.007	1.000									
(17) Slack potential	-0.140	0.050	-0.003	-0.035	-0.059	0.018	-0.018	0.047	0.021	0.020	0.014	0.005	0.006	-0.028	-0.006	-0.272	1.000								
(18) Subsidiary age	-0.005	0.008	0.239	-0.004	0.007	-0.044	-0.029	0.116	0.047	0.059	0.194	0.139	0.001	0.261	-0.001	0.050	-0.048	1.000							
(19) Subsidiary sales	0.009	0.044	0.043	-0.040	-0.014	-0.014	-0.002	0.141	0.037	0.053	0.292	0.226	-0.074	0.145	-0.021	-0.198	0.117	0.278	1.000						
(20) Subsidiary capital	-0.124	0.004	0.007	-0.010	-0.017	0.017	-0.018	0.036	0.076	0.018	0.130	0.153	-0.071	0.058	-0.029	-0.131	0.131	0.054	0.255	1.000					
(21) Subsidiary intangible assets	-0.078	-0.042	-0.080	-0.012	0.022	0.029	0.003	-0.024	-0.006	-0.032	0.100	0.181	-0.064	0.021	-0.003	-0.147	0.068	0.013	0.368	0.320	1.000				
(22) Subsidiary TMT's equity diversity	0.019	-0.001	-0.008	0.065	-0.012	0.037	0.030	-0.135	-0.008	0.030	-0.123	0.019	-0.101	-0.061	0.003	-0.017	-0.031	-0.091	-0.117	-0.046	0.006	1.000			
(23) Subsidiary TMT's nationalities	-0.003	-0.176	-0.107	0.207	0.210	-0.165	-0.004	0.195	0.016	-0.003	-0.175	-0.219	0.120	0.068	0.007	0.030	-0.065	-0.030	-0.094	-0.089	-0.122	-0.053	1.000		
(24) Subsidiary TMT's tenure	0.034	0.127	0.760	0.046	-0.135	0.016	-0.057	0.104	0.005	0.073	0.035	-0.005	-0.004	0.095	0.001	0.040	-0.006	0.310	0.057	-0.013	-0.096	0.002	-0.066	1.000	

Table 4 Hierarchical random coefficient model for political hazards and subsidiary performance

	(1) Model 1	(2) Model 2	(3) Model 3	(4) Model 4	(5) Model 5	(6) Model 6	(7) Model 7
<i>Direct effects</i>							
Political hazards		-0.0857*** (0.0167)	-0.101*** (0.0244)	-0.0788*** (0.0170)	-0.0952*** (0.0169)	-0.0853*** (0.0169)	-0.114*** (0.0250)
Duration of TMT's local experience		0.00170*** (0.000561)	-0.000870 (0.00311)	0.00173*** (0.000561)	0.00173*** (0.000561)	0.00170*** (0.000561)	-0.00218 (0.00313)
Duration of TMT's international experience		0.00137 (0.000847)	0.00140* (0.000848)	0.0127** (0.00557)	0.00115 (0.000850)	0.00137 (0.000847)	0.0157*** (0.00577)
TMT's international experience in HPH countries		-0.00617 (0.0256)	-0.00745 (0.0256)	-0.0221 (0.0267)	-0.519*** (0.163)	-0.00704 (0.0265)	-0.601*** (0.167)
TMT's international experience in LPH countries		0.00358 (0.0165)	0.00363 (0.0165)	-0.00337 (0.0169)	0.00621 (0.0166)	-0.0151 (0.148)	0.177 (0.155)
<i>Moderating effects</i>							
Political hazards* Duration of TMT's local experience			0.00440 (0.00524)				0.00679 (0.00528)
Political hazards* Duration of TMT's international experience				-0.0207** (0.0101)			-0.0266** (0.0104)
Political hazards*TMT's international experience in HPH countries					1.127*** (0.353)		1.275*** (0.363)
Political hazards*TMT's international experience in LPH countries						0.0313 (0.246)	-0.300 (0.258)
<i>Controls</i>							
<i>Country level</i>							
GDP growth rate	0.00261*** (0.000376)	0.00193*** (0.000501)	0.00197*** (0.000503)	0.00191*** (0.000501)	0.00182*** (0.000502)	0.00193*** (0.000502)	0.00187*** (0.000505)
GDP per capital	-0.0138*** (0.00180)	-0.0163*** (0.00259)	-0.0163*** (0.00259)	-0.0163*** (0.00259)	-0.0172*** (0.00261)	-0.0163*** (0.00260)	-0.0172*** (0.00262)
<i>Industry level</i>							
Host country industry competition	0.0168** (0.00836)	0.0145 (0.0113)	0.0145 (0.0113)	0.0146 (0.0113)	0.0146 (0.0113)	0.0145 (0.0113)	0.0146 (0.0113)
<i>Parent level</i>							
Parent firm's experience in high-risk countries	0.000641 (0.000965)	0.000775 (0.00123)	0.000797 (0.00123)	0.000781 (0.00123)	0.000769 (0.00123)	0.000772 (0.00123)	0.000839 (0.00123)

Number of partners	0.000180 (0.00167)	-0.000224 (0.00232)	-0.000237 (0.00232)	-0.000257 (0.00232)	-1.84e-05 (0.00232)	-0.000222 (0.00232)	-6.97e-05 (0.00232)
Parent firm's age	0.00115 (0.00123)	0.000191 (0.00154)	0.000195 (0.00154)	0.000214 (0.00154)	8.79e-05 (0.00155)	0.000192 (0.00154)	0.000105 (0.00154)
Parent firm's international experience	0.00980 (0.00597)	0.00471 (0.00764)	0.00472 (0.00764)	0.00429 (0.00764)	0.00480 (0.00764)	0.00471 (0.00764)	0.00435 (0.00764)
Expatriates from parent firm	0.00499*** (0.00159)	0.00580*** (0.00211)	0.00577*** (0.00211)	0.00590*** (0.00211)	0.00583*** (0.00211)	0.00580*** (0.00211)	0.00588*** (0.00211)
Ownership by parent firm	-0.00838** (0.00400)	-0.00253 (0.00525)	-0.00262 (0.00525)	-0.00261 (0.00525)	-0.00183 (0.00525)	-0.00252 (0.00525)	-0.00206 (0.00525)
<i>Subsidiary level</i>							
Slack available	0.00776*** (0.00130)	0.00869*** (0.00178)	0.00870*** (0.00178)	0.00868*** (0.00178)	0.00855*** (0.00178)	0.00869*** (0.00178)	0.00855*** (0.00178)
Slack potential	-0.00945*** (0.000493)	-0.00839*** (0.000666)	-0.00839*** (0.000666)	-0.00838*** (0.000666)	-0.00841*** (0.000666)	-0.00839*** (0.000666)	-0.00839*** (0.000666)
Subsidiary age	-0.00264** (0.00106)	-0.00517*** (0.00146)	-0.00519*** (0.00146)	-0.00514*** (0.00146)	-0.00530*** (0.00146)	-0.00517*** (0.00146)	-0.00526*** (0.00146)
Subsidiary sales	0.00605*** (0.000451)	0.00668*** (0.000592)	0.00668*** (0.000592)	0.00667*** (0.000592)	0.00683*** (0.000594)	0.00668*** (0.000592)	0.00683*** (0.000594)
Subsidiary capital	-0.00454*** (0.000342)	-0.00488*** (0.000467)	-0.00489*** (0.000467)	-0.00486*** (0.000467)	-0.00485*** (0.000467)	-0.00488*** (0.000467)	-0.00485*** (0.000467)
Subsidiary intangible assets	-0.00117*** (0.000125)	-0.00136*** (0.000172)	-0.00136*** (0.000172)	-0.00136*** (0.000172)	-0.00137*** (0.000172)	-0.00136*** (0.000172)	-0.00137*** (0.000172)
Subsidiary TMT's equity diversity	-0.00269 (0.00412)	0.00882 (0.00576)	0.00881 (0.00576)	0.00914 (0.00577)	0.00888 (0.00576)	0.00881 (0.00576)	0.00932 (0.00577)
Subsidiary TMT's nationalities	-0.00384* (0.00221)	-0.000494 (0.00328)	-0.000495 (0.00328)	-0.000614 (0.00328)	-0.000828 (0.00328)	-0.000477 (0.00328)	-0.00119 (0.00328)
Subsidiary TMT's tenure	0.00452*** (0.00112)	0.00197 (0.00263)	0.00210 (0.00263)	0.00185 (0.00263)	0.00210 (0.00263)	0.00197 (0.00263)	0.00211 (0.00263)
Constant	0.141*** (0.0252)	0.196*** (0.0371)	0.206*** (0.0389)	0.193*** (0.0372)	0.208*** (0.0373)	0.197*** (0.0371)	0.219*** (0.0391)
Observations	36,519	20,296	20,296	20,296	20,296	20,296	20,296
Number of groups	7,287	5,378	5,378	5,378	5,378	5,378	5,378

Notes: Dependent variable is subsidiary performance. Values in parentheses are robust standard errors. Significance levels: *0.1; **0.05; ***0.01.

Table 5 Robustness checks: Subsidiary owned by parent firm with 50% (majority-owned) and 95% (wholly owned) ownership

	Parent firms own 50%					Parent firms own 95% (wholly owned)				
	(1) Model 1	(2) Model 2	(3) Model 3	(4) Model 4	(5) Model 5	(6) Model 6	(7) Model 7	(8) Model 8	(9) Model 9	(10) Model 10
<i>Direct effects</i>										
Political hazards	-0.0831*** (0.0180)	-0.0823*** (0.0259)	-0.0746*** (0.0184)	-0.0939*** (0.0184)	-0.0818*** (0.0183)	-0.114*** (0.0222)	-0.0842*** (0.0310)	-0.103*** (0.0227)	-0.123*** (0.0225)	-0.113*** (0.0225)
Duration of TMT's local experience	0.00171*** (0.000574)	0.00185 (0.00332)	0.00174*** (0.000575)	0.00175*** (0.000574)	0.00171*** (0.000574)	0.00298*** (0.000682)	0.00877** (0.00422)	0.00302*** (0.000682)	0.00300*** (0.000682)	0.00298*** (0.000682)
Duration of TMT's international experience	0.00139 (0.000861)	0.00139 (0.000862)	0.0144** (0.00568)	0.00118 (0.000864)	0.00139 (0.000861)	0.000694 (0.000990)	0.000614 (0.000991)	0.0146** (0.00640)	0.000522 (0.000992)	0.000696 (0.000990)
TMT's international experience in HPH countries	-0.00686 (0.0259)	-0.00680 (0.0259)	-0.0248 (0.0270)	-0.518*** (0.165)	-0.00983 (0.0268)	-0.0258 (0.0314)	-0.0232 (0.0315)	-0.0458 (0.0327)	-0.459** (0.198)	-0.0286 (0.0324)
TMT's international experience in LPH countries	0.00675 (0.0167)	0.00674 (0.0167)	-0.00106 (0.0170)	0.00929 (0.0167)	-0.0585 (0.152)	0.00718 (0.0192)	0.00657 (0.0192)	-0.00188 (0.0196)	0.00924 (0.0192)	-0.0572 (0.178)
<i>Moderating effects</i>										
Political hazards* Duration of TMT's local experience		-0.000241 (0.00560)					-0.00983 (0.00706)			
Political hazards* Duration of TMT's international experience			-0.0238** (0.0103)					-0.0254** (0.0116)		
Political hazards*TMT's international experience in HPH countries				1.121*** (0.357)					0.954** (0.430)	
Political hazards*TMT's international experience in LPH countries					0.109 (0.253)					0.108 (0.297)
<i>Controls</i>										
<i>Country level</i>										
GDP growth rate	0.00214*** (0.000524)	0.00213*** (0.000526)	0.00211*** (0.000524)	0.00201*** (0.000525)	0.00212*** (0.000525)	0.00216*** (0.000614)	0.00206*** (0.000617)	0.00212*** (0.000614)	0.00205*** (0.000616)	0.00214*** (0.000616)
GDP per capital	-0.0172*** (0.00279)	-0.0172*** (0.00279)	-0.0173*** (0.00279)	-0.0183*** (0.00281)	-0.0174*** (0.00281)	-0.0141*** (0.00361)	-0.0144*** (0.00361)	-0.0140*** (0.00360)	-0.0148*** (0.00362)	-0.0142*** (0.00362)
<i>Industry level</i>										
Host country industry competition	0.0145 (0.0115)	0.0145 (0.0115)	0.0145 (0.0115)	0.0146 (0.0115)	0.0145 (0.0115)	0.00796 (0.0135)	0.00799 (0.0135)	0.00783 (0.0135)	0.00817 (0.0135)	0.00797 (0.0135)
<i>Parent level</i>										

Parent firm's experience in high-risk countries	0.000203 (0.00128)	0.000202 (0.00128)	0.000207 (0.00128)	0.000200 (0.00128)	0.000190 (0.00128)	0.000415 (0.00150)	0.000386 (0.00150)	0.000391 (0.00150)	0.000429 (0.00150)	0.000405 (0.00150)
Number of partners	0.00215 (0.00260)	0.00215 (0.00260)	0.00210 (0.00260)	0.00240 (0.00260)	0.00216 (0.00260)	0.00189 (0.00345)	0.00192 (0.00345)	0.00186 (0.00345)	0.00213 (0.00345)	0.00188 (0.00345)
Parent firm's age	-2.49e-05 (0.00159)	-2.52e-05 (0.00159)	-2.21e-07 (0.00159)	-0.000131 (0.00159)	-2.33e-05 (0.00159)	-8.29e-05 (0.00177)	-8.65e-05 (0.00177)	-7.77e-05 (0.00177)	-0.000190 (0.00177)	-8.37e-05 (0.00177)
Parent firm's international experience	0.00526 (0.00792)	0.00526 (0.00792)	0.00474 (0.00792)	0.00541 (0.00792)	0.00524 (0.00792)	0.00159 (0.00897)	0.00156 (0.00897)	0.00114 (0.00897)	0.00168 (0.00897)	0.00156 (0.00897)
Expatriates from parent firm	0.00556*** (0.00215)	0.00556*** (0.00215)	0.00565*** (0.00215)	0.00558*** (0.00215)	0.00557*** (0.00215)	0.00732*** (0.00267)	0.00738*** (0.00267)	0.00739*** (0.00267)	0.00731*** (0.00267)	0.00731*** (0.00267)
Ownership by parent firm	-0.00930 (0.00602)	-0.00930 (0.00602)	-0.00944 (0.00602)	-0.00859 (0.00602)	-0.00927 (0.00602)	0.333** (0.145)	0.330** (0.145)	0.340** (0.145)	0.325** (0.145)	0.334** (0.145)
<i>Subsidiary level</i>										
Slack available	0.00859*** (0.00182)	0.00859*** (0.00182)	0.00858*** (0.00182)	0.00845*** (0.00182)	0.00859*** (0.00182)	0.00695*** (0.00207)	0.00691*** (0.00207)	0.00692*** (0.00207)	0.00688*** (0.00207)	0.00694*** (0.00207)
Slack potential	-0.00846*** (0.000677)	-0.00846*** (0.000677)	-0.00845*** (0.000677)	-0.00847*** (0.000677)	-0.00846*** (0.000677)	-0.00868*** (0.000784)	-0.00867*** (0.000784)	-0.00867*** (0.000784)	-0.00868*** (0.000784)	-0.00868*** (0.000784)
Subsidiary age	-0.00579*** (0.00150)	-0.00579*** (0.00150)	-0.00576*** (0.00150)	-0.00592*** (0.00150)	-0.00581*** (0.00150)	-0.00747*** (0.00178)	-0.00734*** (0.00178)	-0.00748*** (0.00178)	-0.00754*** (0.00178)	-0.00749*** (0.00178)
Subsidiary sales	0.00641*** (0.000614)	0.00641*** (0.000614)	0.00639*** (0.000614)	0.00658*** (0.000617)	0.00642*** (0.000615)	0.00652*** (0.000744)	0.00653*** (0.000744)	0.00651*** (0.000743)	0.00662*** (0.000745)	0.00652*** (0.000744)
Subsidiary capital	-0.00486*** (0.000477)	-0.00486*** (0.000477)	-0.00484*** (0.000477)	-0.00484*** (0.000477)	-0.00486*** (0.000477)	-0.00519*** (0.000559)	-0.00518*** (0.000559)	-0.00516*** (0.000559)	-0.00518*** (0.000559)	-0.00519*** (0.000559)
Subsidiary intangible assets	-0.00129*** (0.000176)	-0.00129*** (0.000176)	-0.00129*** (0.000176)	-0.00130*** (0.000176)	-0.00129*** (0.000176)	-0.00135*** (0.000210)	-0.00136*** (0.000210)	-0.00135*** (0.000210)	-0.00135*** (0.000210)	-0.00135*** (0.000210)
Subsidiary TMT's equity diversity	0.00989 (0.00624)	0.00989 (0.00624)	0.0104* (0.00624)	0.00997 (0.00624)	0.00989 (0.00624)	-0.00311 (0.00808)	-0.00309 (0.00808)	-0.00226 (0.00809)	-0.00313 (0.00808)	-0.00307 (0.00808)
Subsidiary TMT's nationalities	0.000700 (0.00337)	0.000700 (0.00337)	0.000547 (0.00337)	0.000370 (0.00337)	0.000762 (0.00337)	-0.000842 (0.00395)	-0.000813 (0.00395)	-0.00115 (0.00395)	-0.00114 (0.00395)	-0.000803 (0.00395)
Subsidiary TMT's tenure	0.00263 (0.00269)	0.00262 (0.00270)	0.00250 (0.00269)	0.00277 (0.00269)	0.00265 (0.00269)	-0.000100 (0.00318)	-0.000522 (0.00319)	-0.000278 (0.00318)	6.38e-05 (0.00318)	-7.20e-05 (0.00318)
Constant	0.210*** (0.0397)	0.210*** (0.0414)	0.206*** (0.0398)	0.223*** (0.0399)	0.211*** (0.0397)	-0.121 (0.161)	-0.133 (0.161)	-0.135 (0.161)	-0.102 (0.161)	-0.122 (0.161)
Observations	19,432	19,432	19,432	19,432	19,432	14,828	14,828	14,828	14,828	14,828
Number of groups	5,128	5,128	5,128	5,128	5,128	4,276	4,276	4,276	4,276	4,276

Notes: Dependent variable is subsidiary performance. Values in parentheses are robust standard errors. Significance levels: *0.1; **0.05; ***0.01.

Table 6 Robustness checks: Alternative measures for dependent variables

	Alternative DV: ROE					Alternative DV: ROCE				
	(1) Model 1	(2) Model 2	(3) Model 3	(4) Model 4	(5) Model 5	(6) Model 6	(7) Model 7	(8) Model 8	(9) Model 9	(10) Model 10
<i>Direct effects</i>										
Political hazards	-0.191*** (0.0525)	-0.201*** (0.0772)	-0.176*** (0.0536)	-0.207*** (0.0533)	-0.194*** (0.0532)	-0.331*** (0.0998)	-0.379*** (0.146)	-0.342*** (0.102)	-0.363*** (0.101)	-0.353*** (0.102)
Duration of TMT's local experience	0.00421** (0.00177)	0.00252 (0.00985)	0.00429** (0.00177)	0.00426** (0.00177)	0.00421** (0.00177)	0.00366 (0.00331)	-0.00510 (0.0194)	0.00360 (0.00331)	0.00384 (0.00331)	0.00373 (0.00331)
Duration of TMT's international experience	0.00143 (0.00265)	0.00145 (0.00265)	0.0252 (0.0175)	0.00109 (0.00266)	0.00144 (0.00265)	-0.000437 (0.00483)	-0.000322 (0.00484)	-0.0196 (0.0345)	-0.000676 (0.00483)	-0.000360 (0.00483)
TMT's international experience in HPH countries	-0.0142 (0.0811)	-0.0149 (0.0812)	-0.0473 (0.0846)	-0.879* (0.520)	-0.00840 (0.0840)	0.364** (0.149)	0.361** (0.149)	0.391** (0.156)	-3.237* (1.744)	0.421*** (0.157)
TMT's international experience in LPH countries	-0.00410 (0.0523)	-0.00405 (0.0523)	-0.0190 (0.0535)	0.000385 (0.0524)	0.120 (0.469)	-0.152 (0.0943)	-0.152 (0.0943)	-0.141 (0.0966)	-0.141 (0.0945)	0.831 (0.833)
<i>Moderating effects</i>										
Political hazards* Duration of TMT's local experience		0.00291 (0.0166)					0.0150 (0.0327)			
Political hazards* Duration of TMT's international experience			-0.0435 (0.0316)					0.0350 (0.0625)		
Political hazards*TMT's international experience in HPH countries				1.896* (1.125)					7.521** (3.630)	
Political hazards*TMT's international experience in LPH countries					-0.207 (0.780)					-1.646 (1.385)
<i>Controls</i>										
<i>Country level</i>										
GDP growth rate	0.00445*** (0.00162)	0.00448*** (0.00162)	0.00441*** (0.00162)	0.00425*** (0.00162)	0.00448*** (0.00162)	0.00619** (0.00300)	0.00636** (0.00303)	0.00624** (0.00301)	0.00568* (0.00301)	0.00640** (0.00301)
GDP per capital	-0.0256*** (0.00810)	-0.0257*** (0.00811)	-0.0256*** (0.00810)	-0.0271*** (0.00815)	-0.0254*** (0.00814)	-0.0633*** (0.0145)	-0.0636*** (0.0145)	-0.0632*** (0.0145)	-0.0690*** (0.0147)	-0.0615*** (0.0146)
<i>Industry level</i>										
Host country industry competition	0.0160 (0.0366)	0.0160 (0.0366)	0.0161 (0.0366)	0.0162 (0.0366)	0.0159 (0.0366)	0.0886 (0.0708)	0.0883 (0.0708)	0.0885 (0.0708)	0.0883 (0.0708)	0.0877 (0.0708)
<i>Parent level</i>										
Parent firm's experience in high-risk countries	0.000827 (0.00372)	0.000841 (0.00372)	0.000840 (0.00372)	0.000818 (0.00372)	0.000847 (0.00372)	0.00706 (0.00675)	0.00711 (0.00675)	0.00703 (0.00675)	0.00702 (0.00676)	0.00724 (0.00676)
Number of partners	0.000102 (0.00730)	9.63e-05 (0.00730)	1.15e-05 (0.00730)	0.000420 (0.00731)	8.90e-05 (0.00730)	-0.0154 (0.0129)	-0.0153 (0.0129)	-0.0154 (0.0129)	-0.0143 (0.0129)	-0.0155 (0.0129)
Parent firm's age	0.00365	0.00365	0.00369	0.00347	0.00365	-0.00105	-0.00100	-0.00108	-0.00102	-0.00110

	(0.00466)	(0.00466)	(0.00466)	(0.00466)	(0.00466)	(0.00853)	(0.00853)	(0.00853)	(0.00853)	(0.00853)
Parent firm's international experience	0.0392*	0.0392*	0.0383	0.0394*	0.0393*	0.0597	0.0598	0.0604	0.0619	0.0597
	(0.0233)	(0.0233)	(0.0234)	(0.0233)	(0.0233)	(0.0446)	(0.0446)	(0.0446)	(0.0446)	(0.0446)
Expatriates from parent firm	0.0147**	0.0146**	0.0149**	0.0147**	0.0146**	0.00986	0.00979	0.00968	0.00969	0.00960
	(0.00663)	(0.00663)	(0.00663)	(0.00663)	(0.00663)	(0.0121)	(0.0121)	(0.0121)	(0.0121)	(0.0121)
Ownership by parent firm	-0.0149	-0.0149	-0.0150	-0.0137	-0.0149	-0.0138	-0.0142	-0.0138	-0.0112	-0.0141
	(0.0164)	(0.0165)	(0.0164)	(0.0165)	(0.0164)	(0.0305)	(0.0305)	(0.0305)	(0.0305)	(0.0305)
<i>Subsidiary level</i>										
Slack available	-0.00729	-0.00728	-0.00731	-0.00751	-0.00727	-0.0173	-0.0173	-0.0173	-0.0179	-0.0172
	(0.00559)	(0.00559)	(0.00559)	(0.00559)	(0.00559)	(0.0112)	(0.0112)	(0.0112)	(0.0112)	(0.0112)
Slack potential	-0.00677***	-0.00677***	-0.00676***	-0.00681***	-0.00677***	-0.0157***	-0.0157***	-0.0158***	-0.0156***	-0.0158***
	(0.00220)	(0.00220)	(0.00220)	(0.00220)	(0.00220)	(0.00370)	(0.00370)	(0.00370)	(0.00370)	(0.00370)
Subsidiary age	-0.0225***	-0.0225***	-0.0224***	-0.0227***	-0.0225***	-0.0180**	-0.0181**	-0.0180**	-0.0179**	-0.0177**
	(0.00459)	(0.00459)	(0.00459)	(0.00459)	(0.00459)	(0.00831)	(0.00831)	(0.00831)	(0.00831)	(0.00832)
Subsidiary sales	0.0189***	0.0189***	0.0189***	0.0192***	0.0189***	0.0222***	0.0222***	0.0222***	0.0225***	0.0221***
	(0.00185)	(0.00185)	(0.00185)	(0.00186)	(0.00185)	(0.00364)	(0.00364)	(0.00364)	(0.00364)	(0.00364)
Subsidiary capital	-0.0176***	-0.0176***	-0.0176***	-0.0175***	-0.0176***	-0.0212***	-0.0213***	-0.0213***	-0.0212***	-0.0213***
	(0.00146)	(0.00146)	(0.00146)	(0.00146)	(0.00146)	(0.00289)	(0.00289)	(0.00289)	(0.00289)	(0.00289)
Subsidiary intangible assets	-0.00349***	-0.00349***	-0.00348***	-0.00350***	-0.00349***	-0.00404***	-0.00404***	-0.00405***	-0.00403***	-0.00407***
	(0.000544)	(0.000544)	(0.000544)	(0.000544)	(0.000544)	(0.000954)	(0.000954)	(0.000954)	(0.000954)	(0.000954)
Subsidiary TMT's equity diversity	0.0183	0.0183	0.0190	0.0184	0.0183	0.0353	0.0350	0.0347	0.0350	0.0350
	(0.0179)	(0.0179)	(0.0179)	(0.0179)	(0.0179)	(0.0337)	(0.0337)	(0.0337)	(0.0337)	(0.0337)
Subsidiary TMT's nationalities	-0.0139	-0.0139	-0.0141	-0.0144	-0.0140	-0.0688***	-0.0690***	-0.0687***	-0.0696***	-0.0700***
	(0.0103)	(0.0103)	(0.0103)	(0.0103)	(0.0103)	(0.0187)	(0.0188)	(0.0188)	(0.0188)	(0.0188)
Subsidiary TMT's tenure	0.000574	0.000654	0.000314	0.000836	0.000531	0.00369	0.00407	0.00384	0.00374	0.00315
	(0.00836)	(0.00837)	(0.00836)	(0.00836)	(0.00836)	(0.0153)	(0.0153)	(0.0153)	(0.0153)	(0.0153)
Constant	0.381***	0.387***	0.373***	0.400***	0.380***	0.808***	0.841***	0.813***	0.876***	0.802***
	(0.116)	(0.122)	(0.116)	(0.117)	(0.116)	(0.212)	(0.224)	(0.212)	(0.214)	(0.212)
Observations	19,982	19,982	19,982	19,982	19,982	13,920	13,920	13,920	13,920	13,920
Number of groups	5,287	5,287	5,287	5,287	5,287	4,130	4,130	4,130	4,130	4,130

Notes: Dependent variable is subsidiary performance. Values in parentheses are robust standard errors. Significance levels: *0.1; **0.05; ***0.01.

Table 7 Robustness checks: Controlled subsidiaries located in China

	(1) Model 1	(2) Model 2	(3) Model 3	(4) Model 4	(5) Model 5	(6) Model 6	(7) Model 7
<i>Direct effects</i>							
Political hazards		-0.0777*** (0.0168)	-0.0955*** (0.0244)	-0.0716*** (0.0171)	-0.0871*** (0.0171)	-0.0769*** (0.0171)	-0.109*** (0.0251)
Duration of TMT's local experience		0.00170*** (0.000561)	-0.00138 (0.00311)	0.00173*** (0.000561)	0.00173*** (0.000561)	0.00170*** (0.000561)	-0.00257 (0.00313)
Duration of TMT's international experience		0.00141* (0.000847)	0.00144* (0.000848)	0.0118** (0.00557)	0.00120 (0.000850)	0.00141* (0.000847)	0.0147** (0.00578)
TMT's international experience in HPH countries		-0.00204 (0.0256)	-0.00351 (0.0256)	-0.0169 (0.0267)	-0.506*** (0.163)	-0.00383 (0.0265)	-0.581*** (0.167)
TMT's international experience in LPH countries		0.00503 (0.0165)	0.00511 (0.0165)	-0.00141 (0.0169)	0.00760 (0.0166)	-0.0339 (0.148)	0.151 (0.155)
<i>Moderating effects</i>							
Political hazards* Duration of TMT's local experience			0.00528 (0.00524)				0.00746 (0.00529)
Political hazards* Duration of TMT's international experience				-0.0191* (0.0101)			-0.0247** (0.0105)
Political hazards*TMT's international experience in HPH countries					1.106*** (0.353)		1.240*** (0.363)
Political hazards*TMT's international experience in LPH countries						0.0652 (0.246)	-0.254 (0.259)
						(0.246)	(0.258)
<i>Controls</i>							
<i>Country level</i>							
GDP growth rate	0.00274*** (0.000377)	0.00209*** (0.000503)	0.00214*** (0.000505)	0.00206*** (0.000503)	0.00197*** (0.000504)	0.00208*** (0.000504)	0.00203*** (0.000506)
GDP per capital	-0.0147*** (0.00181)	-0.0169*** (0.00260)	-0.0170*** (0.00260)	-0.0169*** (0.00260)	-0.0178*** (0.00261)	-0.0170*** (0.00261)	-0.0178*** (0.00262)
<i>Industry level</i>							
Host country industry competition	0.0168** (0.00836)	0.0144 (0.0113)	0.0144 (0.0113)	0.0145 (0.0113)	0.0145 (0.0113)	0.0144 (0.0113)	0.0145 (0.0113)
<i>Parent level</i>							
Parent firm's experience in high-risk countries	0.000675 (0.000965)	0.000759 (0.00123)	0.000786 (0.00123)	0.000765 (0.00123)	0.000754 (0.00123)	0.000753 (0.00123)	0.000822 (0.00123)
Number of partners	0.000312 (0.00167)	-0.000109 (0.00232)	-0.000123 (0.00232)	-0.000143 (0.00232)	9.09e-05 (0.00232)	-0.000106 (0.00232)	3.77e-05 (0.00232)
Parent firm's age	0.00115 (0.00123)	0.000201 (0.00154)	0.000206 (0.00154)	0.000221 (0.00154)	9.94e-05 (0.00154)	0.000202 (0.00154)	0.000117 (0.00154)

Parent firm's international experience	0.00949 (0.00597)	0.00449 (0.00764)	0.00450 (0.00763)	0.00411 (0.00764)	0.00458 (0.00764)	0.00448 (0.00764)	0.00416 (0.00764)
Expatriates from parent firm	0.00507*** (0.00159)	0.00595*** (0.00211)	0.00592*** (0.00211)	0.00604*** (0.00211)	0.00598*** (0.00211)	0.00596*** (0.00211)	0.00602*** (0.00211)
Ownership by parent firm	-0.00892** (0.00400)	-0.00275 (0.00525)	-0.00286 (0.00525)	-0.00282 (0.00525)	-0.00207 (0.00525)	-0.00274 (0.00525)	-0.00229 (0.00525)
<i>Subsidiary level</i>							
Slack available	0.00770*** (0.00130)	0.00865*** (0.00178)	0.00866*** (0.00178)	0.00865*** (0.00178)	0.00852*** (0.00178)	0.00865*** (0.00178)	0.00852*** (0.00178)
Slack potential	-0.00946*** (0.000492)	-0.00841*** (0.000666)	-0.00841*** (0.000666)	-0.00840*** (0.000666)	-0.00843*** (0.000666)	-0.00841*** (0.000666)	-0.00841*** (0.000666)
Subsidiary age	-0.00263** (0.00106)	-0.00515*** (0.00146)	-0.00518*** (0.00146)	-0.00512*** (0.00146)	-0.00527*** (0.00146)	-0.00516*** (0.00146)	-0.00525*** (0.00146)
Subsidiary sales	0.00611*** (0.000451)	0.00672*** (0.000592)	0.00673*** (0.000592)	0.00671*** (0.000592)	0.00688*** (0.000594)	0.00673*** (0.000592)	0.00687*** (0.000594)
Subsidiary capital	-0.00454*** (0.000342)	-0.00487*** (0.000467)	-0.00488*** (0.000467)	-0.00486*** (0.000467)	-0.00484*** (0.000467)	-0.00487*** (0.000467)	-0.00484*** (0.000467)
Subsidiary intangible assets	-0.00116*** (0.000125)	-0.00135*** (0.000172)	-0.00135*** (0.000172)	-0.00135*** (0.000172)	-0.00136*** (0.000172)	-0.00135*** (0.000172)	-0.00136*** (0.000172)
Subsidiary TMT's equity diversity	-0.00264 (0.00412)	0.00915 (0.00576)	0.00915 (0.00576)	0.00945 (0.00576)	0.00921 (0.00576)	0.00915 (0.00576)	0.00961* (0.00576)
Subsidiary TMT's nationalities	-0.00351 (0.00221)	-6.51e-05 (0.00328)	-6.09e-05 (0.00328)	-0.000185 (0.00328)	-0.000399 (0.00328)	-2.79e-05 (0.00328)	-0.000734 (0.00328)
Subsidiary TMT's tenure	0.00465*** (0.00112)	0.00203 (0.00263)	0.00219 (0.00263)	0.00192 (0.00263)	0.00216 (0.00263)	0.00205 (0.00263)	0.00221 (0.00263)
Location in China dummy	-0.180*** (0.0360)	-0.180*** (0.0498)	-0.183*** (0.0499)	-0.176*** (0.0499)	-0.178*** (0.0498)	-0.181*** (0.0499)	-0.173*** (0.0500)
Constant	0.150*** (0.0253)	0.199*** (0.0371)	0.211*** (0.0389)	0.196*** (0.0372)	0.210*** (0.0373)	0.199*** (0.0371)	0.223*** (0.0391)
Observations	36,519	20,296	20,296	20,296	20,296	20,296	20,296
Number of groups	7,287	5,378	5,378	5,378	5,378	5,378	5,378

Notes: Dependent variable is subsidiary performance. Values in parentheses are robust standard errors. Significance levels: *0.1; **0.05; ***0.01.

Table 8 Robustness checks: Random effect for political hazard and subsidiary performance

	(1) Model 1	(2) Model 2	(3) Model 3	(4) Model 4	(5) Model 5	(6) Model 6	(7) Model 7
<i>Direct effects</i>							
Political hazards		-0.0835*** (0.0182)	-0.0821*** (0.0275)	-0.0749*** (0.0186)	-0.0891*** (0.0185)	-0.0823*** (0.0185)	-0.0882*** (0.0284)
Duration of TMT's local experience		0.00132* (0.000681)	0.00156 (0.00332)	0.00136** (0.000681)	0.00133** (0.000680)	0.00131* (0.000681)	0.000308 (0.00336)
Duration of TMT's international experience		0.00140 (0.000913)	0.00140 (0.000915)	0.0155*** (0.00573)	0.00126 (0.000916)	0.00140 (0.000913)	0.0169*** (0.00599)
TMT's international experience in HPH countries		-0.0114 (0.0296)	-0.0113 (0.0297)	-0.0313 (0.0304)	-0.306** (0.148)	-0.0138 (0.0300)	-0.365** (0.151)
TMT's international experience in LPH countries		-0.0148 (0.0172)	-0.0148 (0.0172)	-0.0221 (0.0174)	-0.0128 (0.0172)	-0.0773 (0.166)	0.0668 (0.171)
<i>Moderating effects</i>							
Political hazards* Duration of TMT's local experience			-0.000410 (0.00556)				0.00184 (0.00564)
Political hazards* Duration of TMT's international experience				-0.0257** (0.0103)			-0.0283*** (0.0108)
Political hazards*TMT's international experience in HPH countries					0.654** (0.334)		0.743** (0.338)
Political hazards*TMT's international experience in LPH countries						0.105 (0.273)	-0.146 (0.282)
<i>Controls</i>							
<i>Country level</i>							
GDP growth rate	0.00242*** (0.000398)	0.00196*** (0.000517)	0.00195*** (0.000521)	0.00194*** (0.000516)	0.00191*** (0.000518)	0.00195*** (0.000517)	0.00191*** (0.000522)
GDP per capital	-0.0149*** (0.00228)	-0.0187*** (0.00315)	-0.0187*** (0.00316)	-0.0187*** (0.00314)	-0.0191*** (0.00316)	-0.0188*** (0.00315)	-0.0191*** (0.00316)
<i>Industry level</i>							
Host country industry competition	0.0174** (0.00885)	0.0126 (0.0117)	0.0126 (0.0117)	0.0127 (0.0117)	0.0127 (0.0117)	0.0126 (0.0117)	0.0127 (0.0117)
<i>Parent level</i>							
Parent firm's experience in high-risk countries	0.000570 (0.000734)	0.00109 (0.000996)	0.00109 (0.000997)	0.00109 (0.000996)	0.00109 (0.000997)	0.00108 (0.000996)	0.00112 (0.000997)
Number of partners	-0.000247 (0.00186)	-0.00153 (0.00257)	-0.00153 (0.00257)	-0.00159 (0.00257)	-0.00144 (0.00257)	-0.00154 (0.00257)	-0.00150 (0.00257)
Parent firm's age	0.00206* (0.00103)	0.000804 (0.00103)	0.000803 (0.00103)	0.000824 (0.00103)	0.000743 (0.00103)	0.000805 (0.00103)	0.000761 (0.00103)

	(0.00110)	(0.00148)	(0.00148)	(0.00148)	(0.00148)	(0.00148)	(0.00148)
Parent firm's international experience	0.0121*	0.00749	0.00748	0.00701	0.00747	0.00747	0.00697
	(0.00693)	(0.00842)	(0.00842)	(0.00842)	(0.00840)	(0.00842)	(0.00841)
Expatriates from parent firm	0.00703***	0.00654***	0.00654***	0.00663***	0.00652**	0.00655***	0.00661***
	(0.00195)	(0.00253)	(0.00253)	(0.00253)	(0.00253)	(0.00254)	(0.00253)
Ownership by parent firm	-0.000164	0.000329	0.000332	0.000282	0.000604	0.000354	0.000538
	(0.00412)	(0.00510)	(0.00510)	(0.00510)	(0.00511)	(0.00510)	(0.00511)
<i>Subsidiary level</i>							
Slack available	-0.000490	0.000463	0.000460	0.000453	0.000427	0.000458	0.000420
	(0.00160)	(0.00200)	(0.00200)	(0.00200)	(0.00200)	(0.00200)	(0.00200)
Slack potential	-0.00674***	-0.00638***	-0.00638***	-0.00636***	-0.00638***	-0.00639***	-0.00635***
	(0.000591)	(0.000764)	(0.000764)	(0.000763)	(0.000764)	(0.000764)	(0.000764)
Subsidiary age	-0.00193	-0.00431**	-0.00430**	-0.00427**	-0.00436**	-0.00433**	-0.00432**
	(0.00145)	(0.00186)	(0.00185)	(0.00186)	(0.00186)	(0.00186)	(0.00186)
Subsidiary sales	0.00546***	0.00555***	0.00555***	0.00556***	0.00562***	0.00556***	0.00563***
	(0.000549)	(0.000677)	(0.000677)	(0.000677)	(0.000678)	(0.000677)	(0.000678)
Subsidiary capital	-0.00451***	-0.00488***	-0.00488***	-0.00487***	-0.00486***	-0.00487***	-0.00485***
	(0.000460)	(0.000620)	(0.000620)	(0.000619)	(0.000619)	(0.000619)	(0.000618)
Subsidiary intangible assets	-0.000904***	-0.000986***	-0.000985***	-0.000983***	-0.000988***	-0.000984***	-0.000989***
	(0.000160)	(0.000209)	(0.000209)	(0.000209)	(0.000209)	(0.000209)	(0.000209)
Subsidiary TMT's equity diversity	-0.000135	0.0103	0.0103	0.0108	0.0104	0.0103	0.0109
	(0.00522)	(0.00741)	(0.00741)	(0.00742)	(0.00742)	(0.00741)	(0.00742)
Subsidiary TMT's nationalities	-0.00427	-0.00230	-0.00230	-0.00247	-0.00258	-0.00225	-0.00288
	(0.00275)	(0.00386)	(0.00386)	(0.00386)	(0.00386)	(0.00386)	(0.00387)
Subsidiary TMT's tenure	0.00325**	0.00183	0.00181	0.00165	0.00187	0.00186	0.00171
	(0.00133)	(0.00314)	(0.00314)	(0.00314)	(0.00314)	(0.00314)	(0.00314)
Constant	0.140***	0.235***	0.234***	0.230***	0.241***	0.235***	0.240***
	(0.0279)	(0.0400)	(0.0425)	(0.0401)	(0.0401)	(0.0400)	(0.0426)
Observations	36,519	20,296	20,296	20,296	20,296	20,296	20,296
Number of groups	11,292	7,564	7,564	7,564	7,564	7,564	7,564

Notes: Dependent variable is subsidiary performance. Values in parentheses are robust standard errors. Significance levels: *0.1; **0.05; ***0.01.

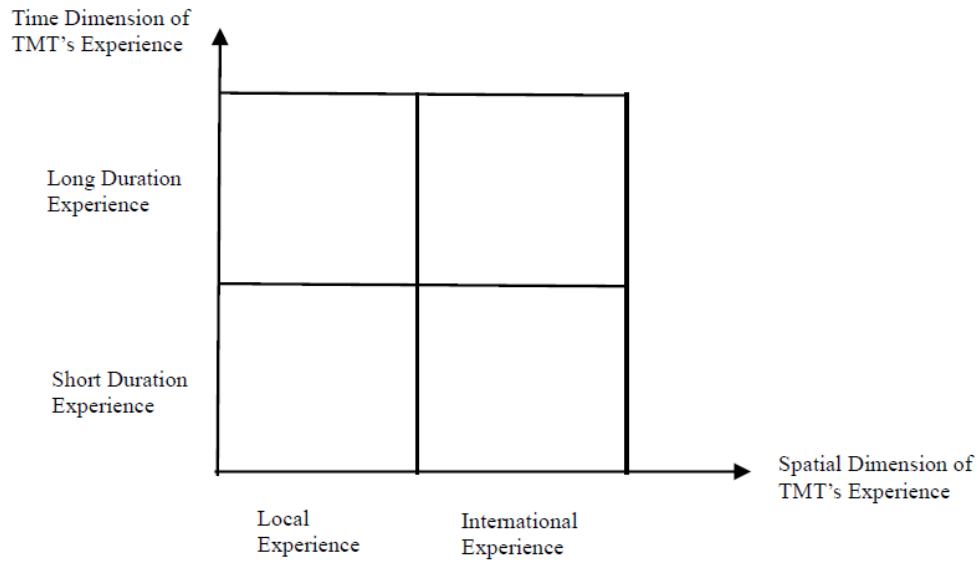


Figure 1a Time dimension and spatial dimension of TMT's experience

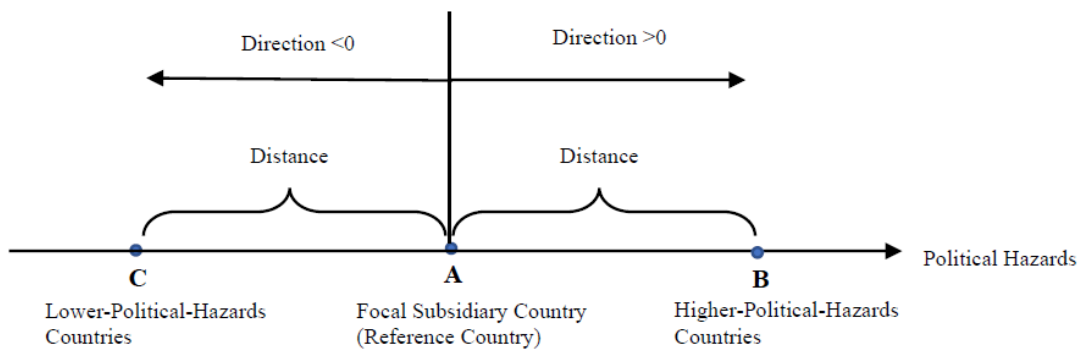


Figure 1b Distance and direction of TMT's international experience

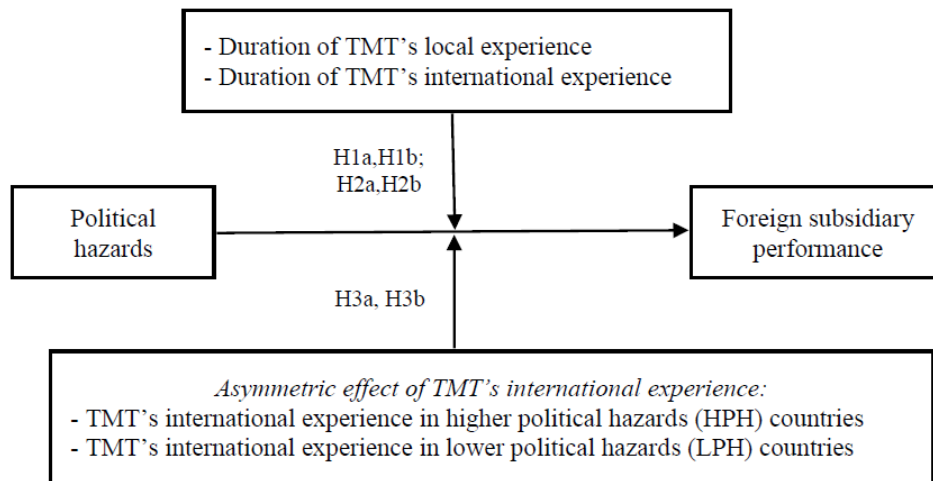


Figure 2 Research model

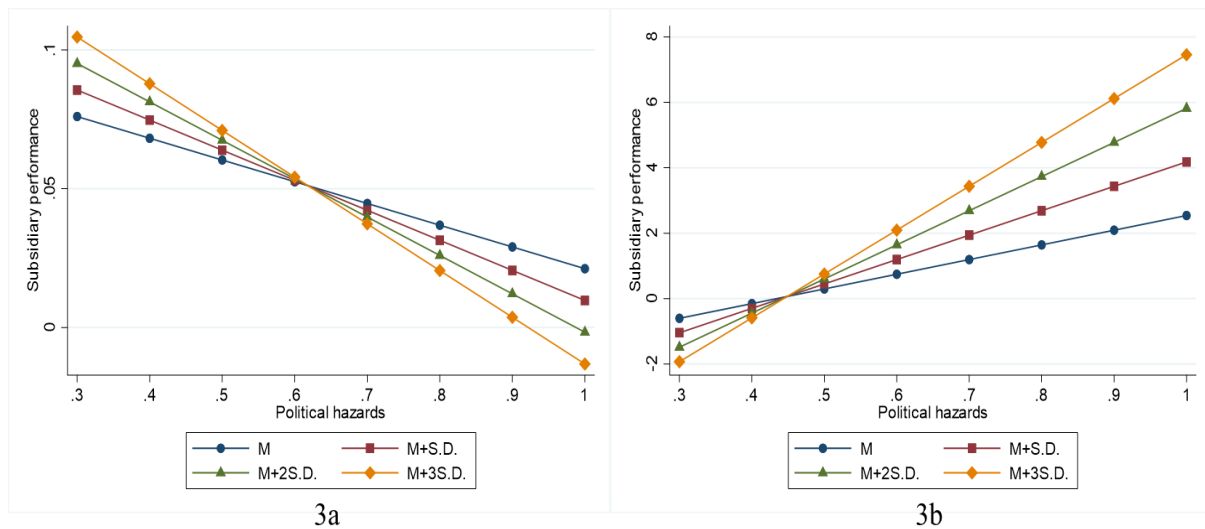


Figure 3 Moderating effects of duration of TMT's international experience (3a) and TMT's international experience in HPH countries (3b)

APPENDIX A1

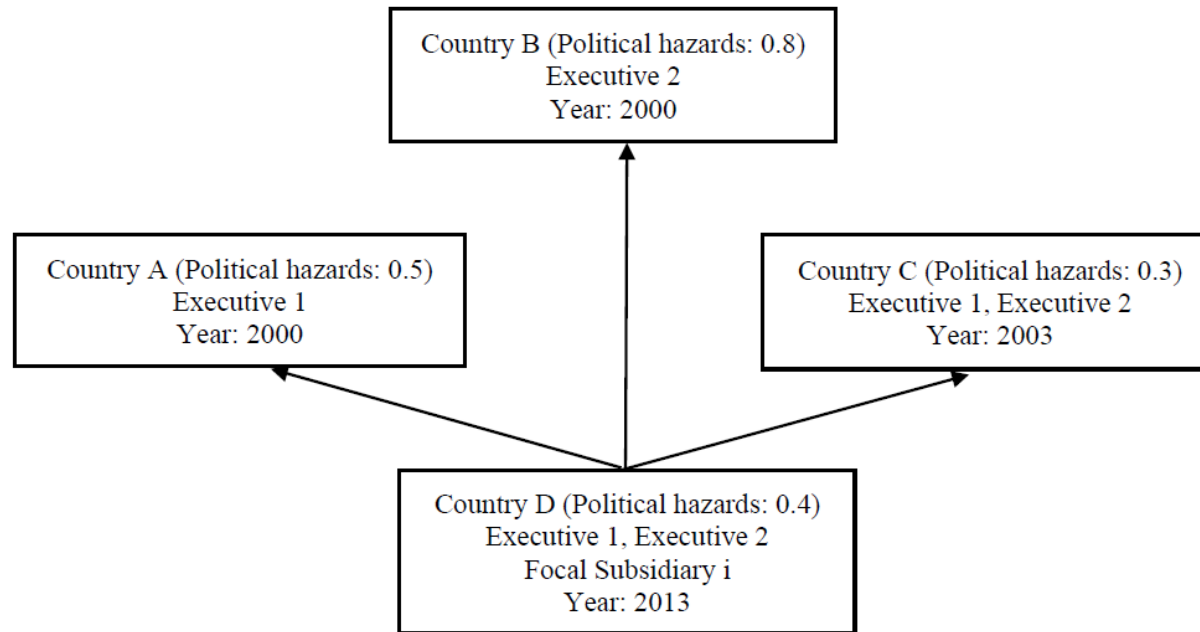
Table A1 Summary of literature on the relationship between political hazard and performance

Author (s) and Year	Effect of Political Hazard	Unit of analysis	Independent variables (IV)	Dependent variables (DV)	Moderator	Research sample	Main findings
Li, Arian, Shenkar, and Arian (2019)	negative	parent firm	military conflicts	stock market performance	cultural similarity, colonial ties, firm size	49 countries	Country-dyadic military conflicts reduce acquirer returns following cross-border acquisitions announcements and that cultural similarity between acquirer and target countries weakens the relationship between military conflicts and market reaction to cross-border acquisitions while colonial ties between the countries, the target country's national pride, and the target's firm size reinforce the relationship
Zhong et al. (2019)	negative	subsidiary	city-level politician turnover	firm failure and productivity performance	internal promotion, entry mode, market development	China	Politician turnover adversely affects the performance of foreign subsidiaries, this negative performance impact is then alleviated for internal promotions, international joint ventures, and firms located in regions with a high degree of market intermediary development.
Yung and Root (2019)	negative		policy uncertainty	firm value		18 countries	Firms increase (decrease) earnings management when policy uncertainty is high (low), and policy uncertainty induced earnings management harms firm value.
Karabag (2019)	negative	parent firm	political instability	firm failure		Turkey	Factors including political risk, macroeconomic, regime, national technology policies, and industry dynamics, as well as firm-related factors such as ownership, strategic intent, and the approach to, and current stage of, technology capability development, may result in firm success in the short term but discourage learning and technological capability building, and thus, cause firm failures in the long term.
Col, Durnev, and Molchanov (2018)	negative	parent firm	political election	productivity performance		US	Firms and industries with a greater exposure to election-induced political instability experience disruptions of investment efficiency, then lead to lower valuations and lower total factor productivity
Cuervo-Cazurra et al. (2018)	positive	parent firm	political risk and corruption	financial performance		Argentina, Brazil, Chile, Peru	Internationalization has a positive impact on the performance of emerging market firms, and that this relationship is strengthened for firms based in emerging countries with higher corruption and political risk.
Krammer et al. (2018)	positive	parent firm	political instability	export performance		BRIC	Emerging economy firms (EEFs) will be more likely to export when facing more uncertainty at home from greater political instability, substantial informal competition, and high corruption. Firms' export intensities will be contingent upon specialized internal capabilities such as a skilled workforce, top managerial experience, and access to external technologies.
Dai, Eden, and Beamish (2017)	negative	subsidiary	war	exit		20 war-afflicted countries	MNE responses to external threats depend on the firm's vulnerability, which can be decomposed into exposure (proximity to threat), at-risk resources (potential for loss), and resilience (capacity for coping); highly valuable resources can become liabilities when exposed to harm, and the best way to cope with external threats may be to exit.
Getachew and Beamish (2017)	negative	subsidiary	entry to Africa	exit	investment diversity,	Japan	Subsidiaries are less likely to survive in the African countries, but greater purpose diversity and marketing-seeking orientation will weaken the positive relationship between entry to Africa and exit likelihood.

					market-seeking orientation		
Tao et al. (2017)	negative	parent firm	political risk	stock market performance		China	The shareholders that acquire a target firm in a host country with a low level of political risk gain higher cumulative abnormal returns than those firms targeting companies in countries with a high level of political risk.
Song and Lee (2017)	negative	subsidiary	political hazards	exit	headquarter-subsidiary relationship	Korea	Under hostile host market demand conditions, MNCs are less likely to divest their foreign subsidiaries when those subsidiaries are vertically integrated with their headquarters, benefiting from a top management team dispatched from their headquarters or other affiliates, or possessing technological knowledge shared by their headquarters.
Darendeli and Hill (2016)	dual	parent firm	political turmoil	exit	legitimacy investment	Libya	MNEs that invested in social-benefit projects and in social ties earned a broad-based legitimacy that help them survive political turmoil.
Liu et al. (2016)	positive	subsidiary	political risk, industry risk	financial performance		China	Industry risks significantly reduce the levels of input localization and marketing localization of MNEs' subsidiaries, and thus negatively affect subsidiary performance. Political risks have an insignificant impact on input localization and marketing localization, but a positive direct impact on Chinese MNEs' overseas subsidiary performance.
Sun et al. (2015)	negative	parent firm	political shock, political tie	stock market performance	government ownership tie	China	Different types and combinations of political ties vary in their vulnerability and resilience to the negative shocks by political hazards, which generate different valuation impacts for focal firms. Companies combining managerial and ownership ties experienced less post-shock reduction in market value than those holding only managerial political ties
Brogaard and Detzel (2015)	negative	parent firm	economic policy uncertainty	stock market performance	.	US	Economic policy uncertainty helps to forecast log excess returns on the stock market, but do not spuriously drive the forecasting results, innovations in economic policy uncertainty command a significant negative risk premium in the cross section of stock returns.
Barbopoulos et al. (2014)	positive	parent firm	political risk, corruption	stock market performance	.	UK	Acquirers enjoy highly significant gains during the announcement period of FDI. The highest gains are accrued to acquisitions in countries with high political risk and high corruption ratings.
Song (2014)	negative	subsidiary	irreversible entry mode	exit	host market uncertainty	Korea	There is a negative association between the greater irreversibility typical of wholly owned greenfield investments or full acquisitions and subsidiary exits, and host market uncertainty strengthens the impact of irreversible entry modes on subsidiary exits.
Dai et al. (2013)	negative	subsidiary	conflicts (war, insurgency, lawlessness)	exit	geographic concentration, geographic dispersion	Japan	That greater exposure to geographically defined threats reduces the likelihood MNE survival, however, the effects depend on whether the firm is in a conflict zone and with home-country peers or sister subsidiaries.
Ma, Tong, and Fitz (2013)		subsidiary	subnational regions	financial performance		China	Not only are subnational region effects explain the variation of subsidiary performance, but their interactions with industry, corporate parent, and home-country effects are significant and economically important. Subnational region effects tend to be stronger in the period prior to China's WTO accession, and in the country's less-developed subnational regions.

Lee and Song (2012)	negative	subsidiary	currency change	sale performance		Korea	The increase of a subsidiary's production at the time of its host country currency depreciation decreases the production of other subsidiaries within the same MNC network. MNC subsidiaries that engage in production shifts with other affiliated subsidiaries command a higher performance.
Jiménez and Delgado-García (2012)	positive	parent firm	political risk	financial performance		Spain	Greater risk results in greater performance, which in turn contributes the amount of resources that are needed to undertake investments in countries with greater risk.
Czinkota et al. (2010)	negative	region, parent firm	terrorism	financial performance			Terrorism threatens IB through its direct and indirect effects, but those threats can be reduced by developing and implementing flexible contingency strategies.
Chan, Makino, and Isobe (2010).		subsidiary	subnational regions	financial performance	economic development	US and China	Subnational region is significant in explaining foreign affiliate performance, the effects of subnational region are far stronger in emerging economies than they are in advanced economies.
Meschi and Riccio (2008)	insignificant	subsidiary	cultural distance, country risk	exit		Brazil	Large national cultural differences between local and foreign partners increase the instability of international joint ventures, whereas the survival of these alliances does not seem to be affected either by the economic and political uncertainty of Brazil.
Ma and Delios (2007)	negative	subsidiary	policy uncertainty, political hazard	exit		Japan	MNEs tend to choose an economic-oriented rather than a political-oriented city as their investment location, with the consequence being higher survival likelihoods in Shanghai than in Beijing. This location choice helped firms avoid policy uncertainty and political hazards in China's transition economy.
Demirbag et al. (2007b)	insignificant	subsidiary	political risk	survey-based performance		Turkey	Factors of input quality, comparative cost advantages and government regulations demonstrate a statistically significant impact on the perception of performance of affiliates. In contrast, political risk, financial incentives and cultural distance do not have any significant impact on the perception of performance of affiliates.
Beaulieu, Cosset, and Essaddam (2005)	negative	parent firm	political risk	stock market performance	dependence on growth option vs. assets; firm multinationality	Canada	Stock return volatility varies with the degree of a firm's exposure to political risk. But investors do not require a risk premium, supporting the idea that political risk is diversifiable.
Click (2005)	positive	parent firm	political risk	financial performance		US	Unexplained country risk is qualitatively and quantitatively related to unobserved political risk. Unexplained country risk is also compensated with a higher ROA, enhancing its credibility as a measure of political risk.
Merchant and Schendel (2000)	insignificant	parent firm	political risk	stock market performance		US	Political risk does not have effect on joint-venture value creation.
Butler and Joaquin (1998)	negative		political risk	stock market performance			Whether or not a particular political risk affects the value of a multinational corporation through its cost of capital depends on whether the risk is related to investors' relevant market portfolios.

APPENDIX A2



For focal subsidiary i with two executives in 2013, TMT 's international experience in HPH countries $[(0.8 - 0.4) + (0.5 - 0.4)] / 2 = 0.25$; TMT 's international experience in LPH countries $= [(0.3 - 0.4) * 2] / 2 = -0.1$.

Figure A1 An illustrative examples of operationalizing TMT's international experience