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**EFFECTS OF LIABILITIES OF FOREIGNNESS ON MNCs:
AGENCY RELATIONSHIP BETWEEN SUBSIDIARIES &
HEADQUARTERS**

Hizir Konuk (a)*, Goksel Atamana (a), Ece Zeybek (b)

*Corresponding author

(a) Marmara University, 34398, Istanbul, Turkey

(b) Arel University, 34295, Istanbul, Turkey

Abstract

The current study aimed to examine how the agency relationship is affected between subsidiaries and headquarters of Multinational Companies in case the agent is a citizen of the parent country or host country. The research provides evidence from fourteen individual interviews that agency relations are affected by the parties' nationality differences who are working in headquarter and subsidiary. In addition, it was found that the control mechanisms that should be set up for subsidiaries were different from the control mechanisms used in the local environment because of the institutional and cultural differences between home and host country. In some cultures, it was found that agency relations could be based on trust rather than the sanction power of contracts and that the risk perception of agents could change by the culture. Doing business in the international arena causes problems such as exposure to uncertainties, difficulties in adapting to the environment, and discrimination. This is explained theoretically with the Liability of Foreignness. The qualitative research method was used to evaluate the participants' opinions by coding them with the NVIVO program.

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Keywords: Agency theory, liability of foreignness, cultural differences, institutional differences, HCN, PCN.



1. Introduction

The international arena is a business environment that involves uncertainties and distinctions that are different from the local environment and the success of the Multinational Companies (MNC)'s depends on their ability to adapt to these uncertainties and distinctions. One of the most important means of ensuring the adaptation of MNCs to the international area is the human resources it has (Chakravarthy & Perlmutter, 1985) and the managers working in the subsidiaries of the MNCs are one of the most effective human resources for success (Birkinshaw, Hood, & Jonsson, 1998). The opinion on the significant impact of the managers of the subsidiaries on the success of the MNC is based on the assumption that the subsidiary managers will increase the success of the subsidiary by making autonomous decisions (Birkinshaw, Hood, & Jonsson, 1998) because they have more country-specific information than the managers of the headquarters (Roth & O'donnell, 1996; Nohria & Ghoshal, 1994). In this case, the headquarters should delegate the decision-making authority to benefit from the contributions of the managers in the subsidiaries (O'Donnell, 2000). However, the headquarters cannot transfer all decision-making initiatives to the subsidiaries in order to avoid the risk of opportunism of subsidiary managers and to ensure the integration of the units of MNC (Nohria & Ghoshal, 1994). This relationship that based on the transfer of authority between the headquarters and the subsidiaries can be considered as an agency relationship in which the limits of the transfer of authority and the control limits of the headquarters are tried to be determined (Roth & O'donnell, 1996; Nohria & Ghoshal, 1994).

The agency relationship in the international arena is under the influence of different cultures' authority, harmony, different views on the relationships between individuals and social groups (Schwartz, 1992; Kostova, Hoenen, & Nell, 2016) and the liability of foreignness that originating from institutional differences (Zaheer, 1995). The liability of foreignness, which has to be undertaken separately from local companies, also has an effect on the agency relationship between the headquarters and the subsidiaries (Kostova, Hoenen, & Nell, 2016). Although the relationship between subsidiary and headquarters in the literature has been investigated within the framework of agency theory (Roth & O'Donnell, 1996; Nohria & Ghoshal, 1994), it is not possible to say that the impact of the liabilities of foreignness on the agency relationship has been investigated in detail. The research contributes to the literature by searching for answers to the question of "How does the liability of foreignness affect the agency relationship between subsidiaries and headquarters of the MNCs?"

Because of the liability of foreignness, the MNCs try to carry out their activities under the shadow of the relationship problems arising from both inside and outside uncertainties. For this reason, the MNCs, both trying to adapt to the cultural and institutional environment in the countries they enter, and trying to operate as an integrated structure that is compatible with all the company (Haugland, 2010) there is a paradox about the choice of Host Country Nationals (HCNs) who are familiar with the host country and with higher adaptation to the environment, or the choice of Parent Country Nationals (PCNs) who know the MNC better. When we look at this paradox from the framework of agency theory, the question; "whether the subsidiary manager is an HCN or a PCN affects the agency relationship with the principal who is the citizen of the parent country?" occurs as the second question of the research.

In addition, the research contributes to the literature on the issue of control, which has become more difficult in the international arena (Hennart, 1991), is discussed in the context of the mechanism of

socialization, which is considered as a control mechanism in the literature on agency theory in recent years (Ambos, Kunischa, Leicht-Deobaldc, & Steinberga, 2019; Brenner & Ambos, 2013).

2. Literature Review

2.1. Agency Theory

Agency theory examines the problems that arise when two parties (principal-agent) help each other, whose goals and interests are different. In particular, the relationship of the agency is a relationship that occurs in every environment where a party (Principal) delegates work to another person (Agent) to do this work (Eisenhardt, 1989).

The emergence of the agency theory as a framed theory coincides with the beginning of the 1970s. Mitnick and Ross, who independently researched at two different disciplines, have proposed the theory in close times to each other. Mitnick and Ross, who made the first contributions to theory in 1973 are the pioneers of the theory (Shapiro, 2005). After a short while, Jensen and Meckling (1976) have pioneered other researchers in this discipline by evaluating the agency theory in the financial economy (Hill & Jones, 1992). The agency theory relates to the resolution of two problems that may arise in agency relations. Firstly, (a) the conflicts of the interests and goals of the principal and the agent, and secondly (b) the fact that the principal is following the behaviors of the agent, and the agency problems which will arise if control of behaviors of the agent is difficult and expensive. The first problem here is whether the agent acts in accordance with the principal's expectations. The second problem is the risk-sharing problem that arises when the principal and the agent have different attitudes towards risk. The risk-sharing problem is that the principal and the agent can choose different actions because they have different approaches to risk (Shapiro, 2005). Information asymmetry examined by the agency theory; means that the principals do not know the actual situation of the candidates in the pool of potential agents and that they are not sure what they do after the agent is hired. Many theoreticians act with the assumption that the agent is "opportunistic" and also they assume that the agent tends to avail himself of the advantages granted to him (Shapiro, 2005). The fact that the actual situation of the agent during the hiring is not known is the adverse selection, and self-interest of the agent after the hiring is examined in theory as a moral hazard. Moral hazard examined by the theory is expressing negative behaviors such as lack of effort or risk aversion of the agent (Busenitz, 2003). The agency theory attempts to define the most effective contract between the principal and the agent within the framework of a number of assumptions (Eisenhardt, 1989). In the context of the agency theory, suggestions are made to the problems between principal-agents by the behavior-oriented and outcome-oriented contracts (Eisenhardt, 1989; Shapiro, 2005). While recommendations are made on risk-sharing problems with outcome-oriented contracts and recommendations are made to increase efficiency through behavior-oriented contracts (Eisenhardt, 1989). On the other hand, the relationship of agency does not only have to be contracted, but it can also be considered without contracts (Mitnick, 1973). The agency theory can be applied in a variety of environments, ranging from macro-level issues such as regulatory policies to other micro-level dyadic issues such as blame, impression management, lying and etc. (Eisenhardt, 1989).

The agency theory assumes that people have bounded rationality (Eisenhardt, 1989). Bounded rationality; information processing capability, including cognitive limitations, and individual

communication and learning problems, are used to express situations of strategic behavioral preferences what also including deception, selected or corrupted information transmission, which may arise from internalization of norms, competing or conflicting goals or norms, diversity of preferences arising from different positions and natural skills such as inconsistent preferences, various socialization experiences, various practices related to risk preferences and uncertainty, etc. (Mitnick, 1973). According to the agency theory, the incentive systems are used to align the agent interests with the principal interests (Shapiro, 2005). Incentive expenses (eg bonuses, share sharing, profit sharing, etc.) which emerge by the establishment of an agency relationship and establishment of mechanisms to control and supervise the agent (eg, committees, auditors, managers, structural arrangements etc.) is seen as the agency costs (Shapiro, 2005).

2.2. Liability of Foreignness

The concept of liability of foreignness shows us that the international area is exposed to unfamiliarity hazards, discrimination hazards, and relationship hazards which occur inside and outside of MNCs (Rugman & Verbeke, 2015; Eden & Miller, 2004). The unfamiliarity hazards or lack of knowledge reflects the lack of experience of MNC about the cultural and institutional differences of the host country. Discrimination is related to the difficulties of gaining legitimacy in the invested country (Eden, & Miller, 2004). Especially from the perspective of subsidiaries and headquarters, it is difficult to manage subsidiaries remotely and the difficulties of control increase the risk of opportunism in the international arena (Hennart, 1991), thus the MNCs are exposed to relationship hazards.

The main source of the liability of foreignness is the different cultural and institutional structures faced by the MNCs in the international arena (Zaheer, 1995; Mezias et. al., 2002). The culture that we can express as the sum of individual values shapes the views of individuals (Tihanyi, Griffith, & Russell, 2005). A single dominant language, education system, army and political system, mass media, markets, services and national symbols that have existed for some time cause a common culture within the borders of a country (Schwartz, 1999). The culture, which directs the daily choices and interactions of individuals, cannot be understood easily by the companies from other countries (Ghemawat, 2001) and causes to increase the uncertainties for them. At the same time, the behaviors and structures of enterprises (Xu & Shenkar, 2002) and also their behavior results are influenced by the institutional environment (Yigit & Behram, 2013). Companies from an institutional environment in a different country are exposed to differences in the institutional environment of the country in which they invest. Institutional differences increase the uncertainties for the MNCs, complicate the understanding of the local market and also negatively affect the interaction with customers, suppliers and other stakeholders. Institutional differences also cause difficulties for local stakeholders in the host country to understand the MNCs. Gaining legitimacy in the country is very important for MNCs to overcome these difficulties. Both internal and external uncertainties that MNCs have to endure due to their liability of foreignness and their choices on subsidiary managers can affect the agency relations between the headquarters and subsidiaries at the points of individual-level result uncertainty (Boyacigiller, 1990; Eisenhardt, 1989), information asymmetry, control difficulty (Luo, Shenkar, 2006; Ricart, Enright, Ghemawat, Stuart, & Khanna 2004)

and the bounded rationality depending on information needs (Luo & Shenkar, 2006; Kostova, Hoenen, & Nell, 2016).

3. Theoretical Framework

3.1. Information Asymmetry

MNCs are under the process of increasing knowledge (Eriksson, Johanson, Majkgard, & Sharma, 1997). In general, MNCs should learn about cultural and linguistic differences (Ricart et al., 2004), as well as local market conditions and customer expectations (Luo & Peng, 1999) because while the intensity and variety of the experience of the subsidiaries increases, the performance of the subsidiaries are also increasing (Luo & Peng, 1999). Subsidiaries have more country-specific information than headquarters and this increase the information asymmetry between the headquarters and the subsidiaries, which leads to an increase in agency problems (Roth & O'donnell, 1996; Gomez-Mejia & Balkin, 1992). Therefore, the MNCs who expose to liability of foreignness may experience a high level of agency problems between the subsidiary and the headquarters. However, it is possible for the principal to encounter more agency problem due to information asymmetry with HCN, because HCN has more intensive and extensive experience than the PCN in the host country.

3.2. Control and Incentives

The high level of uncertainty in the international arena, as well as the cultural and institutional differences of each invested country makes the control more complex and expensive for MNCs (Hennart, 1991). In MNCs, the relationship between the subsidiary and the headquarter passes from dependence or independence to interdependence, and also due to localization to meet local expectations the structure passes from symmetrical to asymmetric thus these transitions impose more autonomy and higher decision-making on the subsidiaries (Roth & O'donnell, 1996). However, when the agent has autonomy, independence and private knowledge, control becomes more important (Roth & O'donnell, 1996), as well as the increase in information asymmetry makes it difficult, and expensive to control agents' actions and decisions (Cuevas, Gomez, & Wiseman, 2012). In addition, change of the motivation source and goals of the individual because of the effect of culture (Calhoun, 2002) makes more difficult to align the interests of the principal and the agent. In this case, the principal is more likely to control easier the agent who is a PCN than HCN.

It is important to establish a common world view or operation path in order to make common decisions in accordance with the expectations of the headquarters in uncertain environments where control becomes difficult (Boyacigiller, 1990). We can evaluate this approach as a control practice through socialization (Roth & O'donnell, 1996). Control by socialization provides a set of common values and norms for business processes, behaviors and the like (Ouchi, 1980) and additionally, control by socialization is based on indirect control of the subsidiary (Colakoglu & Calgiuri, 2008). The existence of rules and standards in enterprises, that is, the existence of a formal control mechanism, enables the agents to decide with a low risk (Ghoshal, Nohria, 1989). Socialization can provide a similar result without requiring a specific effort (Edström, & Galbraith, 1977). In this case, it is more likely that a PCN who is sent by an assignment from the enterprise is more easily controlled than an HCN. In addition, the

use of a different language may cause an agent to avoid control of the principal (Luo & Shenkar, 2006). This situation creates uncertainty and risk for the principal who does not know the language of the agent. PCN who speak the same language and have same social codes with the principal, naturally adhere to the control mechanism provided by socialization because subsidiaries that managed by PCN understand and meet the expectations of the headquarters better than those of the HCN (Caligiuri & Stroh, 1995). Therefore, differences in the level of socialization, differences in the adaptation in the mother language can create differences in the control methods and costs of the HCN and the PCN. Control and supervision reduce the risk of information asymmetry by observing the agent and providing the agent's fiduciary. Incentives help to reduce agent and principal goal differences by directing agents towards expected behaviors (Kostova, Hoenen, & Nell, 2016). If the information asymmetry is not high, the incentive will not go beyond the costly expense. Therefore, it may be necessary to apply different incentives for HCN and PCN according to differences in information asymmetry. Furthermore, the types of goals to which incentives and rewards depend are partly dependent on their importance for dominant cultural values in a society. When other factors are equal, managers' goals for motivating their employees will be more effective if they are consistent with their cultural context (Schwartz, 1999). Therefore, different incentive policies could be applied for HCN and PCN, which have different cultural contexts.

3.3. Uncertainty and Risk

According to the agency theory, some of the agents may be very sensitive to uncertainty; when the uncertainty and the differences in the willingness of individuals to accept risk effects meet together, relations between the principal and the agent will be affected (Eisenhardt, 1989). The complexity, uncertainty and longer-term nature of a business opportunity put more stress on decision-makers in deciding whether to take the opportunity and take the risk (Burgelman & Doz, 2001). If we consider the concept of uncertainty as to the difference between the knowledge acquired and the knowledge required to complete a task (Tushman & Nadler, 1978), we can say that most of the uncertainties that enterprises face are due to the lack of experience and knowledge in the international arena. Therefore, the lack of sufficient knowledge about the institutional and cultural differences in the international arena is the main reason for the uncertainties they face. If we assume that the HCN's knowledge of the culture and institutional structure in the host country will be less than the uncertainty that the PCN will perceive, the different perception of PCNs and HCNs on uncertainties and risks will affect agency relations with principals in a different way.

3.4. Bounded Rationality

The bounded rationality, which can be expressed as limited competence in interpreting decisions, inability to judge cases and to perform appropriate actions, causes the principals to be inadequate in evaluating and auditing the decisions (Kostova, Hoenen, & Nell, 2016). Misunderstandings occur when people from different cultures work together (Boyacigiller, 1990) and the cultural and institutional differences between the two countries affect not only the misunderstandings and relationships between the employees in the MNCs but also affect the firm's decision-making conditions (Boyacigiller, 1990).

For this reason, the agent who is a citizen of the host country who speaks different language and different cognitive structure may cause to increase bounded rationality.

The level of bounded rationality of individuals is shaped by the cultural and institutional structure (Kostova, Hoenen, & Nell, 2016). Having knowledge affects rational decision making, and thus the agent's knowledge of cultural and institutional structure affects rational decision making (Colakoglu & Caligiuri, 2008). In addition, when the agent, who is the most important information source of principal, transfers more information, the principal can make more rational decisions. In this case, we can expect a difference between HCNs and PCNs in rational decision-making and in contributing to rational decision making of the principal.

3.5. Agency Costs

The most important subject of the agency theory is the trade-off between (a) the cost of behavior measurement and (b) measuring the results and the cost of transferring risk to the agent (Eisenhardt, 1989). When uncertainty is low, the cost of transferring the risk to the agent is low, however, as uncertainty increases, it becomes increasingly expensive to share risk (Eisenhardt, 1989). The MNCs, who exposed to the liability of foreignness, are facing a greater degree of uncertainty in the international arena than the local companies, and this increases their costs. Risk arises from uncertainty and the high uncertainties perceived by PCNs with less information on the host country means increased risk perceptions, thus increasing risk transfer costs. HCNs are subject to fewer uncertainties with host countries, so they become in a preferable position in reducing risk transfer costs (Luo & Shenkar, 2006). In addition, incentives to reduce the perceived risks of PCNs (in addition to salary, travel, accommodation, social benefits, allowances in the country, expenses such as difficulty contributions, basic salary increases, etc.) are largely not required for the HCNs (Boyacigiller, 1990). However, the cost of more easily control of PCN behavior due to socialization will be lower than the cost of controlling the HCN.

4. Research Method

4.1. Data Collection

When selecting the unit of analysis, care was taken to ensure that the participants were in the first-degree interaction with the subject, in accordance with the purpose of the study. In this study, by using random sampling method, interviewed with accessible people who have knowledge about the agency relationship and the relationship between subsidiary and headquarters is examined and thus the validity and significance of the research have been tried to be provided. While the unit of analysis and method were developed, the studies of researchers who had conducted similar studies in the international field were utilized (Lakshman, Lakshman, & Estay, 2017; Graebner & Eisenhardt, 2004). In determining the size of the sample, it was tried to obtain information about the subject in depth and in a wide spectrum related to the depth of the research, in an information-loaded analysis unit (Patton, 2002; 245). Following the literature recommendations (Eisenhardt & Graebner, 2007) to avoid the impact of industry-dependent factors, the MNC employees representing various industries were selected. With this approach, a more comprehensive sample group has been identified, thereby improving the quality of the findings

(Eisenhardt & Graebner, 2007). By collecting data from a large number of industries, Graebner and Eisenhardt (2004) pursued a research set-up that could provide more generalizable results that could be considered a series of experiments each of which confirmed or did not approve the conclusions drawn from others. In accordance with the path, Graebner and Eisenhardt (2004) were followed and a large number of industries were selected in the research. In accordance with the scope of the research, interviews were conducted with PCNs, HCNs, and principals, who are working in MNCs. Thus it was aimed to achieve more generalizable results by reducing the effects of subjective approaches of the parties subject to agency relationship (Eisenhardt, Graebner, 2007). Details of the participants can be found in Table 01. To ensure that respondents' responses are minimally influenced by cultural differences and language barriers all of the participants were selected from Turkish citizens and their interviews were made in Turkish. When the answers to the questions asked within the resources and time possibilities began to be repeated, the sample size was considered sufficient and the interviews were terminated (Patton, 2002; 246). The qualitative research method was used to explore differences between the headquarters and subsidiary in the agency relationship and was asked semi-structured questions and interviews were conducted with the principal and agents in the headquarters and subsidiaries (Patton, 2002; 245). Interviews were conducted in two ways as face-to-face, and live video interviews via skype. The choice of the places where face-to-face interviews will be made is left to the participant's preference, to prevent the participant from feeling under pressure. The majority of the participants chose to make their meetings in café-style places where they feel comfortable. For the interviews on Skype, participants were asked to choose the appropriate time to prevent them from feeling under pressure. The interviews lasted approximately 50 minutes.

Table 01. Details of Participants

Participant	Position	Parent Country	Host Country	Industry	Working Experience in a Foreign Country
P1	Founder	Turkey	Holland, Morocco	Turism	14 years
P2	Founder	Turkey	USA, Serbia	Turism	5 years
P3	General Coordinator	Turkey	Iraq	Construction	4 years
P4	Regional Manager	Turkey	Kazakhstan	Telecommunication	4 years
PCN1	Country Manager	Turkey	Tukmenistan	Construction	3 years
PCN2	Country Manager	Turkey	Rusia	Cosmetics	5 years
PCN3	Country Manager	Turkey	Tukmenistan	Construction	8 years
PCN4	Production Manager	Turkey	Bangladesh	Textile	5 years
PCN5	Country Manager	Turkey	Bangladesh	Telecommunication	1 year
HCN1	Department Manager	Sweden	Turkey	Construction	3 years
HCN2	Country Manager	USA	Turkey	Consultancy	1 year 8 months
HCN3	Business Analyst	Germany	Turkey	Consultancy	4 years
HCN4	Deputy President	USA	Turkey	Consultancy	5 years 1 month
HCN5	Solution Engineer	Sweden, USA	Turkey	Telecommunication	9 years 8 months

After briefly explaining the subject of the research and giving information about the confidentiality of the data (Patton, 2002; 382), interviews and recordings were started. All recorded interviews were transcribed and analyzed in writing. Interviews were conducted according to the ethical rules proposed by Patton (2002).

4.2. Interview Questionary Design

Interview questions were prepared open-ended, neutral, focused and understandable (Patton, 2002; 350). In order to prevent the questions from guiding the participants, attention was paid not to use the key expressions related to the subject being researched. The questions were developed according to the purpose of the research and after the preparation, expert opinion was obtained. The questions were prepared to understand the experience, knowledge, and thoughts of the participants (Patton, 2002 p. 350). The questions have emerged as a synthesis of the information gathered from the literature review and the experience and observations of the researchers. The questions focused on the proposition of agency theory and the factors that emerged after the literature review. Alternative questions to all questions were prepared. All questions were prepared in a short and concise way that participants could easily understand. Semi-structured questions provide a more in-depth study of the topics that attract the researcher's attention during the interview. Spontaneous questions asked for each interview were recorded for the next interview and used as a substitute question in the interviews. In general, the questions started with asking the general opinion on the subject, after the researchers be sure that the participant was concentrated, the probing questions for in-depth examination of the subject were aimed to think deeper about the subject. In general, the questions started with asking the general opinion on the subject, after the researchers are sure that the participant was concentrated, the probing questions were asked for an in-depth examination of the subject and were aimed to participants think deeper about the subject. The comprehensibility and relevance of the questions were tested by two pilot participants. The pilot participants were asked all questions and feedback was received about the questions. Due to the constraints of the sources, pilots were not identified separately for each question group, so also they were consulted with expert opinions in order to validate the questions.

Same questions are created for principal, HCN, PCN and then they edited in accordance with their position. The first five questions are aimed at getting information about the participant's position, working time, relationship with the principal or agent. The next question is a comprehensive question to understand the general view of the participant on the subject; "what is your opinion about whether the person you are working with/for is a citizen of your country or a foreign country?". The following questions are aimed at understanding the information asymmetry, limited rationality, control, uncertainties, incentives, contracts, and agency costs. The aim of the last question is for summarizing all the opinions of the participants.

4.3. Data Coding and Analysis

After the data were collected and edited, all the source files were uploaded to the NVIVO 11 software and the raw data was read completely 2 times, the answers of the participants were evaluated and classified under codes with the appropriation of the aim of the study. While coding, key concepts

have been defined to refer to the nature, premises, or results of the proxy relationship, and these key concepts are taken into account during coding. With an approach to the discovery of the subject, a broad coding spectrum was formed when the data was encoded in the first stage, and in the next stage, the coding spectrum was constricted by grouping the codes according to their relations. The patterns and themes revealed after the coding were analyzed and the findings were interpreted (Patton, 2002; 453). Interpretations were based on the perspective and insight of the researchers, and for being objective, multiple interpretations were made and alternative interpretations and perspectives were tested.

5. Findings

Within the scope of the research, a total of 12 codes, 5 of main and 7 of sub-codes, have been identified. When creating codes, the most basic codes were taken into consideration and included in the study three times. At this point, the classification of participant expressions according to the codes can be found in Table 02 and the most remarkable expressions within the scope of the research are given in Table 03.

Table 02. Distribution of Participants' Expressions According to the Codes.

		Parent Country National (PCN)	Host Country National (HCN)	Principal (P)	Total Expressions
Information Asymmetry	Institutional Differences	PCN-1, PCN-2, PCN-3, PCN-4, PCN-5	HCN-1, HCN-2, HCN-3, HCN-4, HCN-5	P-3, P-4	12
	Cultural Differences	PCN-1, PCN-2, PCN-3, PCN-4, PCN-5	HCN-1, HCN-2, HCN-3, HCN-4, HCN-5	P-1, P-2, P-3, P-4	14
Bounded Rationality		PCN-2, PCN-3, PCN-5	HCN-2, HCN-3	P-2, P-3	7
Control	Control Method	PCN-2, PCN-4	HCN-1, HCN-2, HCN-4, HCN-5	P-1, P-2, P-3, P-4	10
	Hardness of Control	PCN-2, PCN-3	HCN-4, HCN-5	P-2	5
	Trust and Socialization	PCN-1, PCN-2, PCN-3, PCN-5	HCN-1, HCN-2, HCN-3, HCN-4, HCN-5	P-1, P-2, P-3, P-4	11
Uncertainty and Risk Perception		PCN-1, PCN-2, PCN-3, PCN-4, PCN-5	HCN-1, HCN-2, HCN-3, HCN-4	P-3, P-4	12
Incentives and Contracts	Share / Bonus Applications	PCN-1, PCN-3	HCN-2, HCN-3	P-1, P-2, P-3	7
	Contracts	PCN-1, PCN-5	HCN-1, HCN-2, HCN-4, HCN-5	P-2, P-3	8

A part of the interview records obtained as a result of the research is summarized in Table 03. In this context, it can be seen that all participants agreed that the liability of foreignness in the international arena would increase the “information asymmetry”. The expressions of HCN-5 regarding the information asymmetry, which is one of the basic elements of the agency theory, are remarkable. The idea that information asymmetry makes monitoring difficult and weakens the control mechanism (Dalton, Certo, Hitt, 2007) is supported by the statements of the HCN-5 on the impact of cultural and institutional differences on the information asymmetry. As the information asymmetry increases due to the liability of foreignness, the decision-making authorization is more likely to be transferred to the agent. The expressions of HCN-4 and HCN-5 are clearly support this opinion. The increase in the information

asymmetry between the principal and the agent leads uncertainty increase, thus principal's risk perception increases (Eisenhardt, 1989), and looking for ways to share the risks associated with the various incentives. When language is evaluated in the context of the linguistic, behavioral, transfer of information, it is an important barrier that MNCs must overcome in order to reduce the information asymmetry. While the MNCs are trying to acquire the information in the host country, the language barrier appears as a reason for increasing uncertainties and restricting rationality. Host country nationals are more advantageous in speaking the language in their country than a PCN in terms of accessing and learning information, whereas PCN is exposed to more uncertainty. HCN-4's comparison of PCNs and HCNs in this subject is clarified. HCN-4's comparison of PCNs and HCNs in this subject is clarified. In addition, as P-3 points out, the HCNs who is trained in the country's business environment and trained in the bureaucracy in its country has more knowledge than PCN thus HCNs information asymmetry with a principal is more than PCNs. In case of mentioning "control and supervision" at the international arena, the main subject is the subsidiaries pass to an autonomous structure as the MNCs are exposed to information asymmetry and bounded rationality (Roth & O'donnell, 1996). All participants used the expressions supporting the opinion that control was difficult in the international arena.

In the research, one of the important reasons for the difficulty of control seems to be the differentiation of the goals with cultural reasons. As Schwartz (1999) states, it is not possible to talk about a goal type that is effective in all cultures. Therefore, the issue of the goal difference between the principal and the agent becomes more complex in the MNCs that is operating among cultures. There is evidence that the effect of the target difference on the agency relationship may be higher due to cultural differences in cases where the HCN is hired as an agent. The expressions of PCN-2 and P-3 who are working in Russia are remarkable. The control of the agents who have the majority of the initiative in their decisions is ensured by the periodic and bureaucratic control of the decisions made, as well as by the strict rules and by attempting to restrict the role and autonomy of the agent (Ouchi, 1980). The expressions of the participants also support this situation. In the research, there is evidence supporting the opinion that there may be differences in the decisions of the agent, in case the agent is PCN or HCN. 70% of the participants expressed their opinions on this matter and stated that the PCNs decided according to the dynamics of the MNC, and on the contrary the HCN decided according to the dynamics of the environment of host country. The answer is given by HCN-1 in the Trust and Socialization line of Table 03 clearly supports this view. In this context, there is evidence that it is difficult to prevent the opportunistic behavior of the agent in the international arena despite the strict control mechanisms. 78% of the participants reported that it was not possible for the supervisory mechanisms to prevent the %100 of opportunism of the agent and they indicated that "loyalty and trust" are at the forefront in the international arena. There is a certain level of trust in each relationship, and the literature of trust and the literature of agency theory is studying on a very similar field of study (Beccerra & Gupta, 1999). Therefore, to separate the two research approaches from each other will make the phenomenon difficult to understand, especially in the international arena where uncertainties are very high. We have observed that the concept of trust and loyalty has become more prominent in international environments where cultural and institutional differences, information asymmetry levels and bounded rationality have increased to higher. In the research, 78% of the participants emphasize the importance of trust and especially the expressions of HCN-4 makes a very clear sample of emphasis on trust. If we define trust as a belief that

an actor will fulfill his obligations, act in a foreseeable manner, and act fair when there is a chance for an opportunity (Zaheer, McEvily, & Perrone, 1998), we can consider the trust of the principal to the agent as a belief that the agent will act in accordance with the principal's goals. In this case, the principal would prefer PCN who worked in the same workplace, who has predictable behaviors due to his past behaviors, who he believes he has common goals with himself, to HCN who he could not foresee the behaviors. Socialization is an important factor that enables the formation of this belief (Pina e Cunha, Kamoche, Marziliano, & Vieira da Cunha, 2003/2004). Socialization is an important factor that enables the formation of this belief (Pina e Cunha, Kamoche, Marziliano, & Vieira da Cunha, 2003/2004). Furthermore, according to the agency theory, the principal should limit the ability of the agent to act in accordance with their own interests (Jensen & Meckling, 1976), in this respect socialization limits the behaviors of agent and formalize them foreseeable (Ambos, Kunischa, Leicht-Deobaldc, & Steinberga, 2019), thus the participants' expressions strongly support this opinion and they mentioned that the socialization is used as a control mechanism in the MNCs. In this respect, it can be said that Control with Socialization and Trust is an important factor in dealing with agency problems.

Regarding "uncertainty and risk perception", the following issues can be taken into consideration. Uncertainty may affect the agent's motivation, and the principal-agent contract process can, of course, be signed under conditions of uncertainty (Mitnick, 1973), which can cause problems for one or both of the parties. Uncertainties arising from institutional or cultural differences may directly affect the performance of the agent and may affect the perceptions of the principal about the performance of the agent. In the corporate difference line of Table 03, the expressions of PCN-3 about this subject is very clear.

Our findings support the views that the outcome-oriented contracts that will be preferred to share the risk in case of high risk will increase the costs (Eisenhardt, 1989). The agency theory states that the principal is neutral against the risk but the agent is the party that avoids risk (Eisenhardt, 1989; Shapiro, 2005), but there is not a large number of studies in the scope of agency theory in terms of risk aversion levels of the agent or neutrality of principal against risk. In our study, we not only found the level of attitudes of the agent to the risk but also the serious clues about the risk perception and the approach to risk could change according to the cultures. Another issue that makes our findings even more interesting is the agents in Turkey is complaining about the principals who are hesitating to take the risk. While some of these complaints can be explained by the information asymmetry and the bounded rationality of the principal but this situation does not eliminate the doubts about whether the country or regional dynamics can affect risk perception and motivation to take the risk. Expressions of HCN-1 and HCN-4, who has worked with western culture as HCN in their business life and have worked with Middle East culture as PCN, are noticeable about this subject.

In terms of "incentive and contract", the interpretations made by the participants were perceived as that the contracts are seen as bureaucratic details. In particular, the interpretation of P-2 on the subject supports this opinion. The research shows that, in cases where the sanctions of the contracts are not sufficient, the principals are looking for agents who are the same alignment with their own goals by using incentives, hiring PCNs who are with the same socialization context or using strict selection methods to eliminate the adverse selection hazard. All the participants agreed that the incentives were clearly differentiated for HCN and PCN. PCNs expect the improvement of social support against the country's security risks or health risks, and asks for incentives such as periodic country visits, private health

insurance and subsistence aids. As risks increase, the costs of incentives are also increased. The expressions of HCN-3 and P-3 are remarkable about this subject. Factors considered under the title of "bounded rationality", including the ability to process information, individual communication ability, learning problems, and cognitive boundaries, also include strategic behavioral preferences which including deception such as selective or corrupt information transmission, which may arise from the internalization of "perverse" norms (Mitnick, 1973). In the research, it was observed that PCNs and HCNs were able to bound the rationality by engaging in perverse or strategic behaviors. The majority of the agents expressed indirectly that they caused bounded rationality, therefore tendency of concealing information due to their strategic behavior preferences can be considered to be quite common. Besides, bounded rationality; can also be seen in cases where principals cannot monitor performance, behavior and other activities of agents (Roach, 2016). HCN-3 and PCN-2 clearly expressed that the bounded rationality of a principal may be resulting from the information asymmetry. However, the uncertainty perceived by the principal due to lack of knowledge affects risk perception of principal and correspondingly they do their decisions under bounded rationality. It can be said that "agency costs" increased as the risks increased. The PCN is exposed to uncertainties resulting from a lack of information in the host country, thus their risk perception increase. Increasing the risk perception of the agent causes an increase in the incentives to be given. The risk perception of HCN decreases as the host country has less uncertainty for HCN (Boyacıgiller, 1990; Luo & Shenkar, 2006). In contrast, risks for PCN are increasing due to the uncertainties that exposed to in the host country and so eliminating these risks brings additional costs for the principal.

Table 03. Expression samples of the participants

	Parent Country National (PCN)	Host Country National (HCN)	Principal (P)
Information Asymmetry Institutional Differences	<p>PCN-2: Since I know that country better than my managers, I could make much more easy decisions as a result of that information and these were approved by the management. For example, when you ask the managers the same decision for Turkey, they may have very different thoughts, but my opinion was playing a much more dominant role there.</p> <p>PCN-5: It is possible to learn the institutional structure in some way even it is hard. Or, it is possible to overcome the institutional structure differences by taking advantage of the consultants, but corruption and bribery require a separate expertise and it is not very easy to find help. There is corruption in every level in the country I work in, this rules of corruption mechanism requires you to learn an informal structure that is not written. To understand corruption, you must live with corruption.</p>	<p>HCN-4: For example, they told me to do the recruitment and dismissal. Don't even ask us. Two years later, they said, let's just see the names. Because they had trouble. They had two labor courts. They saved some property. So disgrace. It is very difficult to manage the lissom mind of the Turkish people. One signature was adequate at their country, but three signatures are being taken side by side in Turkey. I could not tell any foreign companies even Spanish, Portuguese, British, American. You're going to sign three.</p> <p>HCN-5: For example, an American or a European does not know the political situation or social code in Turkey. My job is to explain to them. I give an example; The demands of the government or the customer may not be very meaningful to our top executives.</p>	<p>P-3: It is more advantageous to have an HCN in a view angle, where you pass the bureaucracy more quickly. Whether there are bureaucratic obstacles, bureaucratic procedures, we know them more, we can get faster. When it is Turkish, the rate of adaptation to the bureaucracy is prolonged. Trying to find the provision to domestic demand in Turkey is taking time to find the right documents. For example, they are asking for documents, understanding what the documents are, and the availability of them is taking time for PCN. (...) Security, there is a difference, you're safe in Turkey, you know the rights here and can defend those rights more easily.</p>

	Cultural Difference	<p>PCN-2: How the person on the other side will speak; even if it is understood as a language; let's say English agreed, but maybe the man doesn't want a man to throw his legs crossed, or he doesn't want him to speak out loud. Contact with the HCN will not be comfortable. With the HCN, he may think that he/she will have problems in terms of language whether linguistically and communication.</p>	<p>HCN-1: Can't able to communicate, can not communicate, cannot take an interpreter every time, because, at worst, the PCN English has to carry a very good junior engineer. Each time, because the technical issues must be a little to understand, the junior engineer will make the translation, otherwise, it is impossible to progress.</p> <p>HCN-3: Obviously, an extra effort is needed, if I am transmitting information to a Turkish employer, I can transmit in a shorter time.</p>	<p>P-2: We cannot communicate with HCN on many issues, our values are different, our world view, our commercial view may be different. There's no point in pushing things. You prefer the people you trust, with your language, religion, faith, life. We prefer citizens of our country as managers.</p>
		Parent Country National (PCN)	Host Country National (HCN)	Principal (P)
	Cultural Differences	<p>PCN-3: Of course you always feel like you're under psychological pressure. And that's the thing that affects performance the most, because you're frustrated. You can't decide. Think about it, in a country where you don't know anything.</p>	<p>HCN-4: I'm speaking generally here, but it is difficult that an American understand even speaking in Turkey. We talk such implicit expressions. Because he doesn't know the culture, sometimes he may not understand.</p>	<p>P-3: We are racing fastly at there, we want to finish a job in a much shorter time there, the culture of them is slower than the Turks, they are slower. They can't comprehend why we're going so fast.</p>
Bounded Rationality		<p>PCN-2: If you say all the things you know, work never goes away. You need to bring the information from a filter, you want to make it softer. Wherever you go, a Turkish businessman thinks the same with all the conditions of Turkey. They think of the brand as it is known in Turkey.</p> <p>PCN-3: Sometimes you do little tricks here. Sometimes you don't say all these decisions to the headquarters. Here you can not reflect all the events to the center.</p> <p>PCN-5: The reason I was going there was that they couldn't understand the conditions there. They got a bid, they run their business over a branch in there, but the guy who is working there, doesn't pass on information, they can't make a decision, they're blind. Money needs to be paid, the branch says that it needs money, but they didn't know why that money is needed, They felt they had to pay because they wanted the business to keep going.</p>	<p>HCN-2: Let me tell you more clearly, we are trying not to reflect them. We tell them there is a somehow been misunderstood, we tell them we will solve it with writing, but we solve it by talking to the customer somehow.</p> <p>HCN-3: I need extra effort. I'll be communicating in a shorter time if I am transmitting a Turkish employer. A little bit more phone calls and longer speeches are needed while talking to manager from foreign country, to eliminate misunderstandings. Because they do not recognize geography. The person who is the manager of the Turkish branch manager needs to know the cultural situation here. Because they really know that he can't understand here.</p>	<p>P-2: "If you do not see or if you see risky you are protecting yourself as much as possible. The reports given by the people(agent) are very important. Including your own predictions in accordance with these reports, you enter into a decision process. Right or wrong results will be seen in the future, but we get in the opportunities which look good, I never know how will it have resulted. "</p> <p>P-3: (...) Whether bureaucratic obstacles, bureaucratic procedures, we know more about them with HCN, we can move faster. (...)We can decide faster in Turkey, we can respond faster. But organizing the team in the foreign country is hard. First of all, you have to make sure that the team knows the subject there. The difference is the uncertainties.</p>
Control	Control Method	<p>PCN-2: Every three months I was coming here and reporting, staying here for a week, reporting all the details about there and learning the latest developments about the company. Apart from this, about a 2-3 months period, either the general manager and boss or sometimes boss comes alone. Sometimes the manager of the export department stays there for a while. He does on-site inspections, sometimes a staff could be sent by the manager for dedicated duties such as a warehouse counting. So there was a continuous follow-up.</p>	<p>HCN-1: We would have our monthly audits. Sometimes once a month, sometimes every three months. Sometimes small, sometimes big. We'd report a lawyer what we did. We would report on our occasional work. Together with their general definition, we did not engage in any bribery, and we signed online signatures that we read very well the ethical rules of the company.</p> <p>HCN-4: Reporting. Reporting is critical. Reporting at the right time. Written communication and also continuous phone calls. I was always on the phone. So communication-based. The man (Principal) comes once a month. Receives reports. He was doing evaluation meetings with us. We were reporting everything.</p>	<p>P-1: When we supervise our other employees, we do the audits with our customers and the confidential customers we concur with.</p> <p>P-2: Computerized control mechanisms are used, each item is tried to be used as much as possible, otherwise, you cannot control it in this sense.</p> <p>P-3: Continuous analysis, continuous reporting period is 10-days, I visit there ten days a month. If there is a Turkish employee, you reduce your visits to ten days at two months. Your reports become more reliable if the employee is Turkish.</p>

	Hardness of Control	<p>PCN-3: You get a job there, for example. The headquarter cannot know, whatever you do. You buy, you sell something. The headquarter cannot understand.</p>	<p>HCN-4: Country manager of a company. I won't give you his name. One day he came to me and he gave me advice. She says she bought a ticket for 200 euros, she asked for 1000 euros writing for the bill. She says let them pay. She says that "I'm buying a television for the office but I'm putting it to my house because they don't come and do not see".</p>	<p>P-2: We are supervising, of course, supervising could be with our channel, by the staff there, it is also happening with external audit companies, we can not say that the supervision is 100% successful. We have lots of problems with supervising and control.</p>
		Parent Country National (PCN)	Host Country National (HCN)	Principal (P)
	Trust and Socialization	<p>PCN-2: For example, when I went there, I had been working here for four years, so I was undergoing any kind of supervision, so there was trust. But from there, when you hire a Russian person, there is no trust.</p> <p>PCN-3: (If the employee is PCN) Easier control. So, in fact, the convenience of double-sided communication. Ease of communication with the boss, ease of communication with you. The boss thinks he can control you better. He thought he could lead you better. If he was a Turkmen, trust descends to zero. So first we need to establish trust again. First, it starts from scratch. Whatever happens, you always have a suspicious look at Turkmen.</p>	<p>HCN-1: If I talk about the Swedes, as I said, the Swedes would be a bit rigid about the same subjects, but because they were like processed from the same lathe, it wouldn't have been a very different decision.</p> <p>HCN-4: Any mechanism except trust, does not work here. You can also supervise with trust.</p> <p>HCN-5: So, in fact, there is a control mechanism in the contract, or on paper. In real life, it goes with very mutual trust.</p>	<p>P-2: You have to trust people, you'll try a little bit, then you'll trust. We may not be able to do many things together with HCN, we cannot communicate, our values are different, our view of the world is different, our commercial view is different. You prefer the people you trust with language, religion, belief, life.</p> <p>P-3: If I send an employee from here, he understands my goals better. He makes me spend less energy. I'm looking at the employee being trustworthy because it's a very remote area. Away from your control. You're waiting for the employee to defend your interests, defend your interests. When the employee is a foreigner, it takes time to understand and realize these expectations.</p>
	Uncertainty and Risk Perception	<p>PCN-3: As I said, you don't go with math. That's where you sum two with two and you can find many results. So two workers can bring two technical staff and knock over the mountains, on the contrary, you can sit idle for ten days. You can do twenty days of work in two days.</p> <p>PCN-5: It was hard to figure out how things work. I stayed there for a year and didn't understand how they worked. I tried not to leave his words to not make a mistake when we had a business partner there. I was planning activities, but I was trying to convince our business partners to start because I was afraid to do it alone, too risky, you don't know anything and you're afraid to make mistakes.</p>	<p>HCN-1: Working with the North people, because of extreme rigidity I've had problems, flexibility zero, they do not accept. he says "I don't take this risk, you take". I had problems due to they do not take risks. That was the biggest problem.</p> <p>Researcher: A German, risk perception in Turkey, differ from your perception of risk, behavior outside the rules may be more risky for him. Therefore, can we say that giving up risky opportunities are quicker for him?</p> <p>HCN-3: Yes.. (Mirroring)</p> <p>HCN-4: Man does not get in risk easily. Why would he get in? But our Turkish structure is sometimes a huge advantage. Sometimes also disadvantage. Either the Turk is regularly attacking to the Roman army. Because it's irregular. Because Turk is going to die, so he takes a risk easily. Our Turks are not like them.</p>	<p>P-3: And there's a lot of risk. Abroad, of course, the greater the risk, the greater the gain. Take Iraq as an example; your costs increase because of security risks. When the number of people who want to go to Iraq decreases, the costs are increasing.</p>
	Incentives and Contract	<p>PCN-1: Your requirement, when your need for that company is no longer a sine qua non, it is possible that the employee and the professional person can use it against the boss to make more money. When I know so much in that country, the boss wants you to be a partner with his own business so that I make the decisions in favor of both of us, I give a decision by myself, but I'm not working on my own behalf.</p> <p>PCN-3: It's your job to turn your relationship with the state level from one company to the next. This is in nature. So I told you?. Now that guy gets a good relationship, he brings good business to your company. If he brings good work he wants to get more money. If you satisfy his desires, this man will always work with you.</p>	<p>HCN-2: Currently, such as Russia, Romania, Poland, and Turkey we have managers in the countries themselves. All of our friends are successful who have survived so far. There is a natural selection in the work. When you look at the macro, I gave the same money to all of them, they all tried similar things, they produced different results. Why and how he's trying to learn. He is also dismissing a man who has been insisting on producing bad results for a year. "</p> <p>HCN-3: In terms of my employer; Though if the employee was a German running in here, he would very likely work for them at a higher cost. He would have been more costly. Maybe they could give incentives for him to live in a more difficult country. I'm happy with my own situation. Thank God, I say every day. But I know that I've created a very little cost for them.</p>	<p>P-1: We offer a partnership with our employees so that we share the risks and gains with them.</p> <p>P-2: you have to tie the employees (agents) with material terms. You can not do anything else, share can be given, or you can make a partnership contract with the employee... You need to satisfy him, you cannot let him leave you because when he left, you will be get in a bad situation. As he is a manager you need to give what he deserves, because of the dedication to have a commitment to you or get a commitment to your work.</p>
		Share/Bonus Applications	Parent Country National (PCN)	Host Country National (HCN)

Share/Bonus Applications			P-3: "When the employee in the country is Turkish (PCN), you are showing a number of goals, you are saying a number of bonuses, so the employee becomes more motivated. You cannot show such a bonus and goal to the local employee (HCN). When he is Turkish, you are offering high earnings, you offer minimum three times more fees than here" because Iraq "There are a number of negativities related to security; if you offer him to go European country, the incentives for Europa are lower than Iraq."
	Contracts		<p>HCN-1: Together with the general definitions of our interim work we had signed online signatures that we read Sveko ethics very well and we did not interfere with any bribery.</p> <p>P-2: (...) we are doing a contract with our employees, but If you ask, is there logic for us? , I don't find it very logical, (...) we have a contract to do legal things, but I can't say we're very successful in contracting with employees.</p>

6. Conclusion and Discussions

We believe our study makes several contributions. Firstly, from an agency theory perspective, this paper highlights that the uncertainties arising from cultural and institutional differences made the agency relations more complicated than the local environment. In addition to these, cognitive differences due to cultural differences and institutional differences lead to a differentiating the agency relationship between HCN and principal from the agency relationship between PCN and principal. Secondly, according to our findings there are differences between HCN and PCN about agency relationships. However, it is seen one more time that the information asymmetry becomes deeper in the international environment, and it seems that to transfer the decision-making authority to the agent due to this depth is necessary. Thirdly, in subsidiaries, there is a tension between agents being integrated into the company and being integrated into the host country. In this case, the choice between PCN who is more integrated with the company and the HCN, which has more information about the country, is forcing the principals. In terms of principal, this selection has many differences in terms of information asymmetry, bounded rationality, control methods and agency costs. Fourthly, it is possible to say that the information asymmetry between the HCN and the principal has increased and also the limited rationality has increased due to cultural and institutional structure differences, cognitive differences and language barrier and also, it is possible to say that there are cultural difficulties related to aligning the goals between principal and HCN. In addition, there is strong evidence that different control mechanisms should be established for the HCN who is outside the mechanism of socialization. Fifthly, due to the higher uncertainties, there is evidence of widespread use of sharing risk with outcome-oriented contracts based on the depth of information asymmetry in the international setting where the risk is greater. In addition, it is more difficult for the control mechanisms and incentive systems to force the agent act in line with the goals of the principal, and it is possible to say that there is a tendency towards trust between the principal and the agency in order to overcome the agency costs. However, significant evidence has emerged that the socialization control mechanism can help to make the behavior of the agent foreseeable and help in overcoming the agency problems. The evidence is found that PCN, which is socialized both at country level and at the organizational level, may be more advantageous in terms of agency costs.

It can be said that the findings are consistent with the suggestions that have been brought while creating the theoretical framework.

6.1. Limitations and implication for future research

The findings of this study have a several limitations that can be addressed by future research. Although the participants represent different positions, they are all Turkish citizens, therefore, the research does not include the cultural differences of other nations. For example the research offers evidence that contracts could be seen as a detail rather than a sanction in Turkey. Based on this evidence, we suggest that a detailed investigation of the effects of cultural and institutional differences on the effectiveness and sanction of contracts will contribute to the literature. And also, research on the differences in the perception of risk according to the other cultures, and the effects of the attitudes of cultures on risk to the agency relationship will contribute to the literature. It is possible that the principal and agent goals may be differentiated due to the cultural and social impacts so that researchers who want to conduct research in the context of institutional and cultural distance should examine the dimensions of the principal and agent goal differences, research the effects of these dimensions on the relationship would contribute to the literature.

The fact that the participants of the research are Turkish citizens restricts the universe of the research. In addition, the nature of qualitative research method creates an important restrict in terms of accessing participants who do not have the appropriate time for interviews, and for the time of the researcher. We suggest that control mechanisms in MNCs should be investigated in detail within the framework of the agency theory, considering that the sanction power of contracts can be evaluated differently according to countries. However, we suggest that socialization as a control mechanism (Beccerra & Gupta, 1999) to be investigated in detail within the scope of agency theory, as a mechanism supporting behavior and outcome control will be a significant contribution to the literature so the researchers should also examine the socialization in the scope of agency theory. The results of our analysis are limited because the effects of cultural and institutional differences on the agency relationship were discussed in the international arena, but the effects of the relative cultural and institutional distances of the countries on the agency relationship were not investigated. A study in this direction will make an important contribution to the internationalization literature in particular. According to our findings, there was no clear evidence that different industries affected the agency relationships in the MNCs, but few studies on the effects of industries on agency relations showed some evidence (Stroh, Brett, Baumann, & Reilly, 1996), ipso facto the agency theory researchers should take into account the effects of the industry in the studies of agency theory. In the research, participants who are from limited number of industries could be reached and the research could not be extended to all industries. Future studies may examine extend the research, to the other industries. The results are limited because the research does not examine all the relationships between international trade activities at all levels. TCN who has problems in understanding the norms and expectations of both the MNC and host-country stakeholders (Torbiörn, 1985) was not examined in the study.

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