

**ACES EU CENTERS OF EXCELLENCE
GRANT DELIVERABLE**

GWU

AY 2011-12

**EXECUTIVES AS AGENTS: EXPATRIATE
MANAGERS IN SUBSIDIARIES OF
MULTINATIONAL BANKS**

Hein Bogaard

EXECUTIVES AS AGENTS: EXPATRIATE MANAGERS IN SUBSIDIARIES OF MULTINATIONAL BANKS*

Hein Bogaard
George Washington University

Marketa Sonkova
Boston University

First draft: October 2011
This draft: June 2012

Abstract

Performance and behavior between domestic and foreign-owned banks are grounded in assumptions about the ability of parent banks to provide subsidiaries with capital and knowledge and to manage asymmetric information and agency problems in the parent-subsidiary relationship. We complement research on internal capital markets and investigate how foreign owners of banks in emerging markets use their power to appoint executives at their subsidiaries to manage agency problems in the parent-subsidiary relationship. We find that perceived corruption and poor ICRG risk scores are associated with the appointment of parent-country executives as supervisors on behalf of the foreign owner. By contrast, a focus on retail clients, the absence of organizational routines and poor creditor rights are associated with the appointment of host-country executives. These bank and country characteristics create agency problems within the subsidiary, but not necessarily between the subsidiary and its parent. As such, they create a need for host-country executives' superior knowledge of local markets and staff rather than for the supervisory role of parent-country executives.

* Contact: Hein Bogaard, School of Business, George Washington University, 401 Fungler Hall, 2201 G Street NW, 20052 Washington D.C. phone: +1 202 994 0820, fax: +1 202 994 7422, email: hbogaard@gwu.edu. We have benefited from comments from seminar participants at HEC Montréal and the Academy of International Business and we are grateful to the GW CIBER and the GW European Union Center for support and to Max Rewak for excellent research assistance.

1. Introduction

Over the last twenty years, banks from advanced economies have made large investments in emerging markets, both through greenfield entry and through acquisitions particularly in Latin America and Central and Eastern Europe (CEE) (Claessens and Van Horen, 2012). A growing literature shows that foreign-owned banks in emerging markets tend to outperform domestically-owned banks in both profitability and efficiency (e.g. Claessens, Demirguc-Kunt and Huizinga, 2001, Bonin, Hasan and Wachtel, 2005b, Bonin, Hasan and Wachtel, 2005a, Micco, Panizza and Yanez, 2007, see Cull and Martínez Pería, 2010 for an overview). The superior performance of foreign-owned banks in emerging markets is attributed to preferential access to capital through their parents (Claessens, et al., 2001, Gormley, 2010), the quality of corporate governance (Buch, 1997, Jotev, 2001), knowledge transfers from parents (Bogaard and Svejnar, 2012), and cherry picking the best clients (Claessens, et al., 2001, Detragiache, Tressel and Gupta, 2008).

A related literature argues that foreign-owned banks have trouble collecting and processing soft information on borrowers, and therefore shy away from opaque borrowers such as small and medium-sized enterprises (SMEs, Mian, 2006, Sengupta, 2007, Detragiache, et al., 2008). However, the evidence on this claim is mixed. Several authors find that foreign ownership improves access to finance for small borrowers (Clarke, Cull, Martinez Peria and Sanchez, 2005, Giannetti and Ongena, 2009, Cull and Martínez Pería, 2010, De Haas, Ferreira and Taci, 2010).

Explanations for differences in performance and behavior between domestic and foreign-owned banks are grounded in assumptions about the ability of parent banks to provide subsidiaries with capital and knowledge, and the ability to manage asymmetric information and agency problems in the parent-subsidiary relationship (Stein, 2002). However, while there is evidence on the workings of the internal capital market in multinational banks (De Haas and Van

Lelyveld, 2010), research on governance relationships between parent banks and their emerging market subsidiaries is, to the best of our knowledge, mostly limited to case studies (Majnoni, Shankar and Varhegyi, 2003, Simkuté, 2007, Szczesniák, 2007, Tóth, 2007).

In this paper, we investigate how foreign owners of banks in the CEE region appoint executives at their subsidiaries to manage the parent-subsidiary relationship. Following the literature on international banking, we use a principal-agent perspective to describe this relationship (Aghion and Tirole, 1997, Stein, 2002). We cast executives and especially parent-country executives that are appointed at foreign subsidiaries as monitors on behalf of the foreign owner (Edstrom and Galbraith, 1977, Kobrin, 1988, Boyacigiller, 1990). Host-country executives by contrast, are expected to have a better understanding of local markets and institutions (Gupta and Govindarajan, 1991). The presence of host-country executives may improve the quality of information held by a subsidiary, but it will also increase information asymmetries between the subsidiary and the parent. Finally, we draw on the banking and law and finance literatures to identify institutions and bank strategies that affect the nature of the agency problem that multinational banks face. We exploit cross-country and time-series variation in institutions and strategies to understand how multinational banks use the appointment of executives to satisfy the need for monitoring and for local knowledge.

The empirical analysis is based on a unique new dataset with information on executives in 74 banks in fourteen CEE countries over a six-year period (2005 to 2010), which we hand-collected from official bank websites and annual reports. The data comprises 2,017 executive-year observations in 340 bank-year cells. In addition to the executive's name, age, nationality, and tenure in his/her current position, we also collected information on prior experience and education, including experience and education abroad. We also have extensive bank ownership

information, bank accounting information from the *Bankscope* database, and information on institutions from a variety of other sources. Finally, we were granted access to the Banking Environment and Performance Survey (BEPS) conducted by the European Bank for Reconstruction and Development (EBRD). The BEPS contains information on strategies as well as perceptions of institutions.

The empirical analysis shows that banks that focus on retail clients are more likely to appoint host-country executives, who understand the local environment. Similarly, banks that have not implemented routines such as credit scoring and give branch managers authority to approve relatively large loans are more likely to appoint host-country executives, who are better placed to deal with information asymmetries between managers and loan officers.

Improvements in ICRG risk ratings, which measure the overall quality of institutions, are associated with the appointment of fewer parent-country executives. By contrast, better creditor rights are associated with the appointment of more parent-country executives. We argue that uncertainty about overall policy and perceived corruption cause information asymmetries between foreign owner and subsidiary. Better ICRG ratings are associated with a reduction of asymmetries and thus a lower need for monitoring by parent-country executives. Poor creditor rights by contrast, create information asymmetries within the subsidiary, but not necessarily between subsidiary and foreign owner. Creditor rights affect the uncertainty about individual borrowers, but not uncertainty about average default risk in the loan portfolio of a bank. Hence, weak creditor rights create a need for host-country executives' local knowledge, while the foreign owner can manage agency problems by treating executives at the subsidiary as delegated monitors (Diamond, 1984).

Our main results are robust to a variety of specifications and hold for incumbent executives as well as for new appointments. In addition, we show that the results hold when we redefine nationality to include “hybrid” host-country nationals with foreign work or educational experience (Thomsen, Alexandra, Randoy and Oxelheim, 2011). We find that when demand for parent-country nationals increases, so does the demand for hybrid host-country nationals.

Our paper complements research on internal capital markets within multinational banks. In a recent paper, De Haas and Van Lelyveld (2010) show that multinational banks use the allocation of capital both to facilitate lending by subsidiaries if host-country economic conditions are favorable and to constrain lending when the opportunity cost of lending increases. However, the internal capital market is only one among several mechanisms through which multinational banks govern their foreign subsidiaries (De Haas and Naaborg, 2006). Here, we focus on the appointment of executives as a governance mechanism and investigate how banks use these appointments to manage and mitigate agency problems between them and their emerging market subsidiaries.

Our work also complements research on the impact of hierarchical decision making on lending behavior (Stein, 2002, Degryse, Laeven and Ongena, 2009, Liberti and Mian, 2009). Specifically, we show that institutional and organizational characteristics that cause agency problems within a bank need not create agency problems between a bank and its owner. Further research should determine if this can explain the divergence in findings about the role of foreign-owned banks in retail lending (Mian, 2006, De Haas, et al., 2010).

Finally, we contribute to the literature on the appointment of expatriates in foreign subsidiaries (i.e. parent-country executives). Within this literature, we focus on the role of parent-country executives in knowledge transfer and control on behalf of headquarters (Franko,

1973, Edstrom and Galbraith, 1977, Prahalad and Doz, 1981, Egelhoff, 1984, Black and Gregersen, 1999, Wang, Tong and Koh, 2004). Our principal contribution to this literature is in our consideration of the interaction between the appointment of parent-country executives, subsidiary strategies, and institutions in the host country (Collings, Scullion and Dowling, 2009).

The rest of this paper is organized as follows. In Section 2, we discuss the theoretical background and develop our hypotheses. Section 3 presents data and methods and section 4 the empirical results. We discuss the results and present conclusions in section 5.

2. Background and hypotheses

Theoretical models of international banking tend to assume that foreign-owned banks are less well-informed about the creditworthiness of borrowers than domestically-owned banks (Sengupta, 2007, Detragiache, et al., 2008, Gormley, 2010). This assumption is motivated in more general models of agency problems in hierarchical organizations (Aghion and Tirole, 1997, Scharfstein and Stein, 2000, Stein, 2002). In these models, agents evaluate projects and communicate the results to a principal who can verify some, but not all the information about the project that the agent provides. Depending on his or her assessment and the allocation of decision making authority, the principal may decide to overrule the agent. In turn, the possibility that an agent is overruled reduces incentives to collect information, especially when that information is non-verifiable (Aghion and Tirole, 1997, Stein, 2002).

In line with these models, research shows that, as the hierarchical distance between loan officers and decision makers grows, non-verifiable “soft” information is used less in decision making (Liberti and Mian, 2009). Similarly, there is evidence that geographic and cultural distance between foreign owners and their banking subsidiaries leads the subsidiaries to shift

lending to transparent borrowers and those about whom little information is available (Mian, 2006, Berger, Klapper, Martinez Peria and Zaidi, 2008).

In spite of informational disadvantages, foreign-owned banks can compete with domestically owned banks as long as they have a sufficiently low cost of capital (Sengupta, 2007, Gormley, 2010). Consequently, De Haas, et al. (2010) show that foreign-owned banks expand their lending relative to domestically-owned banks when there is a crisis in the host country, i.e. when the cost of capital increases for domestic banks.

The role of parent country executives

We investigate how foreign owners use the power to appoint executives at their subsidiaries to manage the parent-subsidiary relationship. In doing so, we focus on the executive board as the primary interface in the relationship between owner and subsidiary. Below the board-level, subsidiary staff is overwhelmingly from the host-country and it is at the board-level that foreign owners can appoint parent-country executives as supervisors (Edstrom and Galbraith, 1977, Kobrin, 1988, Boyacigiller, 1990).¹ A second role of parent-country executives is to facilitate knowledge transfer between parent and subsidiary (Gupta and Govindarajan, 2000). Owners need to balance their desire for oversight and knowledge transfer with the need for insight into the local market that host-country executives provide (Gupta and Govindarajan, 1991).

The balance between oversight and insight shifts with the local institutional environment and with the strategy of the bank. We exploit variation in these variables to better understand the way in which banks use executive appointments to manage agency relationships.

¹ As long as the foreign owner is the major or even the only shareholder, supervisory boards also act on behalf of the foreign owner. However, supervisory boards meet irregularly and thus provide less direct oversight than executives. Moreover, from an empirical point of view, a scan of the composition of executive boards suggests that variation in their composition is driven by legal considerations (e.g. the requirement to have worker representation) rather than by the owner's concern about principal-agent relationships which is the focus of our investigation.

The law and finance literature identifies a variety of institutions that affect banks. In this regard, the literature has focused on creditor rights, legal arrangements that facilitate legal action to enforce a claim against a borrower, reduce uncertainty about credit risk. Strong creditor rights make it less likely that a borrower stops paying without reason and enables banks to make good predictions of loss following default (Djankov, McLiesh and Shleifer, 2007, Haselmann, Pistor and Vig, 2010). Hence, creditor rights lessen the need to rely on soft information to estimate borrower risk. More generally, better institutions such as a stronger rule of law or better control of corruption reduce the need for hands-on monitoring by parent-country executives. This produces the first hypothesis:

Hypothesis 1: Bank subsidiaries operating in a strong institutional environment are less likely to have (have fewer) parent-country executives.

A caveat to this hypothesis is that host-country executives are better able to cope with weak institutions. In particular, they may be better able to anticipate actions of unpredictable politicians and regulators or to negotiate a settlement with borrowers when legal recourse is unavailable (Zaheer and Mosakowski, 1997, Mian, 2006). However, the same local connections that give host-country executives access to information also make them susceptible to pressure from politicians or executives of local companies or even to corruption.

Strategy and parent-country executives

In addition to institutions, bank strategies determine the severity of principal-agent problems within multinational banks, the need for a good understanding of local markets and thus the choice of executive. For the purposes of this paper, we define strategy in terms of (i) client orientation and (ii) the existence of organizational arrangements that reduce agency problems.

One of the remarkable aspects of the surge in foreign ownership of banks has been the fact that foreigners have acquired banks with large branch networks and a focus on consumers and small and medium enterprises (Guillén and Tschoegl, 2000). Banks with such a retail-oriented strategy need a good understanding of the local banking market as well as the labor market; retail banking is labor intensive. We therefore anticipate that these banks are more likely to appoint host-country executives.

An additional reason to expect that a retail focus is associated with the appointment of home country executives is that the opacity of retail clients causes agency problems within a subsidiary (i.e. between loan officers and local managers), but not necessarily between a subsidiary and its foreign parent. An individual consumer or SME borrower may be opaque, but the risk on a portfolio of loans to such borrowers need not be difficult to assess (Diamond, 1984). To the extent that the risk on the portfolio is a function of national, regional, and sector-level economic development, both *ex ante* and *ex post* information on the risks are reasonably hard. This leads to the second hypothesis.

Hypothesis 2: Foreign-owned banks with a strong focus on retail clients are less likely to have (have fewer) parent-country executives.

Just like restrictions on certain types of lending and monitoring can be used to address agency problems, banks can also develop organizational routines that help reduce principal-agent problems. Routines or “standard operating procedures” alleviate agency problems in the sense that they prescribe the way in which agents perform their duties (Nelson and Winter, 1982). In the banking context, credit scoring is an example of a routine. Loan officers are required to make a credit assessment based on a pre-specified set of variables. As such, credit scores “harden”

information on borrowers (Stein, 2002) and limit information asymmetries between loan officers and their superiors (Berger, Frame and Miller, 2005).²

Routines reduce the need for “local” information and thus the need for local executives. In emerging markets moreover, the development of credit scoring and other routines requires knowledge transfers that can be facilitated by parent-country executives. Hence:

Hypothesis 3: Foreign-owned banks that rely on routines are more likely to have (have more) parent-country executives.

3. Data and methods

The empirical analysis relies on data from 74 foreign-owned banks over the years 2005 to 2010 from thirteen countries in the CEE region (Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Kazakhstan, Latvia, Lithuania, Macedonia, Poland, Romania, Slovakia and Ukraine). The countries in this region have experienced a significant increase in foreign ownership of banks since the middle of the nineties. Over the same period, most of the countries have implemented significant institutional reforms, some faster than others (Cottarelli, Dell'Araccia and Vladkova-Hollar, 2005, Beck and Laeven, 2006). As a result, the region now has a diverse landscape of institutions and foreign-owned banks that comprises international network banks such as Citibank, pan-European banks like the Unicredit group, and several Austrian banks that took their first steps abroad when the markets in neighboring CEE countries opened up.

Executives

² Strictly speaking, limits on lending to opaque clients are also routines and poorly designed credit scoring systems may well have the effect of reducing the availability of credit to consumers and small and medium enterprises. However, the goal of credit scoring is to improve the quality of information on borrowers and if done well, it can expand access to credit (Petersen and Rajan, 2002, Berger, et al., 2005).

Data on bank executives is not readily available in database format and we hand-collected comprehensive data on the executives of the banks in our dataset. The dataset comprises 686 executives with a total of 2,014 executive-year entries from 340 bank years. In addition to the names, gender, and nationalities of executives, we collect information on their age, tenure at their current bank, prior experience, and education. We are especially interested in foreign experience and education. Host-country executives who have worked or studied abroad are likely to be more apt to communicate with headquarters. The main sources of data are bank websites and annual reports. To fill in missing information, we also looked up profiles of executives on a limited number of reputable websites such as Bloomberg BusinessWeek.

Table 1 gives an overview of executive by nationality and by executive function. Overall, 37 % of executive-year observations are from parent-country nationals, while 165 out of 356 (46 %) of executives that are newly appointed during our sample period are from parent countries. Our definition of parent-country executives includes so-called “third-country” nationals who come from neither the parent nor the host country. Most third-country nationals have experience at the parent bank. It is our understanding from informal discussions with banks that third-country nationals are considered part of the international staff and are expected to move to different positions within the multinational network of the bank or back to headquarters. Within our theoretical framework, it therefore makes sense to treat them as parent-country nationals.³

Based on the information available from the banks, we divided the executives by functional area. The functional split in Table 1 reveals an interesting pattern. Along with Deputy CEOs, executives with responsibilities for financial and risk management are most likely to be parent-country nationals. However, a large majority of executives responsible for sales and client

³ In an exception to the third-country rule, we treat executives from Slovakia that work in the Czech Republic and vice versa as well as executives from the former Yugoslav republics (Croatia, Macedonia and Slovenia) that work in one of these countries a host-country nationals.

relations or for internal operations are host country nationals. In and of itself, the distinction between these functions point to the different strengths of host- and parent-country nationals. The sales and operations functions (which include human resources) involve relations with host-country clients and staff and put a premium on familiarity with local markets and culture. By contrast, having a parent-country national in the finance and risk function facilitates monitoring from headquarters.

We summarize executive characteristics in Table 2. On average, the executives in our database are males in their mid-forties, with parent-country executives slightly older and more likely to be male than their host-country counterparts. Host-country executives are more likely to have at least a master's degree, but they are less likely than parent-country nationals to have foreign work experience or a foreign education.⁴ Finally, parent-country nationals have a shorter tenure at both the subsidiary and in the board than their home-country counterparts but, unsurprisingly, a longer tenure at the parent company.

Aside from information on bank executives, our dataset contains subsidiary-level accounting data from Bureau van Dijk's Bankscope database. In addition, we were granted access to the Bank Environment and Performance Survey (BEPS) that was held by the EBRD in 2004. The BEPS asked bank executives in the CEE region a wide range of question on bank strategy and their perception of the local business environment. Finally, we use country-level data from a variety of sources including the World Bank and the annual International Country Risk Guide.

Empirical Strategy

⁴ Foreign experience does not include experience an executive's current position.

In our baseline model, we estimate the likelihood that an executive is from the parent country as a function of a measure of institutional quality (hypothesis 1) or bank strategy (hypotheses 2 and 3) and a number of control variables:

$$Parent\ Country\ Executive_{ijkt} = f(X_{jkt}, Executive\ Controls_{ijkt}, Bank\ Controls_{jkt}, Country\ Controls_{kt}) + \varepsilon_{ijkt} \quad (1)$$

In equation (1), the subscript i identifies an executive, j identifies the bank, k the country and t the year. The institutional and strategic variables of interest are represented by X . We use a linear probability model in most of the estimations that we present in this paper. However, we also estimate a logit specification of the model to check the robustness of our results. The error term, ε_{ijkt} has a zero mean and we cluster the errors to allow for correlation of the errors within banks.⁵

In estimating equation (1), we treat bank characteristics and in particular bank strategies as pre-determined. That is, we implicitly assume that the strategy guides the choice of executives rather than the other way around; insofar as executives shape bank strategies, they do so as representatives of the parent banks, not as independent actors. We are comfortable with this assumption because, by the mid-2000s the majority of foreign owners of banks in Eastern Europe had well-developed strategies to establish their presence on the markets for banking services in the CEE region.⁶

Variables

⁵ Ideally, we would cluster the errors at the country level because that is the level at which institutions are measured (Moulton, 1990). However, with only thirteen countries and an unbalanced distribution of observations across countries, it is not feasible to estimate clustered standard errors at that level (Bertrand, Duflo and Mullainathan, 2004).

⁶ Tschoegl (2005) describes a subset of the foreign investors banks in the CEE region and other emerging markets as bettors, prospectors and restructurers. The first two types take a backseat or wait-and-see approach in the management of the banks they invested in, while the restructurers take an active role with the objective to improve performance. By 2004, most investors in CEE banks that can be described as bettors or prospectors had sold out or turned into restructurers.

The dependent variable *Parent Country Executive* is generally a dummy that is equal to 1 if an executive is from the parent country or from a third country. In an alternative specification, we create a categorical variable that allows for “hybrid” nationalities on the basis of international experience (Thomsen, et al., 2011 see Table 6). The variable is higher for host-country nationals with education or work experience abroad than for host-country nationals without such experience. It is highest for parent-country executives.

We use three different types of measures for institutions. First, the BEPS survey asks whether bribery is common in the courts or among regulators. We take the country-level averages of these answers as an indicator of the perceived level of corruption among regulators and in the courts. We expect this corruption to be associated with the appointment of parent-country nationals because it increases the need for supervision of host-country staff and increases the level of uncertainty about the business prospects for banks. Second, we use the ICRG composite country risk index as well as the ICRG measure for bureaucratic quality as measures of the general strength of the institutional and regulatory framework in a country.⁷ Again, we expect that higher risk (lower ICRG score) is associated with more parent-country executives. Finally, we use two measures from the World Bank’s Doing Business database⁸ to measure the quality of credit market institutions. The first measure is the creditor rights index, which is higher if a country has better legal arrangements to deal with collateral and bankruptcy. The second measure is the creditor information index, which is higher if credit bureaus have more extensive coverage of the credit histories of borrowers. Both creditor rights and creditor information reduce the need to rely on soft information in lending decisions and facilitate *ex ante* assessments of borrower risk. We expect that higher scores are associated with fewer

⁷ <http://www.prsgroup.com/ICRG.aspx>

⁸ www.doingbusiness.org

appointments of parent-country executives. Table 3 provides summary statistics on the institutional as well as the other variables.

In order to test hypothesis 2, we rely on the BEPS as well as on accounting data to measure banks' orientation towards retail clients. First, the BEPS survey asks banks what share of their lending goes to and what share of deposits comes from households. The benefit of these measures is that they are clean indicators of a bank's focus on retail clients. The drawback is that the measures are only available at the beginning of the sample in 2004 when the BEPS survey was held. Therefore, we use the *Bankscope* data to calculate the ratio of demand deposits to loans. This is an indirect measure of the retail focus of banks because banks with a large branch network have access to low-cost deposit funding as compared to banks without the infrastructure to reach out to retail clients.

For hypothesis 3, we draw on the BEPS data for three proxies of policies that affect the level of information asymmetries within the bank. The first two proxies indicate whether (i) banks use information from a credit bureau and (ii) whether they use an internal credit ratings system. We think of these practices as routines that reduce the need for local information and thus for host-country executives. The final proxy is a dummy that is equal to 1 if the maximum size of a loan that can be approved by branch managers is less than the country level median.⁹ The higher the loan size, the less stringent internal routines are, and thus the more likely it should be that banks appoint host-country executives.

At the level of executives, we control for their gender, their education (a dummy indicating whether they have a master's degree and a dummy indicating if information on education is available) and four dummies to indicate that they are the CEO, a finance/risk officer,

⁹ This dummy can also be seen as a measure of the hierarchical nature of the internal organization or the level of decentralization (Degryse, et al., 2009, Canales and Nanda, 2012).

an operations officer or a sales officer. At the bank level, we control for size (log of assets and log of assets squared) and for the number of years under foreign ownership. In addition, we include a dummy to indicate that a bank was established as a greenfield bank. Greenfield banks are often smaller than acquired banks and also tend to have a narrower mandate with a focus on e.g. corporate banking or home-based clients. At the country level, we control for the log of GDP per capita, which is a proxy for demand conditions but is also highly correlated with the general business climate (Commander and Svejnar, 2011). In addition, we include GDP growth and the ratio of bank credit to GDP as controls. The former is another proxy for demand conditions and the latter a proxy for the development of the banking sector. Finally, we include two dummies for French and Socialist legal origins in the model (the omitted category is German). Legal origins guide the development of the institutional framework for business transactions including contract law and conflict resolution (LaPorta, LopezDeSilanes, Shleifer and Vishny, 1997).

4. Results

The first set of regressions relates the appointment of executives to the quality of institutions the host country. The first column includes only the control variables and shows that female executives and sales executives are less likely to be from the parent country, which was already apparent from Tables 1 and 2. Large banks are less likely to appoint parent-country executives, although the positive coefficient on log assets squared implies that the effect of size shrinks when banks get larger. Parent-country executives are also seen less in countries with well-developed credit markets. The other control variables are insignificant and generally remain so after we include the institutional variables.

In the second and third columns, we enter the bribery indicators to the equation. As anticipated, higher perceived levels of bribery are associated with an increase in the likelihood that owners appoint parent-country executives. The results in columns 4 and 5 reinforce this: higher ICRG ratings (higher ratings mean lower risk) are associated with a drop in appointments of parent-country executives. However, better creditor rights are associated with an increase in the likelihood that parent-country executives are appointed. Better creditor rights also have a positive effect, but the coefficient is insignificant in this case.

In Table 5, we re-estimate the model by executive function (to save space, we omit the coefficients on the control variables from the table). The results indicate that both an increase in bribery and a worsening of ICRG risk ratings are associated with the appointment of parent-country CEOs (the p-value of the coefficient in panel A, column 1 is 0.11). The appointment of parent-country executives in finance and risk functions becomes less likely when the ICRG score for bureaucracy quality increases. According to the ICRG methodology, higher scores imply that policies and regulation are more stable so that there are fewer financial risks from changes in regulation. The coefficients in column 4 reveal that the appointment of parent-country executives in sales functions is an important driver of the positive association between parent-country executives and improvements in creditor rights.

We report the results of several robustness tests in Table 6. Panel A repeats the estimations of Table 4, but in a logit specification. All coefficients on the institutional variables are of the same sign and they are of similar significance. In panel B, we restrict the sample to newly appointed executives only. This reduces our sample size by more than 80 percent. In spite of this, all coefficients keep their signs and the coefficients on bribery in the courts and on bureaucracy quality remain significant. Finally, in Panel C, we use a categorical variable that

“rewards” host-country executives for international experience. The underlying assumption is that international work or educational experience facilitates communication between host-country executives and foreign owners and thus makes these executives more useful in their roles as monitor on behalf of the parent. Again, the estimates confirm the results from Table 4.

Parent-country executives and strategy

In Table 7, we report the results of the regressions of parent-country executive appointments on bank strategy. In the first three columns, we use the proxies for retail orientation as measures of strategy. All three coefficients are negative as expected, and in two out of three cases they are significant. Regressions in alternative specifications (Table 8, columns 1 to 3) show that in particular the coefficient on *% Loans to households*, which is probably the best proxy for the agency problems that arise as a result of a retail focus, is robust.

In columns 4 to 7, we use our measures for routines as strategy variables. The coefficients are all positive as expected and the coefficients on the branch manager’s approval limit as well as the routines dummy are both significant. We cannot tell with certainty, of course, why the other coefficients are not significant, but it may simply be the case that there is insufficient variation: 85 % of the banks in our sample use credit scoring and 77 % use information from credit bureaus. The coefficients on the approval limit and on the routines dummy are also significant in a logit specification, and also when we limit the sample to newly appointed executives (Table 8, Panels A and B, columns 6 and 7).

Further analysis

So far, we have found that improvements in the general business environment and a drop in perceived corruption are associated with fewer appointments of parent-country executives. At the same time, improvements in creditor rights, institutions that are specific to the credit market, are associated with an increase in appointments of parent-country executives. Furthermore, we found that banks with a retail orientation are likely to appoint host-country executives, while banks that restrict the authority of their branch managers are more likely to appoint parent-country executives.

These results are in line with our hypotheses except for the positive relationship between creditor rights and the appointment of parent-country executives. We anticipated that, because creditor rights reduce information asymmetries, they would reduce the need for monitoring and therefore the need for parent-country executives – this appears not to be the case.

There are two possible explanations for this result. To begin with, it could be the case that better creditor rights give a bank leeway to pursue clients that would be too opaque or risky without secure creditor rights. In that case, a change in strategy in response to better creditor rights negates any reduction of agency problems that results from better creditor rights, or even reverses the effect. If this is true, we would expect that an improvement in creditor rights has a larger impact on executive appointments in banks with a strong focus on opaque clients such as retail clients. We investigate this in Table 9, Panel A, where we estimate a model that includes creditor rights, a measure of retail orientation and, in one specification, an interaction between the two. The table shows that the coefficient on *% loans to households* and on *Deposits / Loans* are significant, just like in Table 7. The coefficient on creditor rights loses its significance in the first four columns. However, we checked and found that this is due to the reduction in sample

size, not the inclusion of the strategy variables. The interaction between retail focus and creditor rights is never significant, so we find no support for the hypothesis that the positive coefficient on creditor rights is due to changes in strategy that coincide with better creditor rights.

An alternative explanation for the positive coefficient on creditor rights is that weak creditor rights cause agency problems within the subsidiary, but not between the subsidiary and the parent. As long as the loan portfolio is large and diverse enough, weak creditor rights may raise the expected default rate but need not affect uncertainty expected default rates. The foreign owner can then essentially treat the executives of a bank as delegated monitors (Diamond, 1984). In this case, host-country executives are well-placed to address an increase in asymmetric information between loan officers and the management of the subsidiary that arises due to weak creditor rights. By contrast, ambiguity about general regulatory frameworks and corrupt courts and regulators generates uncertainty about portfolio risk. Foreign owners respond to this type of uncertainty by sending parent-country executives as supervisors.

We further investigate this in Panel B of Table 9, where we combine indicators of overall institutional quality with those of credit institutions. By and large, the coefficients on the ICRG scores remain significant in these regressions. Where they do not, it is by a small margin only. In columns 1 and 2, the p-values are 0.103 and 0.115 respectively. The coefficients on credit institutions however are never significant (the lowest p-value, in column 1, is 0.139) and the interactions are not significant either. These results imply that the impact of the general business climate, which affects the level of information asymmetries between parent and subsidiary, on the appointment of parent-country executives dominates that of institutions that are specific to the credit market and affect information asymmetries within the subsidiary.

5. Conclusion

We investigate how foreign owners of banks in emerging markets use their power to appoint executives at their subsidiaries to manage agency problems in the parent-subsidiary relationship. We find that banks with a focus on retail clients are more likely to have host-country executives, who understand the local environment. Similarly, banks that do not have strong organizational routines are more likely to have host-country executives, who are also better placed to deal with information asymmetries between managers and loan officers. Banks that operate in institutional environments that are poor in general are more likely to appoint parent-country executives. By contrast, poor creditor rights are associated with the appointment of fewer parent-country executives.

These results are important in the context of research on the impact of hierarchical decision making on lending behavior (Stein, 2002, Degryse, et al., 2009, Liberti and Mian, 2009). Specifically, institutional and organizational characteristics that cause agency problems within a bank need not create agency problems between a bank and its owner. Further research should determine whether this can explain why some researchers find that foreign-owned banks are reluctant to engage in retail lending while other find the opposite (Mian, 2006, De Haas, et al., 2010).

Table 1 Parent Country Executives

Executive Title	Observations	% Parent country	New Appointments	% Parent country
Chief Executive Officer	339	41.0%	54	53.7%
Deputy CEO	85	48.2%	13	61.5%
Finance/Risk Function	380	48.2%	79	58.2%
Operations/IT/HR	267	33.0%	57	42.1%
Sales Function	607	24.5%	116	30.2%
Legal Officer	35	20.0%	7	42.9%
Unspecified / General	301	46.5%	30	63.3%
Total	2,014	37.1%	356	46.1%

Notes Parent country executives are all executives that do not come from the country where a bank is located, except if the executive is from Slovakia and the bank is in the Czech Republic and vice versa or if both the executive and the bank are from one of the former Yugoslav Republics (Croatia, Macedonia and Slovenia). Source: own research from bank websites and annual reports.

Table 2: Executive Characteristics

	Obs.	Median	Mean	St. Dev	Min	Max
Panel A: Host-country Executives						
Age	505	43	43.67	7.70	28	69
1 if Female	1,267	0	0.20	0.40	0	1
1 if Master's Degree	1,002	1	0.70	0.46	0	1
1 if Foreign work experience	1,267	0	0.17	0.38	0	1
1 if Foreign Education	1,002	0	0.29	0.46	0	1
Years in Executive Position	1,106	2	3.79	4.03	0	21
Years in Board of Directors	1,084	3	4.55	4.49	0	23
Years in Subsidiary	1,047	8	8.87	6.94	0	39
Years in Parent Company	1,077	7	6.82	4.22	0	24
Panel B: Parent-country Executives						
Age	315	46	46.50	7.77	31	67
1 if Female	747	0	0.05	0.23	0	1
1 if Master's Degree	584	1	0.64	0.48	0	1
1 if Foreign work experience	746	1	0.58	0.49	0	1
1 if Foreign Education	584	0	0.39	0.49	0	1
Years in Executive Position	640	2	2.18	2.26	0	11
Years in Board of Directors	642	2	2.48	2.36	0	11
Years in Subsidiary	630	2	3.23	2.93	0	16
Years in Parent Company	614	9	11.52	9.26	0	40

Notes Parent country executives are all executives that do not come from the country where a bank is located, except if the executive is from Slovakia and the bank is in the Czech Republic and vice versa or if both the executive and the bank are from one of the former Yugoslav Republics (Croatia, Macedonia and Slovenia). Source: own research from bank websites and annual reports.

Table 3: Summary Statistics

Variable	Obs.	Mean	S.D.	Min	Max	Source
1 if Parent-country executive	1,893	0.37	0.48	0.00	1.00	Own research
1 if Newly appointed Parent-country executive	334	0.46	0.50	0.00	1.00	Own research
1 if Foreign education	1,893	0.27	0.44	0.00	1.00	Own research
1 if Foreign work experience	1,893	0.32	0.47	0.00	1.00	Own research
1 if No work history available	1,893	0.00	0.02	0.00	1.00	Own research
Regulator prone to bribery	1,893	1.38	0.71	1.00	3.63	EBRD (BEPS Survey)
Court prone to bribery	1,893	1.80	1.02	1.00	5.00	EBRD (BEPS Survey)
ICRG: Comprehensive risk rating	1,889	71.88	4.94	60.20	79.20	ICRG
ICRG: Bureaucracy quality	1,889	2.46	0.76	1.00	3.00	ICRG
Creditor rights index	1,893	7.41	1.32	4.00	9.00	Doing Business
Credit information index	1,893	4.01	1.51	0.00	6.00	Doing Business
% of Loans to consumers	1,157	31.33	18.11	0.00	76.96	EBRD (BEPS Survey)
% of Deposits from consumers	1,039	51.62	16.86	0.00	85.00	EBRD (BEPS Survey)
Deposits / Loans	1,624	1.02	0.55	0.21	3.76	Bankscope
1 if Bank uses internal credit scoring	1,132	0.85	0.36	0.00	1.00	EBRD (BEPS Survey)
1 if Using credit bureau	1,294	0.77	0.42	0.00	1.00	EBRD (BEPS Survey)
1 if Branch manager approval limit is low	1,009	0.40	0.49	0.00	1.00	EBRD (BEPS Survey)
1 if Routines important	928	0.24	0.43	0.00	1.00	EBRD (BEPS Survey)
1 if Female	1,893	0.14	0.35	0.00	1.00	Own research
1 if Master's degree or higher	1,893	0.53	0.50	0.00	1.00	Own research
1 if Education not available	1,893	0.22	0.41	0.00	1.00	Own research
1 if Chief Executive Officer	1,893	0.17	0.37	0.00	1.00	Own research
1 if Finance/Risk Executive	1,893	0.19	0.39	0.00	1.00	Own research
1 if Operations/IT/HR Executive	1,893	0.13	0.34	0.00	1.00	Own research
1 if Sales Executive	1,893	0.30	0.46	0.00	1.00	Own research
log Assets	1,893	10.56	2.74	4.86	17.67	Bankscope
log Assets squared	1,893	118.96	64.03	23.59	312.09	Bankscope
log of Years under foreign ownership	1,893	2.35	0.63	0.00	4.17	Own research
Foreign greenfield	1,893	0.29	0.46	0.00	1.00	Own research
log GDP per capita	1,893	9.69	0.31	8.74	10.16	World Bank
GDP growth (annual %)	1,893	2.90	5.90	- 17.95	12.23	World Bank
Bank credit / GDP	1,893	60.43	16.74	20.76	106.24	World Bank
1 if Legal origin is Socialist	1,893	0.06	0.24	0.00	1.00	Djankov et al. (2007)
1 if Legal origin is French	1,893	0.18	0.38	0.00	1.00	Djankov et al. (2007)

Notes *1 if Foreign education* and *1 if Foreign work experience* are equal to 1 if an executive had worked or studied outside of his country of origin before accepting his or her current position. The scores for *Regulator prone to bribery* and *Court prone to bribery* are country level averages of responses to a question whether regulators or the courts were likely to accept bribes (7 point scale). *1 if Branch manager approval limit is low* is equal to 1 if the maximum loan size that can be approved by branch managers is below the country-level median. *1 if Routines important* is equal to 1 if the dummies *1 if Using credit bureau*, *1 if Bank uses internal credit scoring* and *1 if Branch manager approval limit is low* are all equal to 1. The number of observations in this table differs from that in Tables 1 and 2 because the table only includes observations for which executive, bank accounting and country-level control variables are available.

Table 4: Institutions and parent country executives

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Regulator prone to bribery		0.147*					
		[0.085]					
Court prone to bribery			0.123**				
			[0.055]				
ICRG: Comprehensive risk rating				-0.015**			
				[0.007]			
ICRG: Bureaucracy quality					-0.263***		
					[0.063]		
Creditor rights index						0.034**	
						[0.017]	
Credit information index							0.013
							[0.013]
1 if Female	-0.273***	-0.274***	-0.268***	-0.281***	-0.273***	-0.262***	-0.272***
	[0.054]	[0.053]	[0.053]	[0.054]	[0.054]	[0.054]	[0.054]
1 if Master's degree or higher	-0.059	-0.076	-0.081	-0.067	-0.085	-0.071	-0.065
	[0.067]	[0.068]	[0.068]	[0.068]	[0.067]	[0.066]	[0.067]
1 if Education not available	0.004	-0.005	-0.006	-0.004	-0.013	0.004	0.003
	[0.070]	[0.069]	[0.070]	[0.070]	[0.069]	[0.070]	[0.070]
1 if Chief Executive Officer	-0.046	-0.043	-0.040	-0.041	-0.031	-0.039	-0.047
	[0.061]	[0.061]	[0.061]	[0.061]	[0.062]	[0.061]	[0.061]
1 if Finance/Risk Executive	0.063	0.065	0.065	0.067	0.075	0.067	0.060
	[0.058]	[0.058]	[0.058]	[0.057]	[0.057]	[0.058]	[0.058]
1 if Operations/IT/HR Executive	-0.071	-0.070	-0.068	-0.071	-0.069	-0.068	-0.072
	[0.077]	[0.076]	[0.076]	[0.077]	[0.077]	[0.078]	[0.077]
1 if Sales Executive	-0.175***	-0.170***	-0.166***	-0.175***	-0.161***	-0.168***	-0.177***
	[0.050]	[0.050]	[0.050]	[0.050]	[0.051]	[0.050]	[0.050]

Continued next page

Table 4 Continued

log Assets	-0.104**	-0.082**	-0.080*	-0.102**	-0.092**	-0.078*	-0.095**
	[0.042]	[0.040]	[0.041]	[0.043]	[0.043]	[0.041]	[0.040]
log Assets squared	0.004**	0.003**	0.003**	0.004**	0.004**	0.003**	0.004**
	[0.002]	[0.002]	[0.002]	[0.002]	[0.002]	[0.002]	[0.002]
log of Years under foreign ownership	0.086	0.078	0.086	0.075	0.055	0.087	0.079
	[0.063]	[0.063]	[0.061]	[0.061]	[0.059]	[0.062]	[0.062]
Foreign greenfield	-0.127	-0.107	-0.117	-0.124	-0.109	-0.129	-0.116
	[0.098]	[0.096]	[0.097]	[0.097]	[0.093]	[0.097]	[0.097]
log GDP per capita	-0.130	0.082	0.102	0.022	0.255*	-0.087	-0.144
	[0.156]	[0.174]	[0.170]	[0.147]	[0.150]	[0.156]	[0.156]
GDP growth (annual %)	-0.003	-0.003	-0.004**	0.001	-0.002	-0.002	-0.002
	[0.002]	[0.002]	[0.002]	[0.002]	[0.002]	[0.002]	[0.002]
Bank credit / GDP	-0.004*	-0.005**	-0.006***	-0.006**	-0.005**	-0.003	-0.003
	[0.002]	[0.002]	[0.002]	[0.003]	[0.002]	[0.002]	[0.002]
1 if Legal origin is Socialist	0.071	-0.057	-0.092	0.117	-0.033	0.059	0.083
	[0.185]	[0.212]	[0.206]	[0.178]	[0.174]	[0.185]	[0.181]
1 if Legal origin is French	0.008	0.064	0.025	-0.073	-0.283**	0.044	-0.010
	[0.085]	[0.091]	[0.077]	[0.101]	[0.109]	[0.074]	[0.089]
Constant	2.397*	0.110	-0.072	2.188	-0.564	1.552	2.441*
	[1.431]	[1.640]	[1.587]	[1.368]	[1.289]	[1.407]	[1.425]
Observations	1,890	1,890	1,890	1,886	1,886	1,890	1,890
R-squared	0.104	0.111	0.116	0.111	0.133	0.110	0.105

Notes The dependent variable is a dummy that is equal to 1 if an executive is from the parent country of the bank. Standard errors, clustered by bank, in parentheses. * significant at 10%, ** significant at 5%, *** significant at 1%

Table 5: Institutions and parent country executives

Executive role (dependent variable):	(1)	(2)	(3)	(4)
	Chief Executive	Finance / Risk	Operations / IT / HR	Sales
Panel A				
Regulator prone to bribery	0.270 [0.168]	0.056 [0.146]	0.207 [0.231]	0.110 [0.122]
Panel B				
Court prone to bribery	0.222** [0.103]	0.104 [0.097]	0.126 [0.125]	0.103 [0.066]
Panel C				
ICRG: Comprehensive risk rating	-0.024* [0.013]	-0.020 [0.012]	0.005 [0.017]	-0.009 [0.010]
Panel E				
ICRG: Bureaucracy quality	-0.341** [0.143]	-0.356*** [0.127]	-0.069 [0.165]	-0.213** [0.096]
Panel F				
Creditor rights index	0.015 [0.037]	0.078* [0.040]	-0.006 [0.044]	0.050** [0.021]
Panel G				
Credit information index	0.023 [0.034]	-0.004 [0.040]	-0.036 [0.038]	0.038** [0.018]

Notes The dependent variable is a dummy that is equal to 1 if an executive is from the parent country of the bank. All regressions include the control variables listed in Table 4. Standard errors, clustered by bank, in parentheses. * significant at 10%, ** significant at 5%, *** significant at 1%

Table 6: Institutions and parent country executives

	(1)	(2)	(3)	(4)	(5)	(6)
Institutional variable:	Bribery regulator	Bribery court	ICRG: Comp. risk rating	ICRG: Bur. Qual.	Creditor rights	Credit information
Panel A: parent-country executives (logit estimation)						
Institutions	0.713* [0.412]	0.590** [0.272]	-0.073** [0.035]	-1.329*** [0.400]	0.170* [0.090]	0.064 [0.070]
Observations	1,890	1,890	1,886	1,886	1,890	1,890
Pseudo R-squared	0.091	0.095	0.091	0.111	0.091	0.086
Panel B: Newly appointed executives (linear regression)						
Institutions	0.121 [0.108]	0.126* [0.069]	-0.011 [0.012]	-0.262*** [0.086]	0.018 [0.027]	0.000 [0.022]
Observations	325	325	324	324	325	325
R-squared	0.146	0.152	0.150	0.171	0.144	0.142
Panel C: Hybrid nationalities (ordered logit estimation)						
Institutions	0.557 [0.359]	0.558** [0.227]	-0.067** [0.030]	-1.047*** [0.274]	0.240*** [0.077]	0.036 [0.066]
Observations	1,890	1,890	1,886	1,886	1,890	1,890
Pseudo R-squared	0.050	0.054	0.052	0.060	0.056	0.048

Notes The reported coefficients are the coefficients on the institutional variable (by column) in a regression of three different dependent variables (by panel) on institutions and control variables. In Panel A, the dependent variable is a dummy that is equal to 1 if an executive is from the parent country of the bank. In Panel B, the dependent variable is a dummy variable that is equal to 1 if a newly appointed executive is from the parent country. In Panel C, the dependent variable is a categorical variable that is equal to 3 if an executive is from the parent country of the bank, equal to 2 if the executive is from the host country but has international work experience and equal to 1 if the executive is from the host country and has had formal international education. All regressions include the control variables listed in Table 4. In panel B, the regression also includes the share of incumbent executives that is from the parent country and in panel C. Standard errors, clustered by bank, in parentheses. * significant at 10%, ** significant at 5%, *** significant at 1%

Table 7: Strategy and parent country executives

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	Retail focus			Routines			
% of Loans to consumers	-0.004*** [0.001]						
% of Deposits from consumers		-0.001 [0.002]					
Deposits / Loans			-0.067* [0.039]				
1 if Bank uses internal credit scoring				0.052 [0.076]			
1 if Using credit bureau					0.138 [0.089]		
1 if Branch manager approval limit is low						0.152** [0.062]	
1 if Routines important							0.146* [0.073]
Observations	1,154	1,036	1,622	1,129	1,291	1,006	925
R-squared	0.136	0.126	0.113	0.101	0.106	0.109	0.091

Notes The dependent variable is a dummy that is equal to 1 if an executive is from the parent country of the bank. Standard errors, clustered by bank, in parentheses. * significant at 10%, ** significant at 5%, *** significant at 1%

Table 8: Institutions and parent country executives

Strategy variable:	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	% Loans to consumers	% Deposits fr. consumers	Deposits / Loans	Using credit scoring	Using credit bureau	Approval limit low	Routines important
Panel A: parent-country executives (logit estimation)							
Strategy	-0.025*** [0.009]	-0.008 [0.011]	-0.332 [0.212]	0.237 [0.378]	0.718 [0.503]	0.734** [0.315]	0.675* [0.348]
Observations	1,154	1,036	1,622	1,129	1,291	1,006	925
Pseudo R-squared	0.116	0.105	0.092	0.082	0.089	0.093	0.076
Panel B: Newly appointed executives (linear regression)							
Strategy	-0.007*** [0.002]	-0.007 [0.004]	-0.093 [0.058]	0.197** [0.096]	0.163 [0.130]	0.272*** [0.094]	0.330*** [0.105]
Observations	175	157	272	184	207	160	147
R-squared	0.208	0.228	0.175	0.178	0.172	0.194	0.186
Panel C: Hybrid nationalities (ordered logit estimation)							
Strategy	-0.016** [0.007]	-0.006 [0.010]	-0.207 [0.176]	0.398 [0.337]	0.639 [0.408]	0.486 [0.334]	0.517 [0.403]
Observations	1,154	1,036	1,622	1,129	1,291	1,006	925
Pseudo R-squared	0.062	0.058	0.051	0.047	0.054	0.051	0.045

Notes The reported coefficients are the coefficients on the strategy variable (by column) in a regression of three different dependent variables (by panel) on institutions and control variables. In Panel A, the dependent variable is a dummy that is equal to 1 if an executive is from the parent country of the bank. In Panel B, the dependent variable is a dummy variable that is equal to 1 if a newly appointed executive is from the parent country. In Panel C, the dependent variable is a categorical variable that is equal to 3 if an executive is from the parent country of the bank, equal to 2 if the executive is from the host country but has international work experience and equal to 1 if the executive is from the host country and has had formal international education. All regressions include the control variables listed in Table 4. In panel B, the regression also includes the share of incumbent executives that is from the parent country and in panel C. Standard errors, clustered by bank, in parentheses. * significant at 10%, ** significant at 5%, *** significant at 1%

Table 9: Institutions, strategy, and parent country executives

Panel A: Retail focus	(1)	(2)	(3)	(4)	(5)	(6)			
Retail focus:	% Loans to consumers		% Deposits fr. consumers		Deposits / Loans				
Creditor rights index	0.013 [0.020]	0.032 [0.026]	0.020 [0.022]	0.011 [0.023]	0.043* [0.022]	0.042* [0.022]			
Retail orientation	-0.004*** [0.001]	-0.004*** [0.001]	-0.001 [0.002]	-0.001 [0.002]	-0.075* [0.039]	-0.075* [0.040]			
Retail orientation x Bureaucracy		-0.001 [0.001]		0.002 [0.002]		-0.004 [0.042]			
Observations	1,150	1,150	1,036	1,036	1,618	1,618			
R-squared	0.142	0.143	0.135	0.137	0.135	0.135			
Panel B: Routines	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	
ICRG score:	Comprehensive risk rating				Bureaucracy quality				
Credit institutions:	Creditor rights		Credit information		Creditor rights		Credit information		
ICRG score	-0.012 [0.007]	-0.012 [0.008]	-0.015** [0.007]	-0.015** [0.007]	-0.250*** [0.071]	-0.248*** [0.070]	-0.267*** [0.066]	-0.262*** [0.066]	
Credit institutions	0.027 [0.018]	0.026 [0.018]	0.005 [0.014]	0.006 [0.014]	0.010 [0.018]	0.008 [0.019]	-0.005 [0.014]	-0.009 [0.017]	
Credit institutions x ICRG score		-0.005 [0.003]		0.001 [0.002]		-0.012 [0.026]		-0.013 [0.018]	
Observations	1,886	1,886	1,886	1,886	1,886	1,886	1886	1886	
R-squared	0.115	0.117	0.111	0.111	0.134	0.134	0.134	0.134	

Notes The dependent variable is a dummy that is equal to 1 if an executive is from the parent country of the bank. The estimates represent the coefficient on *Creditor rights* (Panel A) as well as *Credit information* (in Panel B), a measure of retail orientation (Panel A) and ICRG scores (panel B) and an interaction between the two. *Creditor rights*, *Credit information*, the variables pertaining to retail focus and the ICRG scores have been demeaned in order to reduce correlation in the regressions that contain an interaction term. Standard errors, clustered by bank, in parentheses. * significant at 10%, ** significant at 5%, *** significant at 1%

References

- AGHION, P., AND TIROLE, J. "Formal and Real Authority in Organizations." *Journal Of Political Economy* 105 (1997), pp. 1-29.
- BECK, T., AND LAEVEN, L. "Institution Building and Growth in Transition Economies." *Journal of Economic Growth* 11 (2006), pp. 157-86.
- BERGER, A. N., FRAME, W. S., AND MILLER, N. H. "Credit Scoring and the Availability, Price, and Risk of Small Business Credit." *Journal of Money, Credit & Banking* 37 (2005), pp. 191.
- BERGER, A. N., KLAPPER, L. F., MARTINEZ PERIA, M. S., AND ZAIDI, R. "Bank Ownership Type and Banking Relationships." *Journal of Financial Intermediation* 17 (2008), pp. 37-62.
- BERTRAND, M., DUFLO, E., AND MULLAINATHAN, S. "How Much Should We Trust Differences-in-Differences Estimates?" *Quarterly Journal Of Economics* 119 (2004), pp. 249-75.
- BLACK, J. S., AND GREGERSEN, H. B. "The Right Way to Manage Expats." *Harvard Business Review* 77 (1999), pp. 52-+.
- BOGAARD, H., AND SVEJNAR, J., "Incentive Pay and Performance: Insider Econometrics in a Multi-Unit Firm," 2012.
- BONIN, J. P., HASAN, I., AND WACHTEL, P. "Bank Performance, Efficiency and Ownership in Transition Countries." *Journal of Banking & Finance* 29 (2005a), pp. 31-53.
- . "Privatization Matters: Bank Efficiency in Transition Countries." *Journal of Banking & Finance* 29 (2005b), pp. 2155.
- BOYACIGILLER, N. "The Role of Expatriates in the Management of Interdependence, Complexity and Risk in Multinational-Corporations." *Journal of International Business Studies* 21 (1990), pp. 357-81.
- BUCH, C. M. "Opening up for Foreign Banks: How Central and Eastern Europe Can Benefit." *Economics of Transition* 5 (1997), pp. 339-66.
- CANALES, R., AND NANDA, R. "A Darker Side to Decentralized Banks: Market Power and Credit Rationing in Sme Lending." *Journal of Financial Economics* 105 (2012), pp. 353-66.
- CLAESSENS, S., DEMIRGUC-KUNT, A., AND HUIZINGA, H. "How Does Foreign Entry Affect Domestic Banking Markets?" *Journal of Banking & Finance* 25 (2001), pp. 891--911.
- CLAESSENS, S., AND VAN HOREN, N., "Foreign Banks: Trends, Impact and Financial Stability," De Nederlandsche Bank Working Paper Working Paper No. 330, 2012.
- CLARKE, G., CULL, R., MARTINEZ PERIA, M. S., AND SANCHEZ, S. M. "Bank Lending to Small Businesses in Latin America: Does Bank Origin Matter?" *Journal Of Money Credit And Banking* 37 (2005), pp. 83-118.
- COLLINGS, D. G., SCULLION, H., AND DOWLING, P. J. "Global Staffing: A Review and Thematic Research Agenda." *International Journal Of Human Resource Management* 20 (2009), pp. 1253-72.
- COMMANDER, S., AND SVEJNAR, J. "Business Environment, Exports, Ownership, and Firm Performance." *Review Of Economics And Statistics* 93 (2011), pp. 309-37.
- COTTARELLI, C., DELL'ARICCIA, G., AND VLADKOVA-HOLLAR, I. "Early Birds, Late Risers, and Sleeping Beauties: Bank Credit Growth to the Private Sector in Central and Eastern Europe and in the Balkans." *Journal Of Banking & Finance* 29 (2005), pp. 83-104.

- CULL, R., AND MARTÍNEZ PERÍA, M. S., "Foreign Bank Participation in Developing Countries: What Do We Know About the Drivers and Consequences of This Phenomenon?," World Bank Working Paper No. 5398, 2010.
- DE HAAS, R., FERREIRA, D., AND TACI, A. "What Determines the Composition of Banks' Loan Portfolios? Evidence from Transition Countries." *Journal Of Banking & Finance* 34 (2010), pp. 388-98.
- DE HAAS, R., AND NAABORG, I. "Foreign Banks in Transition Countries: To Whom Do They Lend and How Are They Financed?" *Financial Markets, Institutions & Instruments* 15 (2006), pp. 159-200.
- DE HAAS, R., AND VAN HOREN, N., "Running for the Exit: International Banks and Crisis Transmission," De Nederlandsche Bank Working Paper Working Paper No. 279 2011.
- DE HAAS, R., AND VAN LELYVELD, I. "Internal Capital Markets and Lending by Multinational Bank Subsidiaries." *Journal of Financial Intermediation* 19 (2010), pp. 1-25.
- DEGRYSE, H., LAEVEN, L., AND ONGENA, S. "The Impact of Organizational Structure and Lending Technology on Banking Competition." *Review of Finance* 13 (2009), pp. 225-59.
- DETRAGIACHE, E., TRESSEL, T., AND GUPTA, P. "Foreign Banks in Poor Countries: Theory and Evidence." *Journal Of Finance* 63 (2008), pp. 2123-60.
- DIAMOND, D. W. "Financial Intermediation and Delegated Monitoring." *Review Of Economic Studies* 51 (1984), pp. 393-414.
- DJANKOV, S., MCLIESH, C., AND SHLEIFER, A. "Private Credit in 129 Countries." *Journal of Financial Economics* 84 (2007), pp. 299-329.
- EDSTROM, A., AND GALBRAITH, J. R. "Transfer of Managers as a Coordination and Control Strategy in Multinational Organizations." *Administrative Science Quarterly* 22 (1977), pp. 248-63.
- EGELHOFF, W. G. "Patterns of Control in United-States, Uk, and European Multinational-Corporations." *Journal of International Business Studies* 15 (1984), pp. 73-83.
- FRANKO, L. G. "Who Manages Multinational Enterprises." *Columbia Journal of World Business* 8 (1973), pp. 30-42.
- GIANNETTI, M., AND ONGENA, S. R. "Financial Integration and Firm Performance: Evidence from Foreign Bank Entry in Emerging Markets." *Review of Finance* 13 (2009), pp. 181-223.
- GORMLEY, T. A. "The Impact of Foreign Bank Entry in Emerging Markets: Evidence from India." *Journal of Financial Intermediation* 19 (2010), pp. 26-51.
- GUILLÉN, M. F., AND TSCHOEGL, A. E. "The Internationalization of Retail Banking: The Case of Spanish Banks in Latin America." *Transnational Corporations* 9 (2000), pp. 63-97.
- GUPTA, A. K., AND GOVINDARAJAN, V. "Knowledge Flows and the Structure of Control within Multinational-Corporations." *Academy of Management Review* 16 (1991), pp. 768-92.
- . "Knowledge Flows within Multinational Corporations." *Strategic Management Journal* 21 (2000), pp. 473-96.
- HASELMANN, R., PISTOR, K., AND VIG, V. "How Law Affects Lending." *Review of Financial Studies* 23 (2010), pp. 549-80.
- JOTEV, P. "Financial Sector Restructuring in Bulgaria, 1997-2001." *Financial Transition In Europe And Central Asia* (2001), pp. 73-76.
- KOBRIN, S. J. "Expatriate Reduction and Strategic Control in American Multinational-Corporations." *Human Resource Management* 27 (1988), pp. 63-75.

- LAPORTA, R., LOPEZDESILANES, F., SHLEIFER, A., AND VISHNY, R. M. "Legal Determinants of External Finance." *Journal Of Finance* 52 (1997), pp. 1131-50.
- LIBERTI, J. M., AND MIAN, A. R. "Estimating the Effect of Hierarchies on Information Use." *Review of Financial Studies* 22 (2009), pp. 4057-90.
- MAJNONI, G., SHANKAR, R., AND VARHEGYI, E. *The Dynamics of Foreign Bank Ownership: Evidence from Hungary*: SSRN, 2003.
- MIAN, A. "Distance Constraints: The Limits of Foreign Lending in Poor Economies." *Journal Of Finance* 61 (2006), pp. 1465-505.
- MICCO, A., PANIZZA, U., AND YANEZ, M. "Bank Ownership and Performance. Does Politics Matter?" *Journal of Banking & Finance* 31 (2007), pp. 219-41.
- MOULTON, B. R. "An Illustration of a Pitfall in Estimating the Effects of Aggregate Variables on Micro Units." *Review Of Economics And Statistics* 72 (1990), pp. 334-38.
- NELSON, R. R., AND WINTER, S. G. *An Evolutionary Theory of Economic Change*. Cambridge, Mass.: Belknap Press of Harvard University Press, 1982.
- PETERSEN, M. A., AND RAJAN, R. G. "Does Distance Still Matter? The Information Revolution in Small Business Lending." *Journal Of Finance* 57 (2002), pp. 2533-70.
- PRAHALAD, C. K., AND DOZ, Y. L. "An Approach to Strategic Control in Mncs." *Sloan Management Review* 22 (1981), pp. 5-13.
- SCHARFSTEIN, D. S., AND STEIN, J. C. "The Dark Side of Internal Capital Markets: Divisional Rent-Seeking and Inefficient Investment." *Journal Of Finance* 55 (2000), pp. 2537-64.
- SENGUPTA, R. "Foreign Entry and Bank Competition." *Journal of Financial Economics* 84 (2007), pp. 502-28.
- SIMKUTÉ, K. "Creating a Nordic Bank: Seb-Vilniaus Bankas." *Acquisition Strategies in European Emerging Markets*, edited by Klaus E. Meyer and Saul Estrin. New York: Palgrave MacMillan, 2007.
- STEIN, J. C. "Information Production and Capital Allocation: Decentralized Versus Hierarchical Firms." *Journal Of Finance* 57 (2002), pp. 1891-921.
- SZCZESNIAK, A. "Building Strategic Alliances to Maintain Independence: Bank Millennium and Banco Comercial Português." *Acquisition Strategies in European Emerging Markets*, edited by Klaus E. Meyer and Saul Estrin. New York: Palgrave MacMillan, 2007.
- THOMSEN, S., ALEXANDRA, G., RANDOY, T., AND OXELHEIM, L., "From Global Firms to Global Boards?," Copenhagen Business School, 2011.
- TÓTH, K. "Building Profit from Losses: K&H and Abn Amro." *Acquisition Strategies in European Emerging Markets*, edited by Klaus E. Meyer and Saul Estrin. New York: Palgrave MacMillan, 2007.
- WANG, P., TONG, T. W., AND KOH, C. P. "An Integrated Model of Knowledge Transfer from Mnc Parent to China Subsidiary." *Journal of World Business* 39 (2004), pp. 168-82.
- ZAHEER, S., AND MOSAKOWSKI, E. "The Dynamics of the Liability of Foreignness: A Global Study of Survival in Financial Services." *Strategic Management Journal* 18 (1997), pp. 439-63.