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Subsidiary Survival in the Foreign Market: The Role of Cultural Distance and International Experience

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Abstract

Foreign subsidiaries' survival (exit) has gained importance in recent years. The institutional and organizational factors may influence a subsidiary's survival in foreign markets along with the subsidiary's performance. However, the findings on the issue remained equivocal due to different contexts and diverse foreign market conditions. So, the current study explores the issue in the context of subsidiaries of China-based MNCs exited. Using RBV (Resource Based View) theory, the study explores the role of firm performance in the survival of foreign subsidiaries as consistent better performance may provide foreign subsidiaries with a competitive advantage and vice versa. Further, using the lens of institutional theory, the role of the international experience of the parent firm and cultural differences between host and home countries on firms' survival in foreign markets are explored in the research. For this purpose, the annual data from 2011 to 2020 of 680 Chinese foreign subsidiaries, operating in 24 countries, has been taken. Using the probit model, the result of the study shows that a subsidiary having poor financial performance is more likely to withdraw from foreign markets. This effect is pronounced more when the cultural distance between home and host countries is higher. However, the international experience of the parent company helps its foreign subsidiaries to survive in the host country for a more extended period. These findings have important managerial implications for MNCs operating in foreign markets.

Introduction

In the literature on strategic management and international business, the issues related to business expansion at the international level have been the key topics. The researchers (Delios & Beamish, 1999; Desbordes & Wei, 2017; Buckley et al., 2018) found that the MNCs may expand their businesses internationally in the form of FDI if they find it profitable. Hymer (1960) defines FDI as an investment in the host country in the form of a foreign subsidiary controlled by the parent company. The MNCs' intentions to invest in foreign countries may include getting resources, strategic assets, efficiency and new ven

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or markets (Dunning, 1998). The researchers (Humphery, 2014; Batsakis & Mohr, 2017) find it a complex phenomenon as the MNCs expect that an expansion of business may improve the parent firm's operations, linked to the performance of their subsidiaries in host countries.

The subsidiary's performance has been critical since it influences the firm's future decisions. Two main criteria are objective and subjective to assess the subsidiary's performance (Park & Ungson, 2001). In the subjective criteria, the subsidiary's performance is evaluated based on the management perspective or viewpoint, while the objective criteria cover the key performance indicators like profitability, stability, and longevity. However, the objective is considered more appropriate as it is based on analysing the key indicators of the performance in a specific time frame (Beamish & Lupton, 2009). From the host country's perspective, the better performance of foreign subsidiaries may positively impact the overall economic development (Pan et al., 2014). So, the host countries intend to provide a conducive environment for foreign subsidiaries to stay and survive longer. However, MNCs' subsidiaries, working in an unfavourable market environment, may not generate enough revenue for their parent companies; hence, they may not survive. Delios and Beamish (1999) state that the survival of the subsidiary refers to the time or period in which the subsidiary remains operational. The subsidiaries' survival has been one of the critical topics in previous studies (Chung & Beamish, 2005). The parent companies may consider closing the foreign units; for instance, some big MNCs like G.M. Motors, Shell, and Apple has recently closed their subsidiaries operating in Nigeria (Idehen & Akhator, 2021).

Boddewyn (1983) has pioneer work on survival (exit) of the subsidiaries in the 1980s, and the subsequent researchers (Sousa & Tan, 2015; Fetscherin, Voss, et al., 2010) attempted to explore it in different organizations. The studies (Coucke & Sleuwaegen, 2008; Berry, 2013) view that performance may have a considerable link to a firm's survival. In addition to performance, firm-specific variables like size, capital levels, debts, and the host country's macroeconomic conditions have a significant role in the survival of subsidiaries for more extended periods. Hence, considering the existing literature first, there is a call for a more in-depth analysis of the survival and exit of foreign subsidiaries (Silva & Moreira, 2019). Second, the primary focus of prior studies has been on the subsidiaries belonging to developed countries (Harhoff, Stahl, et al., 1998; Taylor, 1999; Headd, 2003; Bates, 2005; Pattnaik & Lee, 2014) as mostly the MNCs may prefer developed countries like the USA, Japan, United Kingdom, France (Dunning, 1993) due to better infrastructure and relatively stable market conditions. However, the phenomenon is equally essential in developing or growing economies, as the subsidiaries from these countries may struggle to survive in foreign countries (Mathews, 2006; Kumar et al., 2020; Deng & Smyth, 2013). There are issues related to growing economies like the high political interference in institutions, inefficient performance of capital markets, and weak regulations (Tracey & Phillips, 2011). Hence, the MNC's survival in such a fragile environment may be challenging; hence, may not run its foreign subsidiaries. So, there is a need to explore the survival of MNCs subsidiaries belonging to developing or growing economies like China. The study is vital in the Chinese context since during the last three

decades, China has been a country with consistent economic growth (Yue et al., 2016). According to UNCTAD (2020), there has been a continuous increase in foreign direct investments from 2011 to 2015 in China, but it reduced afterwards till 2020; hence, the Chinese MNCs pulled back a considerable number of foreign investments and closed many of their foreign subsidiaries. Therefore, it is critical to carry out the research in the context of China-based MNC subsidiaries.

Third, the researchers find that subsidiary survival can be affected by institutional and organizational factors like prior international experience and cultural differences with the host country (Demirbag et al. 2011). So, considering the prior literature, the current study attempts to address the academic gap and contributes to the existing research on a firm's survival in the following way. First, it investigates the impact of a subsidiary's poor performance on its survival as the MNCs may close or sell foreign operations having consistent poor financial performance (Benito, 2005). Second, considering the institutional theory tries to explore how the cultural differences and MNC international experience can affect the survival of subsidiaries.

So, the study takes a novel unbalanced panel data set of Chinese-based foreign subsidiaries working in 124 host countries to test the key hypotheses of the current research. The empirical finding of the study suggests that the subsidiaries with consistently poor performance face survival issues and may exit from the market. The negative relationship is more evident when there is a high cultural distance between the home and host countries. However, the MNC's prior international experience weakens the negative impact of performance on subsidiary survival (exit). In addition, to the moderating role of high culture, the study results are statistically significant and consistent with the existing studies.

Theoretical Framework and Hypotheses

RBV (Resource Based View) Theory

The resource-based view describes that some firms or organizations have the lead, named competitive advantage, making the companies distinctive over others (Belderbos and Zou 2009). These resources may include tangible assets like technological advantages, company size, intangible assets, etc. (Song, 2015). The resources help the companies perform better in the market than those not equally having this resource-based advantage (Berry, 2013). On the other hand, firms that do not have such resources may underperform and have limited strategic opportunities. Further, the resources help the companies to formulate business strategies accordingly. The choices for the MNCs to make and adopt the strategies may be limited due to inadequate resources (Collis, 1992).

Institutional Theory

In a country's financial and economic performance, the role of institutions cannot be ignored (North, 1990). In the context of institutional theory, the country's economic situation can change with the changes in its institutions (Smallbone and North 2002). So, the foreign companies operating in host countries may react accordingly to the institutional changes. According to Kostova and Zaheer (1999), the socially responsible behaviour of foreign subsidiaries, despite foreignness liability and institutional

unfamiliarity, can be explained with the help of institutional theory. One of the critical issues the foreign subsidiaries may face is cultural differences. In institutional theory, researchers (Xu & Shenkar, 2002; Kostova et al., 2008) explain that the success and persistence of foreign subsidiaries have a strong relationship with the institutional differences abroad. In international business literature, the institutional theory has got critical importance as firms and organizations may face challenges like political, economic, cultural, and social differences while operating abroad (Kostova et al., 2020).

Literature on Survival and Exit

Most existing studies on firm survival have focused on developed countries. Kim, Lu and Rhee (2012); Delios & Makino (2003) analysed firm survival in the context of Japanese foreign subsidiaries. Li (1995) has taken a sample of US companies; Mudambi and Zahra (2007) have taken a sample of British firms; Fisch and Zscoche (2012) have taken a sample of German companies. However, subsidiary survival is equally important in the case of emerging or developing economies. However, limited studies are available in developing or growing economies (Ogasavara and Hoshino (2008) in Brazil, Garg and Delios (2007) took data from Indian firms, and Tao et al. (2013) took samples of Chinese companies. Therefore, the research on subsidiary survival in emerging economies needs more attention.

Performance and Exit of Subsidiary

The studies (Amaral et al., 2007; Ahlstrom, 2010) find that consistently poor-performing firms and businesses may find it challenging to precede the business, resulting in dissolution or bankruptcy. The continuous poor performance of organizations or firms can lead to ultimate failure, which does not affect its employees only but all the company's stakeholders. The researchers (DeTienne & Chirico, 2013; Greve, 2003) find it critical for poor-performing originations to manage the crisis appropriately and do the necessary steps for its survival and better returns. So, one of the critical elements in the literature on exit (Fisch & Zschoche, 2012; Berry, 2013) is how a company's financial performance drives the firm to exit from the market. Considering the RBV, the better performance helps the companies to build and raise their assets, hence protecting them during exit (Lu & Hebert, 2005). In contrast, if the company's performance is not suitable for some consecutive periods, then the management of the parent MNC may decide to close that subsidiary (Li and Liu 2015). Based on the above discussion, the researcher can write his baseline hypothesis in the following way.

Hypothesis 1: There is negative relationship between the subsidiary performance and the decision to exit.

Moderating Role of International Experience

Under the institutional theory, the government of the host countries may behave opportunistically, prioritizing the benefits of locals compared to foreign subsidiaries. Mata and Freitas (2012) state that the international experience may help the countries to understand the international regulations and avoid discrimination by the local institutions. Park et al. (2010) find that foreignness liability may positively affect exit decisions; hence, it can be decreased through a tool like the firm’s international experience. The foreignness

liability can be disadvantageous for the company as it can be countered through international experience (Song & Kolb, 2013; Dhanaraj and Beamish, 2009). Based on this, the following hypothesis can be stated.

Hypothesis 2: The international experience of the parent firm weakens the association between firm performance and exit decision.

Moderating Role of Cultural Distance

According to Mezias et al. (2002), one of the foreignness liabilities for the foreign subsidiaries in the host countries can be the high cultural distance. The researchers (Sousa and Tan 2015; Brodbeck and Wilderom 2005) recognize that the subsidiaries may face issues in transferring knowledge, processing information, and different uncertainties due to high cultural distances. So, the related challenges in operations due to cultural distances are costly for the companies; hence, they, in this case, cannot bear the high costs. Hutzschenreuter et al. (2011) explain that foreign subsidiaries may decide to withdraw if they are unable to perform in the diverse culture of the host country. So, the current research can have the following hypothesis.

Hypothesis 3. The relationship between the exit and performance is strengthened with the high cultural distance between the home and host country.

Data and Methodology

Data

The sample for the study consists of Chinese-based foreign subsidiaries. The data of almost 680 subsidiaries in 124 countries have been taken for the study. The data source is the ORBIS, from where the data of these subsidiaries have been extracted. The data is unbalanced panel data, consisting of the subsidiaries that survived and the others that have decided to withdraw during this period. In addition, some of the data from the IMF and World Bank (WGI) regarding the host countries has been taken.

Dependent Variable

The survival (exit) of the foreign subsidiary is the dependent variable in the models. It takes the value of 1 if the subsidiary makes an exit from the market and 0 if it survives (Kogut, 1988). Different studies (Li, 1995; Chowdhury, 1992) have used the proxy for the survival and exit of the firms.

Independent variable

The performance of the subsidiary is the independent variable. The company's performance can be measured through different methods; however, return on assets (ROA) has been selected as the key financial performance indicator. There are a few reasons to use the proxy. First, different existing studies on subsidiary survival (Ruigrok & Wagner, 2003; Lu & Beamish, 2004; Anderson & Reeb, 2003) have used the same measure of the firm's performance. Second, the ROA and ROE tell the subsidiary's financial position and operational efficiency (McGuire et al., 1988). Therefore, the proxy may provide a better idea of the overall performance of the foreign subsidiary.

Moderators

The study has used two key moderators. The first one is the cultural distance. The cultural distance is being measured by the Hofstede cultural distance dimensions using the

Kogut and Singh (1988) index.While the international experience has been measured by taking the total number of years since the inception of the MNC operating internationally.

Control Variables

The control variables include the firm-level variables like the size, debt, liquidity, leverage, and the country-level variables are economic position, country risk, political stability, and control of corruption. The control variables at the country level include the country's economic position (GDP/capita), control of corruption, risk in the country, and political freedom in the country from the statistics published in the sources IMF and World Bank. The study adds the dummy to distinguish between countries based on their economic position where it takes the value of 1 if it is a developed country and 0 otherwise.

Specification of Model

$$Exit_{it} = \alpha + \beta_1 Perf_{it-1} + \beta_2 Control.variables. + e_{it} ...(1)$$
$$Exit_{it} = \alpha + \beta_1 Perf_{it-1} + \beta_2 Perf \times IE_{it-1} + \beta_3 Control.variables. + e_{it} ...(2)$$
$$Exit_{it} = \alpha + \beta_1 Perf_{it-1} + \beta_2 Perf \times Cd_{it-1} + \beta_6 Control.variables. + e_{it} ...(3)$$

Here '*i*' stands for company or firm and *t* shows the year from 2011 to 2020. The coefficients of predictors are shown through the parameter β in the estimated models. Error term shown by *e* for variables and factors which are omitted or not added due to any of reasons.

Estimation Technique

In this paper, the probit technique has been used to estimate the model. There are some key reasons to use the estimation mentioned above technique. First, the probit model helps to know about the probability of the subsidiary exit, which is a binary variable, considering the critical factors like the company's performance. Second, the lagged values of the variable are taken to cater for the issue of potential endogeneity (Kropko, 2007). Finally, the probit model helps us to drive the exact results with the help of using the normal distribution of the variables (Li et al., 2022).

Results and Discussion

Descriptive statistics

The study has 5676 observations of 680 foreign subsidiaries having unbalanced panel data. The key dependent variable is dichotomous, which takes the value of 1 and 0. The performance of the subsidiaries lies around the value of .453, the mean of the performance. The mean of various variables is close to the standard deviation; hence the chances of potential outliers in the data are less. The results of the correlation are provided in table 3. The low correlation among the variables indicates that the problem of multicollinearity does not exist.

Table 1: Summary Statistics

Variable	No of observations	Mean	Std.Dev
Exit	5676	.654	.475
Perf	5676	.453	.953
Liq	5676	2.889	.281
Size	5676	4.982	1.876
Fixcap	5676	.0879	.447
Lev	5676	2.529	1.567
Debt	5676	1.006	.987.
Econ	5676	.518	2.229
Pf	5676	2.224	5.114
corup	5676	1.008	1.063
Risk	5676	3.514	.562

Table 2: Correlation Matrix

	Exit	Perf	Liq	Size	Fixcap	Lev	Debt	Econ	Pf	corup	Risk
Exit	1.000										
Perf	-0.05	1.000									
Liq	-0.09	0.02	1.000								
Size	0.06	0.01	0.04	1.000							
Fixcap	0.03	-0.06	-0.03	-0.01	1.000						
Lev	-0.01	0.05	0.01	0.21	-0.02	1.000					
Debt	-0.03	-0.03	-0.06	0.03	-0.01	0.02	1.000				
Econ	0.02	-0.01	-0.02	0.02	0.07	0.02	-0.01	1.000			
Pf	0.05	-0.10	0.14	0.01	-0.01	-0.01	-0.01	-0.01	1.000		
corup	-0.06	-0.03	-0.05	0.04	-0.02	0.02	0.71	-0.01	-0.01	1.000	
Risk	0.07	-0.01	-0.02	0.29	-0.03	0.11	0.08	0.01	-0.01	0.09	1.000

Main Results

In the model 1, the key independent variable performance along with the controls being regressed. In model 2, the interaction term of the cultural distance being added. The model 3 contains the moderator international experience along with the rest of independent variables. Next in model 4 all the variables have been incorporated to check their overall impact on the withdrawal or exit of subsidiary.

Hypothesis 1: The result of model 1 shows the ratio of .93 which means a negative relationship between the performance and the exit (Berry 2013; Li and Liu 2015). Further coefficient (B= -.215 P=0.001) shows significant negative relationship between performance and exit. Under the RBV theory, the companies not having a competitive advantage may leave the market. The consistently poor companies may lose their resources and may not compete in the market; hence, they may decide to leave the market. The finding of the study corroborates with the existing studies (Tan and Sousa, 2019; Berry, 2013; Chung, Lee, and Lee, 2013).

Hypothesis 2: Under the institutional theory, the high cultural distance may raise survival issues in the host countries. The companies not having knowledge of the local culture and norms may struggle to meld in the local environment. The values (*B* = .057 *P*= 0.000) show a positive and significant link of cultural distance with the exit decision. So, in this case, the hypothesis is supported that the high cultural distance strengthens the negative association between performance and exit. The inclusion of cultural distance as the moderator has heightened the coefficient and significance of the performance variables. The results are in line with the previous study by Tao, Zhanming & Xiaoguang (2013).

Hypothesis 3: The next hypothesis is that the previous international experience of the parent firm may help the foreign subsidiary survive for a long period. In other words, the international experience of the parent firm weakens the negative association between performance and decision to withdraw. The results show that the interaction with the performance of the international experience has a significant association (B=.023 P=0.010) with the exit decision. The high international exposure helps the companies to learn more about surviving in a diverse international environment (Gaur and Lu, 2007). The results confirm finding of the existing studies like Chung et al. (2013); Gaur and Lu (2007).

The results of the control variables are presented in Table 4. The size of the subsidiary has a negative and significant impact on the exit decision of the company. The greater size subsidiaries may survive in the market (Getachew & Beamish, 2017; Alcantara & Hoshino, 2012) as it helps the subsidiary tolerate the shocks of poor performance. At the country level, the chances of survival in economically stable countries are high (Alcantara and Hoshino, 2012); however, the relationship is insignificant in this case. Further, the country having control over the corruption may facilitate the MNCs better; hence a significant negative association of the variable control of corruption has been found with the subsidiary exit decision. Next, the MNCs may find it suitable to work easily in politically stable countries (Touny, 2016; Helmy, 2013). So, the subsidiaries may prefer to exit from the host countries with prolonged political instability.

Table 3: Results of Probit Model

Model	1	2	3	4
Perf	-.2154*** (0.063)	-.5097*** (0.089)	-.2120** (0.092)	-.439*** (0.107)
Cd		-.751*** (0.075)		-.317*** (0.089)
Perf × Cd		.0572*** (0.012)		-.054*** (0.012)
IE			.529*** (0.046)	.454*** (0.052)
Perf × IE			-.0237* (0.065)	-.072 (0.065)
Liq	-.093*** (0.010)	-.095*** (0.011)	-.079*** (0.011)	-.084*** (0.011)
Size	-.256*** (0.061)	-.153*** (0.068)	-.217*** (0.065)	-.133** (0.068)
Fixcap	.0842* (0.05)	.0916* (0.056)	.074 (0.052)	.078 (0.053)
Lev	.0004 (0.011)	.0011 (0.011)	.002 (0.011)	.001 (0.012)
Debt	.601*** (0.074)	.623*** (0.075)	-.630*** (0.075)	.638*** (0.075)
Econ	.008 (0.009)	.010 (0.008)	.009 (0.008)	.010 (0.008)
Pf	.0789*** (0.014)	.095*** (0.015)	.074*** (0.015)	.089*** (0.016)
corup	-.648*** (.069)	-.6627*** (.070)	-.569*** (0.069)	-.594*** (0.070)
Risk	.149*** (.030)	.155*** (.031)	.173*** (.030)	.172*** (.031)
Cons	-.523*** (.191)	3.913*** (.461)	-.921*** (.197)	1.164 (.542)
Country dummy	Yes	Yes	Yes	Yes
LR Chi2	263.12	392.55	444.12	480.97
No of observations	5676	5676	5676	5676
Prob> chi2	0.0000	0.0000	0.0000	0.000
Log likelihood	-3663.5	-3598.8	-3573.1	-3554.6
Goodness of fit test	0.475	0.381	0.445	0.413

Notes: SE are in parenthesis*** p < .01, ** p < .05, *p<0.1

Robustness

The robustness has been checked in different ways to avoid any potential biases. First the proxy or measure of performance changes. ROA (return of assets) is the key independent variable substituted with the return on equity (ROE). Next, the subsidiaries from countries with the lowest and highest stability ratings are excluded. The countries

having the highest and lowest rating (top 5 and lowest 5) of stability have been excluded from the sample to check the robustness.

Table 4: Results of Robust Models

Model	**5**	**6**	**7**	**8**
Per	-.089*** (.036)	-.098*** (0.038)	-.080*** (0.039)	-.094*** (0.039)
Cd		-.769*** (0.075)		-.441*** (0.089)
Perf × Cd		.017** (0.012)		.015* (0.201)
IE			-.445*** (0.042)	.316*** (0.048)
Perf × IE			.056* (0.045)	-.026* (0.052)
Liq	-.621*** (0.069)	-.065*** (0.010)	-.056*** (0.009)	-.061*** (0.010)
Size	-.203*** (0.064)	-.197*** (0.064)	-.184*** (0.065)	-.187*** (0.064)
Fixcap	.028 (0.029)	.026 (0.030)	.021 (0.029)	.021 (0.029)
Lev	.007 (0.011)	.006 (0.012)	.007 (0.11)	.007 (0.011)
Debt	.576*** (0.074)	.562*** (0.075)	.602*** (0.074)	.587*** (0.075)
Econ	.010 (0.008)	.001 (0.009)	.010 (0.008)	.001 (0.009)
Pf	.018*** (0.005)	.032*** (0.013)	.022*** (0.008)	.032** (0.013)
Corup	-.621*** (0.069)	-.607*** (0.069)	-.564*** (0.069)	-.572*** (0.069)
Risk	.267*** (0.028)	.269*** (0.029)	.278*** (0.029)	.278*** (0.029)
Country dummy	Yes	Yes	Yes	Yes
Cons	-.997*** (.187)	-.997*** (.460)	-1.318*** (.191)	1.228*** (.545)
LR Chi2	270.41	377.80	399.50	480.97
No of observations	5670	5670	5670	5670
Prob> chi2	0.0000	0.0000	0.0000	0.000
Log likelihood	-3756.6	-3702.9	-3692.1	-3678.8
Goodness of fit test	0.449	0.395	0.439	0.409

Notes: SE are in parenthesis *** p < .01, ** p < .05, *p<0.1

Table 5: Results of Robust Models

Model	9	10	11	12
Perf	-.304***	-.663**	-.262***	-.557***
	(0.065)	(0.099)	(0.097)	(0.116)
Cultural Distance		-.926***		-.524***
		(0.082)		(0.097)
Perf × Cd		.066***		.064***
		(0.013)		(0.013)
IE			.556***	.419***
			(0.049)	(0.056)
Perf × IE			-.058**	-.115*
			(0.069)	(0.070)
Liq	-.094***	-.098***	-.079***	-.089***
	(0.011)	(0.012)	(0.011)	(0.012)
Size	-.251***	-.124***	-.233***	-.123***
	(0.070)	(0.074)	(0.071)	(0.074)
Fixcap	.135*	.147**	.125*	.135*
	(0.076)	(0.078)	(0.077)	(0.078)
Lev	-.003	-.001	.001	.001
	(0.011)	(0.012)	(0.012)	(0.013)
Debt	.601***	.668***	.657***	.682***
	(0.080)	(0.081)	(0.080)	(0.081)
Econ	.001	.008	.008	.008
	(0.009)	(0.009)	(0.009)	(0.009)
Pf	.101***	.124***	.094***	.118***
	(0.015)	(0.018)	(0.016)	(0.018)
corup	-.624***	-.683***	-.564***	-.617***
	(0.074)	(0.076)	(0.075)	(0.076)
Risk	.137***	.132***	.157***	.148***
	(0.034)	(0.035)	(0.035)	(0.035)
Cons	-.382	5.155	-.856	2.856
	(0.210)	(0.507)	(0.218)	(0.606)
LR Chi2	219.14	386.54	399.50	445.92
No of observations	5158	5158	5158	5158
Prob> chi2	0.0000	0.0000	0.0000	0.000
Log likelihood	-3215.9	-3132.2	-3133.1	-3102.5
Goodness of fit test	0.482	0.413	0.537	0.465

Notes: SE are in parenthesis *** p < .01, ** p < .05, *p<0.1

Conclusion and Policy Recommendations

Conclusion

To conclude, it has been found that the performance of the foreign subsidiary has a key role in its survival. The subsidiaries comprising the consistently poor performance may not survive in the market for long. Fuhrer, the organisational and the institutional factors have a key role in the foreign subsidiary survival and exit decisions. The MNCs

may find it difficult to operate in countries having high cultural differences. On the other hand, intangible factors like experience at the international level may help the companies cater to the poor performance. The study provides that the subsidiaries with international experience survive during crunch times. The closure of the foreign subsidiaries may have key effects on the context of the host country's economy, local community, and parent firm.

First, foreign subsidiaries' role is critical for host countries' economies as the closure of foreign subsidiaries may cause a reduction in the FDI (foreign direct investments). Second, in addition to job creation, the foreign subsidiaries may contribute to the local community through CSR. So, the closures of the subsidiary may have a negative impact on the locals in the host country. Third, from the MNC perspective, opening foreign subsidiaries may enhance the foreign market exposure, whereas the closures may reduce that exposure. The decisions of the MNCs to stay in or to leave the foreign market may have managerial implications.

Theoretical Contribution

The poor subsidiary performance's negative association with subsidiary survival supports the baseline hypothesis. As a business strategy, it looks like a better decision to divert the resources of subsidiaries which are not performing well (Helfat, 2004). However, the international experience weakens the negative association between poor subsidiary performance and market withdrawal. So, firstly, it contributes to the resource-based view (RBV) literature in that the development of capabilities due to the parent company's international experience may provide a better advantage to running the foreign subsidiaries. This is consistent with the existing research by Sousa & Tan (2015) that the international experience provides an additional advantage to the MNCs, helping them survive in foreign markets for extended periods. Secondly, the study contributes to existing research on institutional theory claiming that the institutional difference may be the hurdle in foreign markets. In line with theory, the hypothesis is accepted that cultural differences strengthen the negative association between performance and subsidiary decision to leave the market (Li & Zhou, 2010). Hence, the subsidiaries failing to align their foreign operations with the local market culturally and socially may not survive in the long run.

Practical Implications

The research finds that the international experience weakens the negative association between the foreign subsidiary's poor performance-withdrawal decisions. It has some managerial or practical implications. First, it might be the better option strategically to close the foreign subsidiary having constantly poor performance. The parent company may use or deploy the resources elsewhere to get a better output or profits. Second, management must critically consider the international experience as it helps the companies understand the foreign markets better. For this, the MNCs deploy the management with international experience in general or that specific region or country. Third, the high cultural distance may negatively impact the performance of foreign subsidiaries (Harzing, 2004). However, a better understanding of the foreign market with

international experience can help the foreign subsidiaries mitigate the effects of cultural differences.

Limitations

The current study has some limitations. First, the study focuses on the subsidiaries from a single country, whereas the data from diverse countries and cultures may provide a broader picture. Second, the research focused on two significant dimensions, i.e., cultural distance and international experiences. The other dimensions like the entry modes, ownership structure, and the firm's other specific factors can have a role in the survival or exit decisions. Third, the study's sample has been limited to the non-financial corporate sector, which is extendable. Future studies may include other sectors and contexts to analyse the issue more in-depth.

Future Recommendations

Based on the research, there are some future recommendations. The current work focuses on the subsidiaries from a single country; hence, future work can expand the sample by adding more MNCs. Second, the withdrawal of the foreign subsidiaries can be studied while considering other sectors like financial institutions and firms in different contexts. Third, future researchers can extend the theoretical boundary conditions by focusing more on the theoretical perspective of the issue.

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Appendix

Variable	Acronym	Definition
Dependent Variable		
Exit (survival)	Exit	A binary variable takes the value of 1 if it exits and 0 otherwise (Berry 213; Sousa and Tan 2015)
Independent Variables		
Performance	ROA	Return on assets has been measured by dividing the total revenue on total assets of subsidiary (Bernard and Jensen 2007).
Moderators		
Cultural Distance	Cd	The cultural distance measures by taking the six dimensions, mentioned by Hofstede. The studies by Kang et el. (2017) Pattnaik and Lee(2014) used the same methods to measure the cultural distance.
International Experience	IE	The international experience has been measured by taking the total number of years since the inception of parent firm.Panibratov and Brown (2018); Wan et el. (2015) used same proxy to measure the international experience.
Controls		
Size of Subsidiary	Size	The natural log of total assets of the subsidiary (Berry 2013).
Debt	Debt	The natural log total assets of the parent company (Sousa and Tan 2015)
Liquidity	Liq	Log of the total cash and equivalent the subsidiary contains. (Zaheer 1995).
Fixed Capital	Fixcap	The variable measured by taking natural log of fixed capital of subsidiary.
Leverage	Lev	The ratio of debt to EBIT Balcaen and Ooghe (2007)
Country Level Variables		
Risk in Host Country	Risk	EUROMONEY (Henisz and Delios (2004)
Control of corruption	Corup	WGI
Economic stage of Host country	Econ	GDP/capita; the world bank,(Panibratov and Brown, 2018)
Political Freedom	Pf	EUROMONEY index (Jensen et al. 2012)