Corporate Governance Management in Automotive Group Corporations: Development of an Intragroup Corporate Governance Management Model for Financial Services Subsidiaries

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Abstract

This dissertation provides an in-depth research about the intragroup corporate governance management of automotive financial services subsidiaries. In the following, I will identify the relevant influencing determinates in automotive multinational groups and investigate the relevant corporate governance mechanisms, key topics and appropriate intragroup management instruments to increase transparency, intra-organizational alignment and governance conformity. This dissertation applies the Delphi method, which so far received only little attention within this field of research, to develop a comprehensive intragroup corporate governance management model that considers both the theoretical and practical experiences to overcome the current research deficits. I will call for a much needed, but so far solely limitedly applied, broad understanding of corporate governance that needs to be supplemented with a situational perspective to be effective. This dissertation provides insights about the intragroup corporate governance management in regard to growing legal and regulatory pressures and greater public awareness for subsidiary governance around the globe. I will demonstrate that a mixed 'glocal' management approach with a combination of centrally and decentrally managed components as well as cultural, administrative, outsourcing, planning and cybernetic management instruments, fits best to handle the heterogeneous, multifaceted subsidiary landscape in an ever-changing and increasingly competitive business environment with varying legal and regulatory frameworks in the respective host countries. This dissertation clarifies the roles and responsibilities of the parent, the subsidiaries, their involved top and middle managers as well as other involved stakeholders. Furthermore, it identifies relevant criteria for the selection of appropriate instruments to secure an effective and efficient intragroup corporate governance management and demonstrates in which way it creates value for the multinational group as a whole. The introduced intragroup governance management model integrates for the first time a comprehensive overview of all relevant intragroup corporate governance topics from a risk based approach in one holistic model and consists out of three parts: (1) management instruments, (2) focus topics and (3) the measurement of their governance maturity to identify governance deficits and variances to prioritize and define appropriate management measures. In addition, the qualitative nature of this research project helps to identify progressive success factors and challenges of the intragroup corporate governance. This dissertation provides a crucial contribution for the better understanding of the intragroup governance phenomenon within this comparatively new subfield of cross-functional corporate governance research. The matter of financial services subsidiary governance is a global topic with profound implications in many directions. This dissertation helps to shape the dialogue among scholars of different disciplines and provides new ideas on how multinational groups can better serve the needs of their societies. The gained results not only contribute to the discussion of what constitutes good subsidiary governance but also provides a foundation for upcoming discussions among academics, practitioners, regulators and supervisors.

Key words: *Corporate governance management, general management, supervision, corporate governance instruments, intragroup governance implementation, group governance, corporate governance evaluation, OEM, financial services subsidiaries, legal and regulatory requirements, banking regulation, multinational companies, automotive industry.*

Preface and Acknowledgement

This research project is a dissertation for the Augsburg University to be awarded with the academic degree of the "*Doktor rer. pol.*".

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My thanks go to all who participated in this research study. I hope the findings provide compelling, forward-looking insights, generate fresh ideas and highlight new opportunities to support, challenge and guide corporate governance management and the decision-making process among financial services subsidiaries in multinational automotive companies.

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Index of Abbreviation

ABS	Asset backed securities
AFC	Automotive finance company
AFM	Anti-Fraud Management
AKA	German Association of Automotive Banks and Leasing companies (Arbeitskreis der Banken und Leasinggesellschaften der Automobilwirtschaft
AktG	German Stock Corporation Act
AML	Anti-Money Laundering
APM	Association for Project Management
APRA	Australia Prudential Regulation Authority
BCBS	Basel Committee for Banking Supervision
BMW	Bayerische Motorenwerke
CCP	Consumer Credit Protection
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CG	Corporate Governance
CIMA	Chartered Institute of Management Accountants
CMF	Compliance Management Function
CMMI	Capability Maturity Model Integration
CoC	Center of Competence
COSO	Committee of Sponsoring Organizations of the Treadway Commission
CRD 4	Credit Requirement Directive 4
CRM	Customer Relationship Management
CRO	Chief Risk Officer
CSR	Corporate Social Responsibility
DCGK	German Corporate Governance Code
DVFA	Deutsche Vereinigung für Finanzanalyse und Asset Management e.V.
EBA	European Banking Authority
ECIIA	European Confederation of Institutes of Internal Auditing
EFQM	European Foundation for Quality Management
ERM	Enterprise Risk Management
ERP System	Enterprise Resource Planning System
EU	European Union
EVA	Economic Value Added
FCA	Financial Conduct Authority
FD	Financial Director
FSB	Financial Stability Board
GRC	Governance, Risk and Compliane
HGB	German Code of Commercial Law

HR	Human Resources
IAS	International Accounting Standard
ICS	Internal Control System
IDW	German Institute of External Auditors (Institut der Wirtschaftsprüfer)
IFRS	International Financial Reporting Standards
IIA	Institute of Internal Auditors
IRM	Institute of Risk Management
ISO	International Organization for Standardization
ISS	Institutional Shareholder Service
KPI	Key Performance Indicator
KWG	German Banking Act (Kreditwesengesetz)
KYC	Know your customer
LRP	Long range planning
MaRisk	German Minimum Requirements for Risk Management
MbE	Management by exceptions
MbO	Management by objectives
MD	Managing Director
NBFC	Non-banking finance company
OECD	Organization for Economic Co-operation and Development
OEM	Original equipment manufacturer (car manufacturer)
RMF	Risk Management Function
SEC	United States Securities and Exchange Commission
SolvV	Solvency Regulations
SOX	Sarbanes-Oxley Act
TCR	Tasks, competences, responsibilities
TQM	Total-Quality Management
TransPuG	German Transparency and Disclosure Act
VaR	Value at Risk
VorstOG	Executive Board Remuneration Disclosure Act

"…If you think corporate governance is expensive, try non-compliance. Corporate governance practice is the cost for good reputation. It is the personal life insurance of each top manager..."

[Expert 23]

1. Introduction

1.1 Research gap and research question

Since the financial crisis, prominent company scandals on board level and conflicts of interests in many ways resulted in an identity crisis of corporate governance.[1] What formerly was a topic of interest for selected corporate governance academics now has resulted in an ongoing, much discussed issue with great interest among the public, scholars and management practitioners alike.

Retrospectively, four causes are responsible for the loss of the public confidence in the economy in general and in the top managers on management and supervisory board level in particular.[2] The recent corporate governance crisis started with the Dot.com bubble, which was a result of irrational exuberance in excessive stock market speculations. Even if there is no doubt today, that the World Wide Web is a crucial tool for companies to build their businesses and match products and services, in its beginnings 15 years ago, it was not the revolutionary new business model that many had expected. At the same time, there had been numerous popular examples for bad corporate governance practices in Europe as well as in the USA, which made a significant contribution towards the financial crisis and the rapid loss of the population´s confidence in their business leaders and the economic system in general. In addition, this time was shaped by prominent examples of company failures because of strategic misjudgments (e.g. Swissair, Nokia, AOL). Institutional supervisory bodies (e.g. supervisory board / board of directors) had taken too risky strategic decisions placed by the top management as a consequence of e.g. missing management audits and the lack of professional risk management reviews on board level. Furthermore, driven by the analysis of miss-management studies, Hilb (2016, p. 4) highlights that there had often been a missing integrity of top managers and auditors, whose participation in overly risky decisions was additionally encouraged from misguiding incentive schemes (e.g. stock option programs).

Even if most of the recent **corporate governance research** refers to a specific theory, the mentioned incidents and company failures indicate that their argumentations fall short and have only limited value to explain the undesirable developments within the imperfect world due to their often one-dimensional view (cf. Hilb, 2016). For example, the often-cited **Agency Theory** is insufficient, because it assumes that earnings and share prices cannot be manipulated (Brecht et al., 2002, p. 47) and builds primarily on extrinsic motivational factors (Frey, 2011, p. 4) and ignores other possible influencing variables, such as e.g. intrinsic motivational factors. Furthermore, it concentrates solely on the top management and the shareholders while ignoring the vested interests of employees, customers or other relevant stakeholder groups (e.g. public, environment) and in addition cannot explain any country variances (cf.

[1] According to Hilb (2016, p. 3 f.) stated David Tweedie, Chairman of the International Accounting Standards Board in 2013: *"Executive boards failed, non-executives were kept in the dark, audit committees failed, auditors fell asleep at the wheel, or let problems go, credit rating agents did none too well, analysts missed it, the SEC failed to regulate, and the investment banks and lawyers (and consultants) were part of the problem, helping companies with their questionable deals . . . It wasn't just one little piece gone wrong. The whole system was collapsing."*

[2] Cf. Taylor (2003); Hilb (2016, p. 3): The four main reasons for the corporate governance crisis are: (1) on a technological level: Dot.com bubble; (2) on an economic level: the financial crisis and "bad governance" scandals (3) on a risk awareness level: high-risk corporate strategies; (4) on a social level: Missing integrity of many top executives.

Aguilera & Jackson, 2003). Thus, the monitoring role of the supervisory body has to be modified and the need of a rather comprehensive approach fulfilled, while corporate governance research has to take into account further supplementing and crucial roles of the institutional supervisory bodies. The **Resource Dependency Theory** is another example of an insufficient explanation by arguing that board members have a crucial coaching and advisory function for the CEO. I argue that under some circumstances board members and the CEO may need to maintain a clear distance from each other to secure an effective and independent supervision with a clear separation of tasks, roles and responsibilities (Daily et al., 2003, p. 376). Further, while the **Stewardship Theory** argues, that the strategic decision making of the top management can be improved if the supervisory body supports the holistic and comprehensive view on the company, the **Institutional Theory** explains corporate governance to a large extent in the context of multiple social and cultural institutional factors alone and ignores other influencing determinates. In sum, all the above mentioned existing theories explain corporate governance solely from a single perspective. To overcome the recent corporate governance crisis however, it is of utmost importance to no longer apply this narrow understanding in future research and connect the multiple perspectives in an integrated, universal corporate governance approach as Hung (1998), Htay et al. (2013) or Hilb (2016) suggested to take into account the various direct and indirect interdependencies. Nevertheless, such a comprehensive and integrated perspective, that takes into account relevant internal and external determinates (e.g. legal, regulatory, cultural, leadership or organizational issues) by applying multi criteria approaches and greater stakeholder consideration, is still missing among most management scholars and will be a matter of debate in this dissertation (cf. Haller, 2017, p. 37; Melé, 2012, p. 50).

Much of the already **existing corporate governance research** focuses on the decision-making by institutional management bodies, chief executives or other senior staff, while the most recent discussion provides substantial results regarding the incentive alignments, corporate culture, risk taking and coordination challenges within firms (cf. Tihanyi et al., 2014; Goergen & Tonks, 2019).[3] Considering that, there is an emerging interest regarding the managerial roles, organizational contexts, and internal and external social processes companies need to manage. Particularly Tihanyi et al. (2014) outline the necessity for management scholars to rethink their approach for governance research and put a greater emphasis on stakeholder engagement, implications of new technologies, social processes, global dimensions, and comparative studies for a better understanding of governance mechanisms and their multiple effects. At the same time, Aguilera et al. (2015) and Madhani (2015a; 2015b) argue that there is still research necessary, which follows a comprehensive, company-wide approach that integrates both, internal and external governance mechanisms to a greater extent and embeds them into a country's institutional, legal and regulatory environment. This confirms the intention of Tihanyi et al. (2014), who encourage aiming on a more inclusive interpretation of governance, which also take leadership systems, managerial control and decision-making procedures into account as enablers for organizations to execute their mandate. Such a comprehensive view is currently missing in the ongoing debate and will be addressed in this dissertation.

[3] Cf. Tihanyi et al. (2014) and Eulerich et al. (2014) for an overview about the latest trends governance research. Filatotchev et al. (2018) and Aguilera et al. (2019) provide a comprehensive literature review about corporate governance practice of multinational corporations.

I outline the necessity to explore new corporate governance approaches and to shift the attention away from the solely legal driven view and incentive alignment between managers and owners and towards the importance of (internal) organizational architecture, coordination, collaboration and (external) social mechanisms. This research project will contribute to overcome the above-mentioned deficits of the recent corporate governance research and broaden the debate of a better understanding by analyzing the relevant governance mechanisms and their effects on the need to rethink the term corporate governance.

In the aftermath of the financial crisis, regulators around the globe introduced **new regulation initiatives** to improve the effectiveness of corporate governance in banks and since then, it has been subject of many in-depth discussions among scholars. In banks, the effectiveness of governance mechanisms is different compared to firms with other business models, because of their unique characteristics of strong regulation, their capital structure, the complexity and opacity of their business and their structure (cf. Haan & Vlahu, 2016). There have been numerous initiatives to strengthen, overwork and implement new banking regulations (cf. e.g., BCBS, CRD IV, MiFiD, EBA stress testing, EBA guidelines) and their supervision within the last years, to overcome the recognized weaknesses of the respective corporate failures. Even so, there is still an ongoing debate about the quality and effectiveness of the existing corporate governance standards (cf. Welge & Eulerich, 2014). The serious bankruptcies and state intervention further caused a new debate about the effectiveness of the governance mechanisms and robustness of the legal and regulatory governance frameworks, which already lead to significant changes that required organizations to improve their internal governance arrangements, decision-making mechanisms or even restructure their operations. In many cases, corporate governance is no longer handled as soft law with codes and principles, but it is rather based on legal and regulatory frameworks (cf. Chaaya & Anderson, 2017).[4] Aguilera et al. (2019) outline the necessity for future research on whether and how such new corporate governance initiatives might affect multinational groups.

Nevertheless, prior literature concentrates mainly on recommendations and adjustments concerning **listed companies or standalone bank** entities but ignores the specifics of subsidiaries in intragroup structures (e.g. in terms of strategy development, company supervision, decision making scope, nomination procedures of key function holders etc.) (cf. Frederick, 2014). The current recommendations for group governance are fragmented and superficial (e.g. in terms of independent directors, intragroup decision making, committee structures) (cf. Szabó & Sørensen, 2018). Especially within the last decade multinational groups in different industries set up own (bank) subsidiaries with similar business models in varying contexts. Particularly in the automotive industry those financial services subsidiaries play an increasingly important role to support car sales (cf. Söhnholz, 2013). Even if it is clear that holding a full bank license has several advantages (e.g. direct access to central bank funding), it also contains additional risks for the car manufacturers, because e.g. a potential high revenue loss or data

[4] Soft laws are declaration of intents with no legal binding character and are usually applied on international level as memorandum of understanding. Hard laws have a clear legal obligation for the affected parties and compliance can be judicially demanded (cf. Brummer, 2017; Strauß, 2016, p. 21 ff.). For advantages and disadvantages of hard and soft law approaches, cf. Shaffer & Pollack, 2009.

breach in a bank subsidiary could negatively affect the whole automotive brand's reputation or may cause financial penalties (cf. Bauer, 2015). Despite the fact that there is a growing interest for the intragroup corporate governance management of such financial subsidiary networks, there is currently no literature available, which concentrates on this particular topic.
This is a significant research gap, as the parent companies are faced with several structural specifics, which go beyond the pure management of financial institutes. On the one hand, such comparatively high regulated subsidiaries operate in other business areas outside the traditional core competences of the car manufacturers and have to be embedded in their traditionally grown group structures (cf. Stenner, 2015, p. 6 f.). At the same time however, such financial services subsidiaries are usually not located in one location and rather have global networks to support their local sales activities within the host countries, which make direct control and monitoring from the overseas headquarters even more complex (cf. Hoenen & Kostova, 2015). Consequently, car manufacturers have to manage 'multiple embeddedness' across heterogeneous contexts at the parent and subsidiary levels. On the one hand, on headquarters level they must organize their networks to effectively exploit both the differences and similarities of their multiple host locations. On the other hand, at subsidiary level, they have to balance 'internal' embeddedness within the company-wide internal network, with their 'external' embeddedness in the host country, which implies both the necessity for a group-wide governance approach of their financial services subsidiaries, but also the complexity to meet local demands in a volatile business environment (cf. Oehmichen & Puck, 2016; Meyer et al., 2012). Nevertheless, it also means that they have to cope with multiple regulations and bank supervisory authorities in both the home country of the parent and the host country of the subsidiaries, sometimes even with contradictory requirements. In addition, they also have to deal with different cultural contexts, which impacts the awareness on the one hand, but also the interpretation of the term corporate governance, as the way in which it is handled varies around the globe.[5]

The rising regulatory pressure combined with the different natures, sizes and large number of financial services subsidiaries significantly increases the **complexities of managing global subsidiary networks** across different jurisdictions and illustrates the necessity to gain a much better understanding of intragroup governance mechanisms among member firms and their professional management as well as their involved corporate actors (cf. Frederick, 2014; Tihanyi et al., 2014; Colli & Colpan, 2016; Aguilera et al., 2019). Whereas until now, mainly the agency relationship between the parent's management board and the investors has been intensely examined, future research will have the need to go beyond that and focus on the management and intragroup governance structures, processes and other governance mechanisms of such multinational groups to better understand their dependencies (cf. Tihanyi et al., 2014; Filatotchev & Wright, 2011; 2017). This dissertation aims to close the existing research gap and to provide valuable insights for the further development of the global governance research.

[5] There is still no generally accepted, common definition for corporate governance available among regulators, scholars and companies (cf. Tricker, 2015; Witt, 2013; Feddersen et al., 1996; Conyon & Schwalbach, 2000).

Altogether, this leads to an increased **management liability** of the executives and a greater public perception on governance and compliance topics and requires a greater consideration of stakeholder interests than in the past.[6] Thus, many management boards increased their efforts to professionalize their corporate governance management within their corporate groups. Due to **external stakeholder groups' increased scrutiny of executives in multinational groups** to give account how they manage and oversee their intragroup governance framework among their subsidiaries, companies have to implement monitoring systems to detect deficits in their internal organizational structures and processes in consideration of their unique characteristics (cf. Paetzmann & Schöning, 2014; Frederick, 2014; Werder, 2015, p. 3 ff.; Martínez-Ferrero & García-Sánchez, 2017; Tihanyi et al., 2014). Customer groups, investors, regulators and other stakeholder groups expect the consolidating parent companies to demonstrate how they manage and control their subsidiary governance and fulfill their duty of care obligations. Therefore, it is of great importance to achieve such a **target oriented and proactive management** of the group-wide corporate governance, a so-called multi-dimensional approach, as Malmi & Brown (2005) firstly introduced in the context of management control systems as a package.

In the research field of business administration is corporate governance still perceived as unsystematic and fragmented (cf. Eulerich et al., 2014). At the moment is no comprehensive overview available about the critical corporate governance topics that have to be addressed in financial services subsidiaries from a risk-based perspective of the corporate parent. Thus, this dissertation concentrates on the following **research questions:**

What are the relevant determinates for the corporate governance management of the mentioned business units? In particular, I concentrate on the question, which dimensions have to be considered, which instruments are available and how they can be integrated into a coherent management model.

What are major challenges and success factors for the intragroup management of corporate governance that multinational automotive groups have to take into account?

This dissertation aims to provide a scientific contribution in this persistent discussion and aims to contribute to governance scholars' ability to gain a better understanding of the intragroup governance management. The overall objective of the dissertation project is to develop a management model for the intragroup corporate governance of automotive multinationals with financial services subsidiaries in different jurisdictions to reduce complexity and increase transparency across the global subsidiary network.

I will hereby follow a much needed, but currently rarely applied, more advanced, holistic and situational corporate governance understanding than utilized in the past, to contribute to the latest corporate governance discussion among scholars and corporate leaders alike.

[6] In particular the unique combination of stronger corporate governance regulation, state supervision and the rising numbers of subsidiaries in most multinational groups significantly increases the intragroup management complexities, favors opacity and increases management liability.

Based on a comprehensive literature review and open guided expert interviews I will subsequently develop a suitable management model that considers legal, regulatory social and organizational mechanisms as well as characteristics of wholly owned financial services subsidiaries. The developed management model will enable subsidiary boards to execute their governance duties, clarify the expectations of the parent and improve intra-organizational lucency among the entire group. Additionally, it will provide a valuable management instrument for the parent and will assist to oversee and to steer the different maturity levels of the subsidiaries. However, even if it would be of great interest, in view of the amount of time required, it is not the objective to review the effectiveness of the introduced model.

Further, I will provide indications for the selection of intragroup instruments to sufficiently manage intragroup corporate governance and identify respective success factors and challenges.

The objective of the research project is not to provide a legal evaluation of the different corporate governance regulations, nor to investigate the different corporate governance models and existing theories. Instead, it is rather about developing an approach that can support a more effective and professional corporate governance management of financial service subsidiaries to reduce the complexities within the intragroup corporate governance management and the interaction between the corporate parent and its subsidiaries.

The objective of this dissertation is to provide a crucial scientific contribution for the further enhancement of the corporate governance management as well as its control and supervision among financial services subsidiaries in automotive multinational companies. Due to the cross-functional approach of this dissertation, this research project addresses scholars and academic researchers from numerous business management related disciplines.[7]

In addition, this dissertation supports executives, managers, directors, in-house consulting and internal control units (e.g. risk, compliance, internal audit) of automotive multinationals and other corporate groups with financial services subsidiaries. Furthermore, it provides valuable information for audit, accounting and strategy consultancies, finance, human resources and strategy departments of multinational companies, lawmakers, regulators and other national and international standard setters for corporate governance.

This dissertation does not turn to readers that are looking for a legal analysis on the parent-subsidiary relationship or a detailed analysis regarding the corporate governance of listed companies. The objective of this dissertation is not to focus on an isolated in-depth analysis of the selected corporate governance topics. The primary objective is rather to investigate the different focus topics as a package, to manage the above-mentioned intra-group complexity and to overcome the recent limitations of many corporate governance interpretations.

[7] For example from finance and banking, corporate governance, regulation, compliance, organizational development, general management, international business, human resources, corporate law, accounting and audit.

The research of this dissertation is restricted towards multinational groups with numerous wholly owned subsidiaries within the automotive industry. Despite this, there are similarities and implications found that likewise can be applied to other corporate groups and industries.

Moreover it needs to be considered that there is currently a high dynamic in this field of research and that things can change quickly in the broad field of corporate governance. The research project is based on selected information from August 2015 to September 2019.

To achieve this overarching research objective, I will firstly determine key elements for corporate governance as a foundation to identify the respective governance areas and instruments in terms of financial subsidiaries. After that, I will develop a management model with the support of expert interviews and in a final step, will summarize respective challenges and success factors for the intragroup corporate governance management.

1.2 Research methodology

To investigate the identified research deficits and answer the research questions, this dissertation adopts an inductive approach. For the purpose of this dissertation, I will follow a qualitative research approach with open orientated methods and a more holistic, inductive way of proceeding, as it is the best choice to get access to the needed information. At the same time, several authors outline that there is much need for more qualitative research of significant rigor and relevance, which explores mechanisms and processes involved in corporate governance and thereby overcomes the current research limitations and improves the corporate governance understanding (e.g., McNulty et al., 2013; Zattoni et al., 2013; Mat Yasin et al., 2014). Compared to quantitative research, there is only little qualitative research found on corporate governance in top journals (cf. McNulty et al., 2013; Zattoni et al., 2013; Durisin & Puzone, 2009; Zattoni & Van Ees, 2012).

McNulty et al. (2013) call for more qualitative research in the field of corporate governance as it will help researchers, standard setters and also practitioners to improve their understanding of and ability to develop more effective and efficient governance mechanisms.

Qualitative corporate governance research is the foundation for rethinking and challenging the existing assumptions and meanings of how corporate governance mechanisms affect organizations. A more qualitative corporate governance research will help to explain the corporate governance phenomena and will enable to identify effective solutions for both scholars and practitioners to overcome the limitations of the prevalent qualitative research approaches of the last decades (cf. Judge, 2011, p. 294). A qualitative research approach enables me to gather in-depth knowledge regarding the intragroup governance management and related mechanisms and will support the development of new interpretations of the corporate governance phenomena.

There is also a growing number of scholars, which found that an increasing use of qualitative methods would enable the research community to expand their theoretical and methodological scope of their corporate governance research projects (cf. Armitage et al., 2017; Boyd et al., 2017). Apart from that, Mayer (2013, p. 22 ff.), Roll (2003, p. 315) and Tihanyi et al. (2014) further confirm the importance of more qualitative research in the field of management science.

This research project is based on two rounds of expert interviews and a final group discussion among a few of them. At its core, my dissertation follows the initial idea of the Delphi methodology, which so far has been hardly used within the field of corporate governance research.[8] Among others, Adams et al. (2007) and Sultan & Yin Wong (2013) affirm qualitative expert interviews as a suitable research method for questions that focus on complex, multi-dimensional research questions with „how" and „why", as it is the case in this dissertation project. The evaluation of the qualitative expert interviews follows the generally accepted method of Meuser & Nagel (2010), who developed an appropriate research method for the evaluation of expert interviews with open guided interview guidelines.

At first, I will conduct an in-depth literature research as foundation for the interview guideline. The first interview session will help to validate the outcome of the previous literature review and the identified focus topics, which are essential and will enable me to further expand the results with the provided information of the interviewed experts. After that, I will be able to develop a first draft of an appropriate management model, which then will be verified by a second round of expert interviews. In a final step, I will organize a group discussion among several of the interviewed experts to review and discuss the final management model in order to improve the quality of the results. The Figure 1 on the next page provides a short overview of the research methodology.

[8] For further information about the Delphi method, cf. Dalkey (2017); Landeta (2006); Dalkey & Helmer (1963).

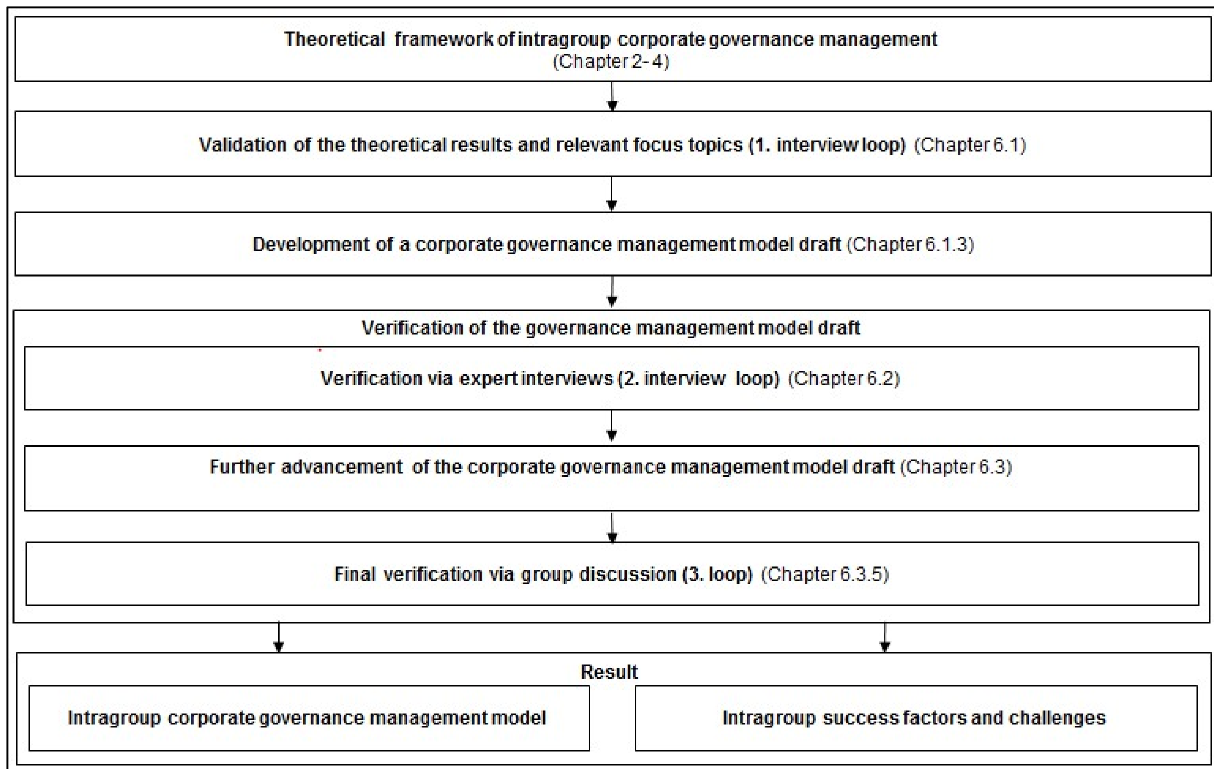

Figure 1: Research methodology.
Source: Own illustration.

This way of proceeding helps to respond the increasing demand for qualitative management research in general and for corporate governance in particular and connects the theoretical and practical perspective within one corporate governance management model.

1.3 Structure of the thesis

The dissertation starts in **chapter 1** by giving a short introduction, illustrating the existing research gaps and concluding the research questions. In addition, chapter 1 provides a short introduction of the applied research methodology and structure of this dissertation.

Chapter 2 lays the conceptual foundation for the research project and clarifies important terms, which are central for the completion of this dissertation. At first, I investigate in subchapter 2.1 the term multinational corporate group, clarify the characteristics of subsidiaries, and debate the implications of global value chains and increasingly decentralized business units for the parent-subsidiary relationship. In subchapter 2.2 I examine the business model of automotive financial services, illustrate its relevance for the automotive industry and show the consequences for the organizational setup. Subchapter 2.3 forms the basis for the corporate governance understanding of this dissertation, debates the current corporate governance approaches and illustrates the effects of corporate governance

mechanisms and its relevance in banks. Finally, the last subchapter 2.4, closes with the first implications for the intragroup corporate governance management of financial services subsidiaries.

After the relevant key terms are clarified and defined, **chapter 3** investigates the decisive influencing factors of corporate governance in multinational groups with financial services subsidiaries. The first subchapter 3.1 debates the theoretical framework determinates of corporate governance and investigates, in terms of efficiency and effectiveness, the benefit of professional intragroup management of governance from a comprehensive perspective. Moreover, I analyze the particular role of corporate culture for the effects on corporate governance mechanisms and outline the consequences for subsidiary governance.
As another relevant influencing factor for the corporate governance and its underlying mechanisms, I concentrate in subchapter 3.2 on the institutional, legal and regulatory framework conditions. Hereby I place the priority of my investigations specifically on the institutional and regulatory enforcement instruments to manage governance, as well as the latest supervisory approaches for corporate governance in banks. In addition, the next subchapter 3.3 concentrates on the frameworks and concepts for the management of internal governance and especially debates the COSO frameworks and the Three Lines of Defense Model. Finally, chapter 3 ends with an investigation of the essential corporate governance mechanisms in multinational groups from the parent and subsidiary point of view, to secure a holistic understanding of both layers.

Chapter 4 goes beyond the investigations of chapter 3 and investigates the multi-level corporate governance management of automotive multinational groups with financial services business units. Subchapter 4.1 clarifies the different intragroup governance structures, processes and responsibilities for the strategic governance and the operational governance in complex group structures. Hereafter, in subchapter 4.2 I identify the governance focus topics, which are required to ensure a consistent intragroup corporate governance management among the multiple financial services subsidiaries in different locations. In subchapter 4.3 I additionally, investigate the multiple merits of a proper intragroup management of corporate governance management, and in a final step draw the first interim conclusions in subchapter 4.4 as the initial starting point for the expert interviews.

Chapter 5 describes in detail the applied research concept of this dissertation and the underlying Delphi methodology. Subchapter 5.1 explains the applied empirical social research procedure with the open guided expert interviews and provides explanatory notes on the general research framework. In addition, subchapter 5.2 illustrates the applied evaluation method of the expert interviews according to Meuser & Nagel (2010).

Chapter 6 covers the relevant results of the empirical research, discusses and compares the results of the expert interviews with the theoretical results of the prior chapters. Thus, subchapter 6.1 highlights the results of the first interview session, which primarily aims to verify the previous outcomes and identified focus topics that are necessary for the design of a management model and the answering of the research questions. On this basis, I develop a first draft of the management model, which

will be verified by a second interview session among the experts in subchapter 6.2. Those results form the foundation to further improve, redesign and adjust the first model draft towards the final management model that will be introduced in subchapter 6.3. In essence, the final model consists out of three parts, the intragroup governance instruments, the respective focus topics that have to be addressed within the subsidiaries, and lastly a customary measurement and evaluation. Hereafter and in a final step the entire management model is discussed once again in an open group discussion with few of the experts, to de novo improve the overall outcome. Altogether, subchapter 6.4 comprises the identified success factors and challenges for the intragroup corporate governance management before subchapter 6.5 provides a shot tabular overview of the key findings.

In a conclusive step **chapter 7** draws conclusions and summarizes the key findings and lessons learned. Moreover, I highlight the additional value for practice and science, implications for the transferability and illustrate further fields of research. For reasons of clarity and comprehensibility, the Figure 2 on the next page provides a comprehensive overview about the structure of this dissertation thesis.

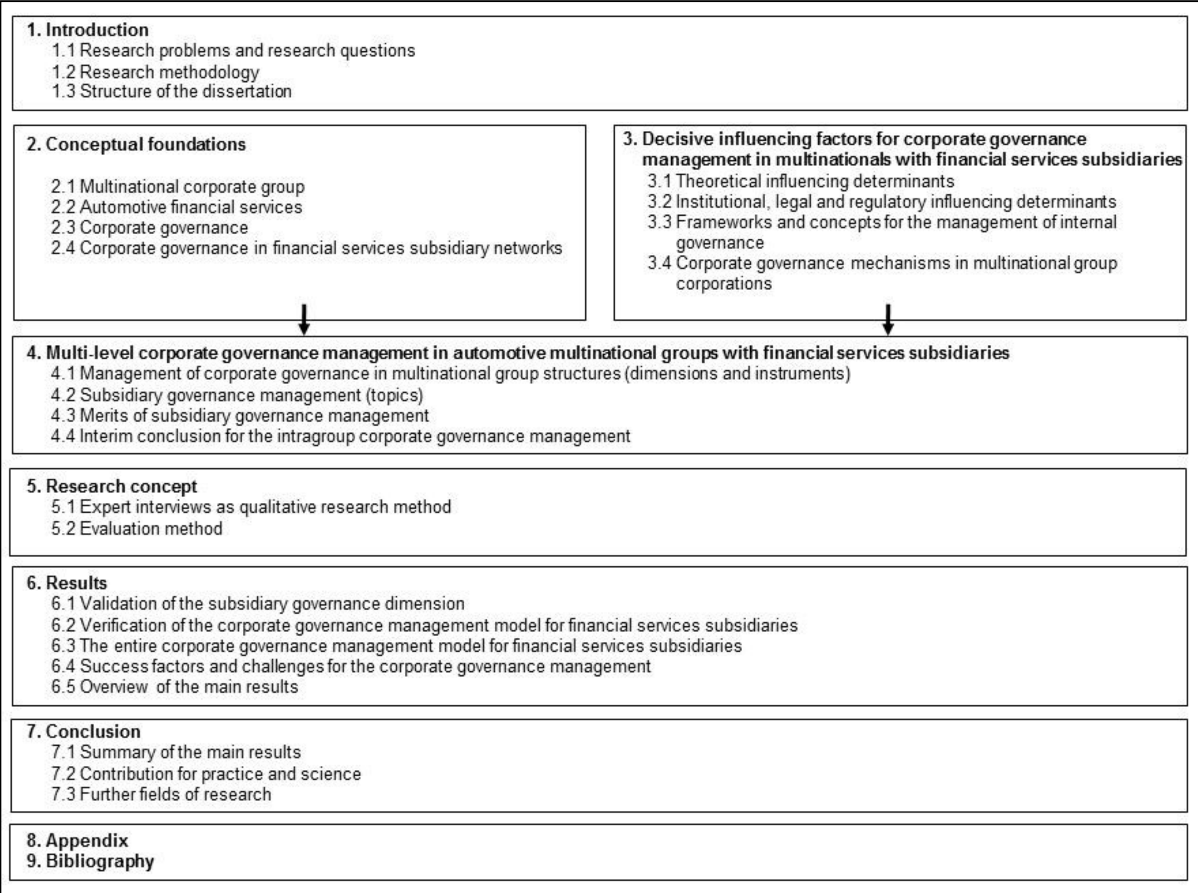

Figure 2: *Dissertation structure.*
Source: *Own illustration.*

2. Conceptual foundations

As a basic prerequisite for this dissertation project, it is necessary to ensure a common understanding of multinational group corporations and their organizational setup and to illustrate the current state of research regarding the relationship between parents and subsidiaries. I will discuss, as additional important pillars of this research project, the automotive financial services business, the role of financial services subsidiaries and the organizational setup of a financial services organization in the context of a car manufacturer. As another crucial prerequisite, I will hereafter clarify my general management understanding. In addition, I will debate the foundations of corporate governance and develop a definition for corporate governance. Moreover, I will summarize the existing governance approaches and reflect the effect of corporate governance mechanisms as a further important decisive factor of this dissertation project.

2.1 Multinational corporate group

The following sub-chapter 2.1 investigates the term multinational corporate group and examines the parent's headquarters-subsidiaries relationships. Furthermore, the various drawbacks and organizational consequences of the growing trend to decentral organizational structures in multinational group corporations are explained.

2.1.1 Definition of multinational corporate group

In the scientific literature there are often different, sometimes unspecific terms (i.e. multinational, multinational company, multinational corporation, multinational enterprise, group, transnational company) used for multinational groups consisting of a parent entity and several hierarchical dependent subsidiaries that are either fully or partly owned by its parent. For that reason, I will hereafter shortly outline the different characteristics of those definitions to clarify the definition for this research project.

In comparison to national companies, multinational companies are characterized by a large share of cross-border business activities. For example, Pitelis & Sugden (2000, p. 72) define a multinational group corporation as a company which has different facilities and other assets in different countries outside of its country of origin. Such companies have employment contracts, factories, plants, subsidiaries and / or offices in various locations and usually have a headquarters to coordinate the companywide global business management and to achieve common overarching goals (cf. Ghoshal & Bartlett, 1990). Pitelis & Sugden (2000, p. 72) state that the unique characteristic of multinational group corporations is the usage of hierarchical methods of coordination (managerial directives) to organize cross-national interdependencies to gain a competitive advantage. Hansch (2007, p. 7) goes beyond that and differentiates by a number of qualitative (e.g. negotiation style, national culture) and quantitative characteristics and categorizes the quantitative characteristics in structure related features (e.g. organizational structures, ownership rights, foreign direct investment) and performance KPIs (e.g. foreign revenue, foreign direct investments, foreign profits, number of employees etc.). Contrary, Hoffmann (1993) distinguishes between a legal and a business-related perspective within the definition of multinational companies. Whereas the legal related perspective concentrates on the corporate

structures under company law, this dissertation mainly concentrates on the business-related perspective. Theisen (2000, p. 18) provides one of the most cited business-related definitions; he defines a corporate group as an autonomous decision-making body and unity of action, which includes several legally independent and dependent entities and operations. All those companies act as one business entity in a personal, institutional and / or functional perspective. Additionally, the different economic units of the corporate group are either permanently or temporally directed towards a combined overarching economic objective. This definition emphasizes the business entity and describes the specifics in a business-related view. A network of legal independent entities is from a business management perspective recognized as one company. This complex construct requires a comprehensive mix of multiple management instruments, which coordinate, balance and overcome the organizational and legal independencies and boundaries (cf. Behringer, 2014, p. 2).

Based on the previous discussion, I argue that there is always a field of tension within the framework of a corporate group company: On the one hand, from a global perspective there is a clear single economic entity of the corporate group as a whole. On the other hand, there also exists a second perspective, which recognizes the different subordinated business units as own, legally independent entities which are embedded into this global group construct. Yet, exactly this multidimensional nature and the unique characteristics of multinational groups need to be taken into account by this research project. On the one hand, this dissertation has to balance the multiple influencing factors resulting from the different existing legal and regulatory environments and cultural differences in each host country of the subsidiaries. On the other hand, it is also requires to recognize the corporate group as one economic unity, which has to be organized to ensure the achievement of common goals.
I will make no distinction among the various terms for multinational groups as they all target on the same type of companies described above and follow in this dissertation the introduced definition of Pitelis & Sugden (2000) and Theisen (2000). Due to the decisive role of subsidiaries for this dissertation, I will analyze the specific characteristics of subsidiaries in the following paragraph.

2.1.2 Characteristics of subsidiaries

Subsidiaries are characterized by specific intra-group relationships to another company (corporate parent) that controls the subordinate subsidiary (cf. Cambridge Dictionary, 2016). Subsidiaries are companies in which another company holds more than 50 percent of the entities voting rights.[9] From a legal point of view, subsidiaries can be organized as a company, a corporation or a limited liability company.[10] They act as separate, independent legal entities in terms of taxation, regulation and liability and so differ from divisions, which are fully integrated, organizational units of a company organization (cf. West's Encyclopedia of American Law, 2016).
In most jurisdictions, the notion ‘corporate parent’ and ‘subsidiary’ are legal definitions and have far-reaching consequences on e.g. management, control, accounting and liability issues. According to the International Accounting Standard IAS 27.13 corporate parents have to incorporate all direct or indi-

[9] Those companies are often defined as corporate parent, parent company or holding company in literature. For clarification, I apply in this context the term corporate parent.
[10] In other cases, it could be also government or state-owned enterprises.

rect controlled subsidiaries in their consolidated financial statement. For example, in Germany those company constructs are handled as combined companies and have to prepare consolidated financial statements of the different legal entities that are incorporated in the full consolidation (cf. § 271 Abs. 2 and § 290 HGB).

In the capacity as owner of the independent legal entity, the corporate parent (majority owner) has the obligation to designate and recall the management and supervisory organs of its subsidiaries (cf. Tröger & Roß-Kirsch, 2015, p. 67 ff.). The parent companies create binding controlling agreements, profit transfer agreements or respective bylaws for their subsidiaries to secure the dependency of the subsidiary and their control. In addition, other group-internal mechanisms, such as budgeting processes, binding group internal corporate rules or other company individual contracts and constellations, which secure the dominant influence of the parent towards the subsidiary's senior management and the performed business, must be implemented.
Werder (2015, p. 68 ff.) explains that the most usual connecting instrument between corporate parent and the subsidiaries is the contribution of capital as minimum requirement for a multinational group construct. Further, Service Level Agreements (SLAs), terms and conditions and personal interdependencies (e.g. the nomination of the parent's board members as directors in the subsidiary boards) of relevant key functions are not only common control mechanisms, but also strengthen the multinational group framework and define in detail the relationship between the corporate parent and its subsidiary.[11] The corporate parent has the duty of care obligations for its subsidiaries and takes responsibility for them as official company owner (cf. e.g., Muscat, 2016; Eckert, 2016; Weber & Baisch, 2015; Ji, 2014; McConnell, 2014; Cauffman & Olaerts, 2011; Baierlipp, 2002; Drüke, 1990; Lutter, 1982; Müller, 1977). Terms and conditions agreements have to define in detail the relationship between the corporate parent and its subsidiary as well as the different roles and responsibilities. Derived from the above mentioned definitions, I define subsidiaries as independent companies which are controlled by a holding company (called the parent) through the ownership of greater than 50 percent of its voting stock.

Subsidiaries can be setup in different ways and for various reasons. The underlying assumption for establishing subsidiaries from a macroeconomic point of view, are the theory of absolute economics of Adam Smith (1776) and the theory of the relative (comparative) cost advantages of David Ricardo (1817). In addition, several of the macroeconomic related approaches follow the neo-classical economic theories. The underlying assumption of those overarching macroeconomic theories can also be transferred to multinational groups to explain the motivation of parent companies to setup own subsidiary networks. In essence, the overarching motivations for the installation of foreign subsidiaries are to increase sales volumes and market share, to reduce cost structures or to gain competitive advantages within better supply chain processes, improved tax management or through disparities of legal and regulatory requirements among the different countries (cf. Faix et al., 2006, p. 74).

[11] For basic elements of service level agreements, cf. Frost & Morner (2010, p. 242).

Conglomerates with horizontal and vertical corporate structures establish subsidiaries to separate the different business units and ensure greater transparency. Another advantage of subsidiary structures is that it provides the opportunity for the corporate parent to sell them easier towards others and to be more flexible in making local customizations. Affiliations are subsidiaries that are set up for the purpose of disposal. Reasons for the acquisition of subsidiaries are often the realization of synergy effects, transfer of knowhow or increased market power (cf. Guserl & Pernsteiner, 2015, p. 567 ff.).
In particular within risky business models, such as the finance and banking business, it is a common approach to setup subsidiaries for limiting the liability of the corporate parent in connection with a risky new business. As discussed later on, this is also a major driver for the OEMs to separate their automotive financial services business from the other business units (cf. Simler, 2010). Another motivation for establishing subsidiaries is to get local market access. Many host countries have legal and regulatory requirements, which define that local business activities are exclusively allowed for locally registered companies. All in all, there are various reasons why there is a rising trend among multinationals to set up subsidiaries. This trend to more global subsidiary networks also inevitably increases the complexity to manage multinational group constructs consisting of multiple natures of subsidiaries in different countries with varying business models, sizes and scales.

This subchapter has illustrated the relevance of subsidiary networks for multinational companies and provides indications for why intragroup governance management has become an increasingly important issue. In the following section, I will investigate the parent-subsidiary relationship as a further important foundation for this dissertation project.

2.1.3 Corporate parent-subsidiary relationship

Driven by their global business activities, multinationals have to find ways to manage the increased complexity in order to foster the diversification of their business models, global orientation and company growth in a volatile business environment. In the past, many of them have implemented business unit organizations, which are no longer sufficient to adequately respond to new market realities (cf. Riedl, 2013, p. 1 f.).[12] Many organizations struggle to manage themselves in an efficient and effective way and new organizational concepts influence the design of parent-subsidiary relationships.[13] Essentially, those new concepts follow the assumption that organizational efficiency particularly relies on the adaptability of the company organization towards the business environment (cf. Roth & Behme, 2013, p. 19). Currently, there is a shift away from traditional company structures with clear hierarchically and

[12] Business unit organizations are characterized by high administration costs due to large centralization units, high complexity costs, tendency to laziness. Those concepts are too inflexible due to e.g. long information and decision-making processes, little decision-making independence of employees (cf. Roth & Behme, 2013, p. 18; Riedl, 2013, p. 1 ff.). Thus, new management concepts, such as e.g. the time based management approach to reduce the time-to-market of new products, the Total Quality Management (TQM) that focuses on quality (consideration of customer demands); Lean management approach for streamlining internal processes to reduce complexity have been developed (cf. Roth & Behme, 2013, p. 18 f.; Fiedler, 2018).
[13] Several authors discuss new organizational approaches under the roof of the high performance organization (cf. e.g., Vagadia, 2014; Kappe, 2016; De Waal, 2007; Katzenbach & Smith, 2015); team concepts, empowerment, modular concepts, tele corporations, or virtual companies. Those concepts are based on modern organizational theory approaches, such as e.g. the introduced concepts of Mintzberg (1980); Walker & Lorsch (1968); Blau & Scott (1962). For further information, cf. Shafritz et al. (2015, p. 169 ff.).

functionally clustered organizational structures and rather a shift towards leaner centrally organized divisions and increased local responsibilities on subsidiary level. This requires the disintegration and reconstruction of existing hierarchies towards decentral, independent, process- and product-orientated business units which are more agile and can be coordinated more easily.

Centralization and decentralization are defined by the decision-making concentration versus decision-making autonomy and play a key role for the management of the group governance as a whole (cf. Kostova et al., 2016). A company is centralized if all decisions are made by comparatively higher ranked hierarchies or if they are even concentrated on one hierarchically high position. The greater the influence of higher-level instances is on the decision-making of the lower-level corporate divisions, the greater is the centralization of the organization. In contrast to this, a company is decentralized, when decision-making is evenly distributed among the downstream divisions (cf. Reichwald & Koller, 1996; Frost et al., 2010, p. 39). In a multinational group context, I interpret this as the allocation scope of decision-making competencies between the parent's headquarters and the business divisions or subsidiaries. Most commonly, it describes the level of autonomy of subsidiaries or regional business units. The degree of organizational (de-)centralization directly affects the corporate strategy and competitiveness of a multinational group. On the one hand, a high level of centralized decision-making leads to a higher coordination effort among the subsidiaries (cf. Zentes et al., 2013, p. 541). On the other hand, a decentralized decision-making also requires much coordination effort to ensure transparency, oversight and alignment on a consolidated group level.[14]

The relationship of the parent and its subsidiaries has been of remarkable interest to international business management researchers for several years (cf. Gammelgaard & Kumar, 2016). In the organizational research, for decades authors have been discussing the optimum balance between centralization and decentralization in the relationship between the corporate parent's headquarters and subsidiaries (e.g., Bardhan, 2002; Singh, 1986; Alonso et al., 2008; Arcuri & Dari-Mattiacci, 2010; Wong et al., 2011; Recklies, 2011; Hempel et al., 2012; Zentes et al., 2013; Roth & Behme, 2013; Faguet, 2014; Chen & Zheng, 2018; Tarwneh, 2019; De Jong & Van Vo 2019; Fatehi & Choi, 2019a; 2019b). Most of them justify their argumentation based on different theories, notably the principle agent theory and the convention theory (cf. Brandl & Schneider, 2017; Li et al., 2016; Kostova et al., 2016a; 2016b; 2018; Peng & Beamish, 2014).
The core question is how to coordinate and align decentralized decisions to reach a common objective. The debate focuses on the allocation of tasks and granting of rights to make decisions within the corporate group. Finally, the discussion about the organizational structures of multinational companies is directly linked to the centralization and decentralization of decision-making competencies and its degree of delegation towards the subsidiaries and will therefore play a key role within the intra-group separation of tasks, roles and responsibilities within the developed management model in chapter 6 (cf. Berndt et al., 2016, p. 555 f.).

[14] This perspective is also supported from the network model of Zentes et al. (2005, 195 ff.); Larson, & Starr (1993).

Already Ghoshal & Nohria (1989) realized that the internal structure in complex, multi-unit organizations of multinational groups is not homogeneous throughout the organization but is systematically differentiated to incorporate the various environmental and resource contingencies addressed by the subsidiaries in different host countries. They argue that a professional governance structure for the management of the headquarters-subsidiary relationship comprises most of different combinations of structural elements such as centralization of authority, formalization of rules and systems, and normative integration of members. Appropriate subsidiary governance structures are hierarchical and federative, but also need to be integrative. In addition, Kostova et al. (2016) provide evidence that there is a necessity for subsidiary-level variation through internal organizational and external social conditions to consider local specific characteristics. That means that there are still significant unresolved issues in headquarters–subsidiary relations. There is a satisfactory solution missing for how multinational groups can close the gap between parent's expectations and subsidiary performance. The management of the nested hierarchical interrelations across multiple organizational dimensions and the alignment of these relationships across diverse subunits embedded in different social contexts is still a major obstacle for the management of multinational groups (cf. Foss et al., 2012).[15] For the management of subsidiaries, characterized by high levels of intra-firm international inter-dependence, monitoring mechanisms and incentive compensation are insufficient (cf. O'Donnell, 2000). In this context, the well-known and often applied Agency Theory provides a useful foundation but only limited explanation of the phenomena of foreign subsidiary control. For example, Foss et al. (2012) and Lunnan et al. (2016a; 2016b; 2016c) identify social control mechanisms as a relevant key driver within the internal corporate control. While the business atmosphere significantly reduces both types of organizing-costs of the parent-subsidiary relationship, their distance increases bargaining costs (Lunnan et al., 2016c).

In practice, subsidiaries often request more autonomy than headquarters concede. The study of Homburg & Prigge (2014) illustrates that the decision-making centralization strengthens the adverse desire for autonomy, while the parent's decision-making competence can reduce this desire. This means that for the minimization of the subsidiaries' desire for autonomy, parents should credibly display high competence while allowing subsidiaries to participate in decision-making whenever possible. Chen & Zheng (2018) argue that subsidiary autonomy can be separated in a strategic and operational autonomy. In addition, Tarwneh (2019) analyzed that intragroup goal congruence and decision-making autonomy of subsidiary mangers is an important factor that influences subsidiary performance.
I conclude that there is a field of tension between the advantages of centralization and decentralization (cf. Kawai & Strange, 2014). There exists a conflict of objectives with negative interdependency, because costs do exist for both the centralization and decentralization. Several authors developed con-

[15] Other challenges for the management of headquarters-subsidiary relationship arise out of the increasing trend of mergers and acquisitions (cf. Chalençon & Mayrhofer, 2017; Yuce, 2016) and the thereof resulting heterogeneity of management philosophies and management systems, which need to be aligned in one single group framework. As this has a great impact on operational processes, procedures and used methods (e.g. for risk management, full costing, marginal costing, activity based costing, or forecasting), different definitions for many topics (e.g. gross or net revenues for revenues) need to be aligned to secure a common language within the corporate group, too. Other typical challenges are diverse legal requirements e.g. for accounting (e.g. HGB versus US-GAAP), different cultural backgrounds of the people (cf. Froese et al., 2016) with different leadership preferences (cf. Richter, 2016) or communication problems due to different languages (cf. Feely & Harzing, 2003), time zones and geographical distances (cf. Boeh & Beamish, 2015).

ceptual models to resolve the optimization problem.[16] Those models argue that the optimal (de-) centralization level is a stress ratio between autonomy and alignment costs.[17] Yet, as the analysis of Hannah (2013, p. 98) indicates, many firms fail to develop an appropriate balance between centralization and decentralization. Consequently, different organizational frameworks developed over the last decades.[18] A further, often ignored influencing factor within this discussion is the legal structure of the multinational group, which has a significant impact on the intra-group decision-making and may bear compliance risks. The holding type has much impact on the organizational set up of the group and therefore the level of (de-)centralization.[19] Especially the value creation plays an important role and leads to a greater consideration of the resource perspective to increase e.g. the economy of scale effects.[20] In multinational groups the challenge is to ensure an efficient resource bundle to realize, combine and manage the different benefit potentials in an appropriate way. The initial idea is to realize a sustainable competitive advantage with specific resource bundles and to expand the organizational perspective towards the creation of added value (cf. Frost et al., 2010, p. 74).[21] However, there is also a rising global trend that core parts of the parents' headquarters are relocated to alternative destinations while solely the officially legal registered head office location still tends to be kept in their country of origin (cf. Baaij et al., 2015).

The automotive groups follow a middle course depending on the specific business model of each division or business unit. In the special case of the automotive financial services divisions however, there is a clear trend towards decentralization (cf. Grosche, 2013, p. 94; Stenner, 2015). This requires them to transform themselves into a global network of many small, powerful decentralized company units. This shift will only be successful, if changes within the decision-making competencies on all hierarchy levels are undergone and a professional change management is introduced. It has to be secured that decisions in the subsidiaries are still made within the context of the predefined overachieving objectives of their corporate parent (cf. Homburg & Prigge, 2014). Even in decentral organizations, this requires certain levels of hierarchical coordination to ensure organizational transparency and clear intragroup roles and responsibilities. However, the manner of which this coordination function is interpreted has changed in the last years. In modern organizations, the superior role of the headquarters is more that of a consultant, coordinator or moderator (cf. Roth & Behme, 2013, p. 26).

[16] There have been many attempts to identify measures for the perfect level of organizational (de-) centralization of a company. Representative for others: Bleicher (1966); Hage & Alken (1969); Lessard & Lorange (1977); Sah & Stiglitz (1991). Mintzberg (1992); Faguet, (2014); Harper (2015).

[17] The optimal decentralization level is achieved if the marginal revenue of an additional centralization measures are equal towards the marginal costs of this activity. The optimum is reached via the minimum of general cost curve out of the alignment plus autonomy costs. The absolute gradient of both curves are equal in this point. The general cost curve is as higher, the greater the costs are. In this case, both curves have a steeper development (cf. Frost et al., 2010, p. 38).

[18] For example, differentiates Frost et al. (2010) between the functional organization (cf. Mirow et al., 2004; Laux & Liermann, 2005); the divisional or product orientated organization; the regional organization; front-end-back-end organizational structure or the matrix organization.

[19] The most discussed holding types are the finance and management holding. A comprehensive overview about the different characteristics of the various holding types provides Frost et al. (2010, p. 58); Schulte (2013); Werder (2015, p. 299 ff.).

[20] Frost et al. (2010, p. 67) particularly mention the value creation via the sum of the maximized value added, the realization of economy of scale effects, positive transfer and synergy effects.

[21] For further information of the resource based view of strategy, cf. Peteraf (1993); Freiling (2013, p. 12 ff.).

The described shift of multinational groups towards decentral organizational structures supports the flexibility to increase local responsiveness, but also contains governance and compliance risks and favors opacity.

The previous explanatory notes highlight the necessity of a greater focus on group governance and mutually agreed uniform intragroup standards, embedded in appropriate structures to secure proper intragroup alignment. As the next chapter 2.2 will illustrate, particularly in case of financial services subsidiaries, this is of great importance.

2.2 Automotive financial services

In the last chapter 2.1, I have discussed multinational groups and the field of tension within the relationship between the parent's overseas headquarters and its subsidiaries. As this dissertation focuses on the corporate governance management of the automotive financial services subsidiaries, in this subchapter 2.2, I will examine their business model as another fundamental component for the completion of this research project. In the following paragraphs, I clarify how the financial services business is embedded in the overall business model of the car manufacturer. Thereafter, I will introduce the setup of automotive financial services organizations to ensure a solid foundation for the further consideration of this research project.

2.2.1 The role of automotive financial services for car manufacturer

The constellation of financial services and automotive business models started in the early 1920s. The original equipment manufacturers (OEM) had realized early, that financial services supports vehicle sales and had recognized it as an additional profit driver. Nowadays financial services subsidiaries are a part of every car manufacturer and are established as a part of the banking landscape.[22] Financial services subsidiaries are an important stabilization factor for the automotive industry and provide a fundamental contribution for the automotive value chain. Captive structures can be cost- and tax-effective for their parents, even if their legal structures are non-transparent and often not well understood (cf. Panitz, 2018). In the beginning, the primary purpose was the financing of car dealers and therefore a protection instrument for the most important sales channel of the car manufacturers. Later on, it changed and the automotive financial services further developed and expanded their business towards direct sales with the end customer, by providing own financing products and balloon financing (cf. Stenner, 2015, p. 2; Berger, 2007).[23]

As the following examinations illustrate, the main objective of financial services subsidiaries is to provide financing solutions for the connected car dealerships, support vehicle sales and attract new customer segments. They play an increasingly important key role for the car manufacturers, ensure inde-

[22] In the automotive industry is the term *'finance captives'* predominately used for the OEMs financial services subsidiaries.

[23] Balloon financing is a type of loan that does not fully amortize over its contract period, which means that there is a balloon payment at the end of the contract required to repay the outstanding amount. Balloon financing products can be attractive to short-term borrowers, as they usually have lower interest rates than loans with longer terms. For further information, cf. Keller (2013); Schill & Spengler (2010, p. 106).

pendency, financial stability and have a pivotal role in their global car sales strategies. Based on the analysis of the AKA (2013) [Arbeitskreis der Banken und Leasinggesellschaften der Automobilwirtschaft] I was able to identify key areas that outline the strategic importance of financial services subsidiaries for their parent OEMs as summarized in Figure 3:

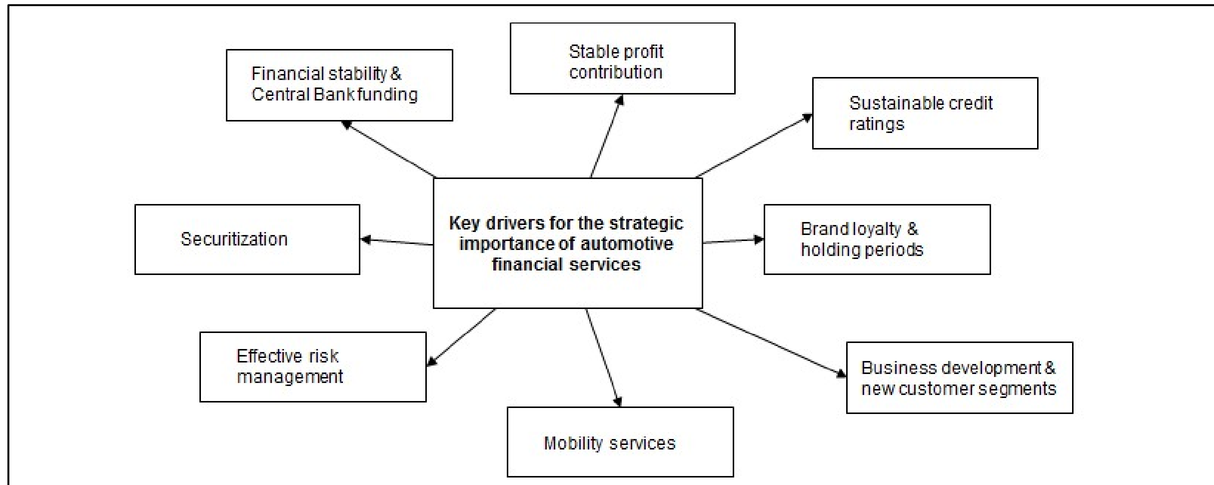

Figure 3: The importance of automotive financial services for OEMs.
Source: Own Illustration.

Financial stability and central bank funding: In comparison to other subsidiaries, financial subsidiaries have access to additional refinancing sources through the securitization of debts (ABS: Asset backed securities), customer deposits, central bank facilities or the access towards the interbank market (cf. VW Financial Services, 2015). Today more than 90% of Fortune 500 businesses own at least one captive and more than every second listed DAX company owns a full bank license (cf. Banham, 2018; Gusbeth, 2010). An own banking license secures the OEMs direct access towards central bank accounts and therefore also direct access towards finance recourses and central bank guarantees. Finance captives secure appropriate risk diversification within multinationals (cf. Banham, 2018). I conclude that such governmental support measures for financial services subsidiaries also influences the OEMs credit ratings in a positive way.[24]

Securitization: Investigations indicate that subsidiaries have a positive effect towards the OEMs balance sheets in terms of the total assets, revenues, total equity, and EBIT (cf. Mayer et. al., 2012, p. 7*)*. Apart from this, car loans and leasing receivables for end customers and dealers can also be securitized in e.g. asset backed securities (ABS).[25] They are easy to manage, reliably predictable and pro-

[24] Standard & Poor's (2013) consider in their company rating assessments the probability of governmental support measures. Therefore, they evaluate for the investment rating three factors: systemic importance of the finance captive; the probability for governmental support measures of "private-sector commercial banks" and the rating of the particular country".

[25] An asset-backed security (ABS) is a financial security collateralized by a pool of assets such as automobile loans or leases. For investors, ABS are an alternative to investing in corporate debt. An ABS is similar to a mortgage-backed security, except that the underlying securities are not mortgage-based (cf. Castro, 2017; Fabozzi, 2016, p. 105 f.; Hu, 2011). ABS transactions transfer the default risk towards the buyer and therefore the agreed deductible provides the leverage effect for the risk management of the financial services subsidiaries. Hereby it is crucial to understand that its value depends on the customer's default risk and not on the OEM´s credit rating. The general low level of credit defaults leads to competitive securitization conditions (cf. Calabro, 2015).

vide stable cash flows and are furthermore an important refinancing source for the OEMs (cf. Fiedler, 2015).[26] As already mentioned, an active residual value management provides additional profit capabilities for OEMs and their car dealers. A securitization of residual values is possible, but more complex and costly than the securitization of receivables (cf. Calabro, 2015).
Apart from that, some studies outline that securitizations have a positive effect on the liquidity situation. A debit reduction results in a higher equity ratio and reduces the calculated costs of equity. Moreover, the customer relationship is not affected and the financial services subsidiary is responsible for the debt collection of the receivables.[27]

Sustainable credit rating: The OEMs credit ratings are volatile and reflect the cyclical automotive business and volatile market dynamics. Strong financial services subsidiaries provide an instrument for OEMs to get a more cyclical independent finance rating of external credit rating agencies.[28]
OEMs without financial services subsidiaries have to manage the funding by themselves, which is often more expensive compared to financial services subsidiaries (cf. e.g., the studies of Standard & Poor's, 2013; Strategy& PWC, 2015). If the OEM shifts his equity capital towards a financial services subsidiary with a full bank license, it can arrange refinancing to comparatively favorable conditions.[29]

Effective risk management: Financial services subsidiaries, which finance products of their corporate parents, can usually generate better risk assessments than external banks. Automotive financial services subsidiaries possess better history databases of their vehicle models, their price developments and general insights in the automotive industry, which results in better-calculated price estimations and reduced residual value risks for the OEMs (cf. Asyaeva et al., 2016; Pierce, 2011, p. 4 f.).[30]
For traditional banks it is more challenging to assess the risk potential of a 'vehicle' than for financial services subsidiaries of an OEM.[31]

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[26] Typical ABS programs as described above are e.g. the Driver (Volkswagen Bank), Bavarian Sky (BMW Bank), Silver Arrow (Daimler Financial Services) or Global Drive (Ford Credit). According to my analysis is the share of ABS transaction of the financial receivables e.g. at BMW 14 percent; Volkswagen 15 percent, Daimler 6.8 percent. For further information, cf. Annual Reports of BMW AG (2012-2015); Daimler AG (2012-2015).
[27] The study of Benmelech et al. (2016) provides evidence that the collapse of the asset-backed commercial paper market reduced the financing capacity of nonbank lenders (e.g. captive leasing companies) in the automotive industry. They argue that the decline in auto sales during the financial crisis was caused in part by a credit supply shock driven by the illiquidity of the crucial consumer finance providers in the auto loan market.
[28] The integration of commission-based products generates additional revenue streams, which are independent of the interest rate business (cf. Swoboda, 2013, p. 205 ff.). Financing products (e.g. loans or leasing products) generate a stable and predictable cash flow (compared to direct cash purchase) and have usually longer contract periods (cf. Haecker & Stenner, 2015, p. 79 ff.).
[29] For example, the Volkswagen Bank was rated in 2015 by Moody's with the investment grade A1 and the Volkswagen Group by A3 (cf. Volkswagen AG, 2015). In this sense, the ratings of financial services subsidiaries and their parent companies usually correlate, but can be cushioned by integrating finance instruments, which are not covered with the credit rating of the company (e.g. ABS, customer deposits, equity capital). Standard & Poor's (2013, p. 3 f.) outlines that *„[…] [a]n auto subsidiary with higher intrinsic creditworthiness than its parent and independent, diversified funding could benefit from a favorable rating differentiation."*
[30] The residual value indicates the calculated market value of the vehicle in terms of resale of the leased vehicle after the expired contract.
[31] Consequently, external banks have to calculate with higher risk premiums, which lead to a sustainable competitive advantage for the OEMs (cf. Bennett & Pierce, 2015; Pollhammer, 2010). This better residual value risk calculation provides another competitive advantage for financial services subsidiaries (cf. Pierce, 2011, p. 1).

Brand loyalty and holding period: Studies showed three benefits of the upselling of financing products for the OEM in particular: Higher brand loyalty, shorter vehicle holding periods and superior equipment of the sold vehicles (cf. Haecker & Stenner, 2013; 2015; Ebel & Hofer, 2014; Diehlmann & Haecker, 2013). The BMW Group discovered that the average brand loyalty of their leasing customers is, with an average of twelve years, two years longer compared to direct cash purchase customers and that, during this period of time, leasing customers enter four new leasing contracts on average (compared to two contracts in case of cash purchase) (cf. AKA, 2013).[32]

Business development and new customer segments: The automotive industry has to face many challenges, and continuous changes increase the pressure on the traditional business models of car manufacturers.[33] Financial services subsidiaries provide OEMs the opportunity to gain new customers (cf. BMW AG, 2013, p. 31 f.). The main objective of such a multi-brand approach is to attract new, not very brand loyal customers with professional customer relationship management activities and sell them the own OEMs vehicles.[34] On the one hand, those business models also help to reduce the discount pressure, because own financing products (e.g. car loans or leasing) help to differentiate the pricing from competitors. On the other hand, this helps OEMs to limit discount pressure in competition with other OEMs (cf. AKA, 2013; Haecker & Stenner, 2013, p. 14).
In addition, the financial services subsidiaries play an increasingly relevant role within the entire value added chain of a car manufacturer. Diehlmann & Haecker (2012, p. 1 ff.) highlight the fact that automotive related financial services help OEMs to expand their products and services among the whole value chain of a vehicle.[35]

Trend from car ownership towards usage: Especially in urban areas with high educational levels and among younger people, car ownership is no longer recognized as a status symbol or basic requirement for mobility.[36] This is what drives forward alternative user and mobility concepts, like leasing or car sharing (cf. Berret, 2016, p. 18). Considering the demographic changes as an increasing number of smaller households and aging population, there will be an increasing demand for alternative mobility and user concepts in future. The trend towards digitalization and car usage brings up new competitors and continuously increasing complexity, but also new business opportunities for OEMs and their financial services business models (cf. Van Wijnen, 2014; Kessler & Buck, 2017).

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[32] Ebel & Hofer (2014, p. 532) also illustrated that the upselling potential towards leasing customers for additional equipment is on average 26 percent higher compared to a cash buyer. Berret (2016, p. 31) also provides evidence that on average leasing customers buy additional equipment in the total amount of EUR 2000.
[33] Several authors contribute this discussion and examine the various challenges of the automotive industry: Proff & Fojcik (2016); Parment (2016); Zingrebe et al., (2016); Gaiardelli et al., (2014).
[34] Different market analyses have shown that many investment customers (e.g. for saving accounts) of financial services subsidiaries are driving cars of foreign brands. This insight provides another huge crossover business opportunity for the multi brand concept of OEMs and provides a great potential to generate new business income (cf. IBM Global Business Services, 2012, p 1 ff.).
[35] Automotive financial services provide an important contribution particularly in the following steps of the vehicle value chain: (1) Importer and dealer financing; (2) Finance and leasing of end customers; (3) Insurance services; (4) Aftersales, repair and maintenance; (5) Remarketing activities. For further information, cf. Diehlmann & Haecker (2012, p. 1 ff.); AKA (2013).
[36] For further information, cf. the latest study results of Burghard & Dütschke (2018); Shaheen et al. (2018); Münzel et al. (2019).

So far most of the OEMs subsidiary models target the demands of the dealers and the end customers and gain crucial insights regarding e.g. service culture, customer processes and service products. They have realized the key role of service orientation for future sales (cf. Cohen & Kietzmann, 2014). Studies confirm the shift of the traditional car manufacturers towards full service providers, where automotive financial services plays a crucial role (cf. Diehlmann & Haecker, 2012, p. 237 ff.; Kessler & Stephan, 2013).[37] Some OEMs already go beyond that and have announced the shift towards a mobility service provider, where financial services will play a decisive key role (cf. Li & Voege, 2017; Van Wijnen 2014; Heukrath, 2015).

Stable profit contribution: The automotive industry has to face many challenges and OEMs diversify their business models with financial services and target new, profitable business models.[38] Financial services subsidiaries generate additional profits and help to stabilize the profit situation in economically uncertain times. The recent financial crisis 2008/2009 illustrated that the creditworthiness and residual values drop when new vehicle sales weaken (cf. Bodnaruk et al., 2016). The automotive industry heavily depends on the overall economic situation.[39] On average, solely financial service subsidiaries generate between 25 and 40 percent of the overall OEM profits (cf. Haecker & Stenner, 2013, p. 8). A newer study of Bodnaruk et al. (2016) calculates that captives generate about 17 percent of parent's net income. In addition, I found out that the expansion to banking and insurance products secures a stable profit contribution, as they are not directly affected from cyclical economic fluctuations like the traditional car sales business, which has in turn also positive implications on the credit and investment rating of the parent OEMs.

To sum up, the different clusters illustrate the importance of the financial services business for car manufacturers. It seems that currently particularly the technical product, branding and the close relationship with the subsidiaries characterize the current value of an OEM. Digital networks between driver, vehicle, OEM, commerce and other service providers (e.g. insurer, assistance etc.) on the one hand and changing customer characteristics for mobility solutions on the other hand have rapidly changed the automotive industry. The financial services business plays a major role within the recent transformation of the automotive industry – away from a pure car manufacturer towards a full-service mobility provider in the near future – and indicates a value proposition for the OEMs that has to be proven in the upcoming years.

After the analysis of the automotive financial services business model, in the next section I will now focus on the organizational setup. The in-depth understanding of the automotive financial services and its organizational setup are essential prerequisites for the development of a respective corporate governance model that fits in regard to the specific characteristics of the automotive industry.

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[37] This view is also supported from others: Schumacher (2017); Berret (2016); Hung et al. (2016); Becker (2015); Bandmann (2015); Brünglinghaus (2015); Berger (2014); Ruthardt (2014); Kessler & Stephan (2013); Meyer et al. (2012).

[38] Challenges are e.g. many saturated markets in the most important sales regions, global overcapacities, high investment costs for research and development, new competitors, increased competition and shrinking profits (cf. Mounce & Nelson, 2019; Crick, 2018; Laurischkat et al., 2017).

[39] For example, in the year of the financial crisis the financial services subsidiary of the Daimler Group generated a profit of around EUR 457 Mio. – a share of 32 percent of the total OEM profits in 2008 (cf. Daimler AG, 2008)

2.2.2 The organizational setup of automotive financial services entities

The results of the last subchapter form the foundation of this subchapter, which analyses the organizational setup of financial services organizations within OEM structures as a further fundamental pillar of this dissertation.

The organizational structure of a company includes the vertical and horizontal divided system of competencies that are defined as general framework to ensure the clear allocation of the regular tasks (cf. Von Stein & Terrahe, 2013, p. 17). While the vertical perspective of an organizational structure defines the degree of delegation, the horizontal perspective covers the specific division of the competencies. The highest hierarchy level of the global organizational model influences the structure of the lower hierarchy levels of the specific organizational subdivisions (cf. Schewe, 2015). In other words, the organizational structure can be defined as a system of regulations within an organization.

Nevertheless, each multinational group has its own organizational design, arising out of their company history, their performed business model and other company specific factors (cf. Von Stein & Terrahe, 2013, p. 18 ff.). Particularly in multinational groups the influence and competence adjustments also depend on the legal structure of the company and can be differentiated between legal and structural variations.[40] In line with the results of subchapter 2.1.3, Meyer et al. (2011) also found that there is a great necessity for multinational groups to face growing challenges in managing the complexity of their large subsidiary networks. Multinational organizations must manage 'multiple embeddedness' across heterogeneous contexts in the headquarters and the subsidiary level.

Besides that, Hartmann-Wendels et al. (2013, p. 714) highlights that strict legal and regulatory requirements exist for bank subsidiaries, regarding the design of the organizational structures, business processes and control instruments that have to be considered. Those tightened external legal and regulatory requirements lead to additional efforts for the general management and monitoring of the subsidiaries, including additional supervisory requirements and increased coordination efforts. Compared to other organizations, it is another unique characteristic of banks that their business processes have to be designed from a customer´s centric perspective (cf. Hartmann-Wendels et al., 2013, p. 714). It is expected that there are internal control mechanisms, such as the four-eye principle or a clear segregation of duty for credit decisions between sales and operations or finance and risk departments, that are stringently implemented (cf. Ehmanns, 2015). In sum, all those unique characteristics have strong implications on the organizational setup of financial institutes.

The fact that the financial services business has to be embedded into the group construct of an OEM, which is traditionally more focused on the value chain of their vehicle, results in additional complexity that has to be taken into account.[41] On the one hand, the trend towards a stronger interaction and more interdependencies between the automotive financial services and the traditional OEM business results in greater complexity within the organizational management of the group. On the other hand, the increasing professionalization and constantly rising business volumes of the automotive financial

[40] A comprehensive overview about the different multinational types provide Emmerich & Habersack (2013); Scheffler (2004, 6 ff.); Theisen (2000, p. 6 ff.); Werder (1995, p. 147 ff.).

[41] The combination of traditional car business and financial services business model is characterized by high complexity (e.g. due to the high coordination efforts required for the interface management of the global supply chain or the interlink between the production and services business), dynamic and comparatively high instability, which also affects the organizational structures (cf. Bauer, 2015).

services business leads to more attention of the regulators and national supervisory authorities. Driven from those developments, many OEMs have started to decouple their financial services businesses from the traditional car business to ensure a certain degree of independency. While this secures a better management of the risk portfolio and more flexibility to comply with the various legal and regulatory requirements for financial institutes, it further helps to serve additional customer groups (cf. Bauer, 2015).
Thus, many OEMs transformed their financial services business towards diversified financial services providers. They setup different types of subsidiaries for either the professional fleet management of their corporate customers, the full service leasing, banking, insurance activities or even the multi make car financing of other brands.[42] This secures flexibility to respond to local legal and regulatory requirements, but at the same time also adds significant organizational complexity for the typical global matrix organizations of the OEMs (cf. Bauer, 2015).

This subchapter 2.2.2 analyzed the organizational consequences for financial services subsidiaries. Altogether, the last two subchapters highlight the necessity of a professional governance management to ensure transparency, clear roles and responsibilities in such multi-dimensional environment. The next chapter 2.3 examines the term corporate governance as another basic prerequisite for the purpose of this dissertation.

2.3 Corporate governance

This subchapter 2.3 aims to reflect the status of the current corporate governance discussion. The subchapter 2.3.1 clarifies the term general management as proper foundation for the definition of corporate governance in subchapter 2.3.2. In the following, corporate governance approaches (subchapter 2.3.3) and the general effects of corporate governance mechanisms (subchapter 2.3.4) are analyzed. Hereafter, subchapter 2.3.5 debates the importance of functioning corporate governance practice in financial institutions.

2.3.1 Definition of general management

This section of 2.3 starts with an examination of the foundations of general management, including the value creation as the ultimate maxim of all business activities. A common understanding of the term "general management" forms, from my point of view, the foundation for the following discussion about the corporate governance definition.

[42] According to my analysis in Germany, three out of eleven members of the *Arbeitskreis Automobilbanken* (Ford Bank, RCI Banque, Banque PSA Finance, MKG Bank) are working as independent branches of their corporate parents. Seven automotive financial services subsidiaries (BMW Bank, Honda Bank, Mercedes Benz Bank, Toyota Kreditbank, Volkswagen Bank; FGA Bank, GMAC Bank) own a bank license and operate as independent subsidiaries of their OEMs. Related financial services business activities, such as multi-make financing, fleet and full service leasing, are usually outsourced in own subsidiaries as the e.g. Alphabet Fleet Management (BMW Financial Services) or Daimler Fleet Management (Daimler Financial Services) illustrate.

To understand the definition of general management, it is at first important to examine the **general objectives of companies**. The long-term orientated production of goods and services is defined as the main purpose of companies (cf. Dillerup & Stoi, 2013, p. 4; Hax, 2005, p. 75). According to my literature research, there is consensus in management research that companies are a **complex system of objectives, members and activities**, which try to achieve autonomous pre-defined objectives.[43] The members build a hierarchical social system, which is fitted to ensure a productive creation of services in its environment (cf. Dillerup & Stoi, 2013, p. 5; Ulrich, 2011, p. 42 ff.).
In the literature, there are two different prevailing opinions regarding **company objectives**: First, several scholars argue that the overall target of companies is to create benefits for the owners, because the invested capital has to create a higher return than other investments (cf. Hahn & Hugenberg, 2001, p. 154 ff.). The shareholder value approach of Rappaport (1994; 1998; 1999) corresponds to this view and states that the initial objective is a long-term increase of the company value. A second group of authors find that the overarching goal is to manage the strategic main interests of the company stakeholders (cf. Grant & Nippa, 2006, p. 63 ff.). This contrary view of some scholars follows the stakeholder value approach that is based on the initial assumptions of Freeman (1984) and Kosiol (1973, p. 301 ff.).[44] Malik (2008a, p. 15 f. and 32 f.) even goes beyond that and outlines that the competitive orientation is the basis for any corporate activity and argues that, for that reason the creation of customer value is the overarching objective of companies. Whereas the just mentioned approaches usually target one particular group (e.g. shareholders or customers), another group of authors follows a rather multidimensional perspective, in which different stakeholder groups are treated equally. Khadjavi (2005, p.16 f.), for example, combines both approaches and states that in a long-term perspective, the most successful approach is to concentrate on the maximization of the corporate value first and then share the created value in a second step.

Besides providing clarity about the corporate objectives, **management** is an important element of general management.[45] It covers all functional tasks and activities for the design, steering and development of the company system to achieve the set corporate objectives (cf. Dillerup & Stoi, 2013, p .9). For the purpose of this dissertation, I follow a modified stakeholder approach that defines **management as an instrument to create added value** (cf. Becker, 1996, p. 60 ff.). Consequently, general management is a prerequisite to generate income and increase long-term company value (cf. Becker, 2009, p. 41 ff.; Becker et al., 2009, p. 267 ff.).

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[43] Kieser & Walgenbach (2010, p. 26) provide a comprehensive overview about further clusters for companies: Targets, industry, product portfolio, legal form or size, d

[44] Freeman (1984, p. 284) summarizes that the business environment gets always more complex and thus, if firms aim to successfully meet those challenges, they have to begin to adapt 'integrative strategic management processes' which take into account external forces within the decision-making of the managers. Kosiol (1973, p. 301 f.) highlights in his definition for the term 'company' that they are primary characterized by concentrating on the fulfillment of foreign demand coverage.

[45] The term 'leadership' is often applied for 'management': This usually includes the development of visions, strategies and meaningfulness orientation for the strategic direction of the company. At its core, leadership motivates the employees, defines the purpose of working and lays the basis for a common identification with the company. The term 'management' covers more the implementation of the strategic measures and has to solve potential implementation problems (cf. Kruse, 2013; Northouse, 2015; Daft, 2014). 'General management' covers both, leadership and management characteristics and in the best case, they supplement each other (cf. Dillerup & Stoi, 2013, p. 8).

Value creation is defined as the harmonization of strategy, culture and structure within the overall company framework (cf. Rüegg-Sturm & Grand 2013; Malik 2008b, p. 337). In this context, Ulrich (2011, p. 44 f.) outlines that the locomotion function has to concentrate on a permanent value orientated adjustment.

There is no predominant understanding for the term **general management** among the recent literature.[46] Although there often is a common equal usage of "management" (cf. Drucker, 2008, p. 1 ff.) and "general management" there has to be a clear differentiation between those terms (cf. Dillerup & Stoi, 2013, p. 6 ff.). Macharzina & Wolf (2005) argue that general management consists of **functional, institutional and process orientated** elements. General management comprises the business management´s related tasks and activities, institutional aspects including management organs and persons. Process related aspects define certain proceedings, which cover all management activities. According to Heinen (1971, p. 429 ff.) general management targets the questions how tasks have to be coordinated within the company and how a sustainable corporate development can be organized. Ulrich & Probst (1988, p. 233 ff.) are more specific and describe general management with its complexity, openness, connectivity, rules, development capacity and steering ability.
Nevertheless, Dillup & Stoi (2013, p. 11) define general management more generically and include all tasks and responsibilities for the target-oriented planning, control and supervision for the target orientated creation, steering and development of the company. In addition, they incorporate an explicit leadership dimension and the consideration of various stakeholder groups within their functional understanding of a general management.
Another contrary view is provided by Hungenberg & Wulf (2015, p. 19 ff.), who outline in particular the coordination function of the general management. They explain the necessity of the senior management to coordinate the actions of the organizational members towards a common objective and to align their interaction to ensure an efficient task fulfillment. They argue that general management comprises the entire decision-making processes (planning, steering, control) and its execution within the organization.[47]

To secure a comprehensive general management definition, I combine the different understandings of Hungenberg & Wulf (2015, p. 19 ff.), Dillup & Stoi (2013, 11), Becker (2007, p. 32) and Ulrich (2011, p. 44). I argue that general management is a structurally and functionally orientated value creation, process-oriented control and regulation as well as a behavior-orientated guidance and coordination, based on the flexible business activities of an organization. Moreover, the locomotion function aims to secure a sustainable value creation.

[46] Further common terms are 'management', 'company politics' or 'company administration'. A solid foundation provides Macharzina & Wolf (2005). Dillerup & Stoi (2013, p. 10) provide also a comprehensive overview about the different definitions of the term general management.
[47] Their argumentation is based on the cybernetic model (planning, decision, control) from Wild (1974, p. 37) and the explanations of Hahn & Hungenberg (2001, p. 28 ff.). The cybernetic model helps to concrete the steering function.

In sum, the different functions of general management can be managed with several instruments and are clearly subordinated over the whole organization.[48] In contrast, the management function uses specific management instruments like e.g. the controlling for the locomotion function. Keeping this general management understanding in mind, it provides a solid foundation for the next subchapter to go further and define what corporate governance exactly is.

2.3.2 Definition of corporate governance

There is no generally applicable definition about corporate governance found among scholars and researcher of business science or entrepreneurial practice (cf. Ntim, 2018; Tricker, 2015, p. 30; Wendt, 2011, p. 72; Bassen & Zöllner, 2007, p. 94). Nevertheless, corporate governance is one of the most discussed management topics in the last 20 years (cf. Werder, 2015, p. 3; Hopt, 2011a). One of the main reasons for this phenomenon is that corporate governance is often explained and investigated from the perspective of different disciplines, such as legal sciences, audit, accounting, management, organizational behavior, politics, philosophy and sociology (cf. Tricker, 2015, p. 30). Consequently, the current governance discussion considers a multidimensional variety of corporate governance characteristics, which lead to different broad corporate governance definitions.[49] In the recent past, particularly listed companies have been in the limelight, because they have obvious governance problems. Nonetheless, some researchers have already started to investigate other legal forms, SMEs and family run companies regarding their specific corporate governance requirements (e.g., Werder, 2015, p. 5; Ciampi, 2015; Gnan et al., 2015; Hopt, 2003; Weissenberger et al., 2006; Ingley & McCaffrey, 2007; Jaskiewicz & Klein, 2007; Uhlaner et al., 2007; Van den Heuvel et al., 2007). The corporate governance discussion can be largely divided in the **legal and management perspective** (cf. Ulrich, 2011, p. 56; Just, 2007, p. 8 f.; Hopt & Wohlmannstetter, 2011, p. 1). For this dissertation, the management perspective is relevant and the legal aspects are solely considered if they have relevance for business management and will be incorporated into the relevant position in this dissertation.[50]

In the management literature, both **very broad and very narrow corporate governance** definitions are available (cf. Ntim, 2018; Ballwieser, 2009, p. 93 ff.; Hausch, 2013, p. 34 ff.). It is apparent that across all definitions, the basic system of management and control of companies and their involved counterparts executing those functions play a crucial role (cf. Ulrich 2011, p. 56). The first corporate governance debate started with the insights of Smith (1776) in terms of the separation of work and financing. Berle & Means (1932) are the founders of the modern corporate governance understanding as well as the starting point of corporate governance discussion in the 70ies, which was primary driven from American scholars in the Anglo-Saxon countries (e.g., Oehler & Wendt, 2007, p. 123 ff.; Williamson, 1985, p. 135 f.; Fama & Jensen, 1983; Shleifer & Vishny, 1997; Zingales, 1998, p. 497; Clarke, 2004, p. 154).

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[48] A comprehensive overview about suitable management instruments provides Rigby & Bilodeau (2015); Hilb (2012); Schawel & Billing (2014).

[49] Further reasons for the different corporate governance definitions arise out of the fact that this phenomenon is investigated out of different research perspectives. This leads inevitable to different definitions (cf. McNulty et al., 2013, p. 183 ff.).

[50] For a similar justification, cf. Koeberle-Schmid (2011, p. 4).

Shleifer & Vishny (1997, p. 737) and Gerum et al. (2007) follow a more **narrow understanding** of corporate governance and argue that the increase of the corporate value alone, is the overarching goal of the shareholders.[51] Wentges (2013, p. 73) outlines that it is a misinterpretation, if their definition gets limited to the shareholders, because based on a closer examination it also includes all outside creditors. The narrow corporate governance definition is dominated by the shareholder perspective and much discussed.[52]

An alternative concept promotes the necessity to consider that all stakeholders of the company, what is a rather **broad definition of corporate governance.**[53] Analog to the overarching objective of value creation in the shareholder model, **the consideration of the stakeholder interests** is recognized as an essential prerequisite to generate benefits.[54] This includes **companys' political structures and internal processes**, which ensure the economic value creation and legitimacy of the firm (cf. Mason & Simmons, 2014, p. 77 ff.; Eisenmann-Mittenzwei, 2006, p. 29).

From a legal perspective, corporate governance also involves the **corporate constitution, which focuses primarily on the internal regulations of a company** (cf. Witt, 2013; Ballwieser, 2009, p. 93 ff.). Witt (2013, p. 1) and Salzberger et al. (1997) equate the term corporate constitution and corporate governance. The corporate constitution covers the responsibilities and action sphere of all relevant economic subjects and their interaction (cf. Brose, 1984, p. 39). [55] Bühner (2004, p. 371) specifies the corporate constitution as the legal framework related to ownership-, management- and control rights within a company. In addition, Gerum et al. (2007, p. 124) complement the individual contract based solutions. For that reason, I argue that **corporate governance involves the optimized creation and steering of all relevant structures and processes of the planning, decision-making and control structures within the organization**.

Today the corporate governance understanding goes beyond the purely legally driven interpretation of the corporate constitution and also comprises **leadership**, **management-related processes and structures** (cf. Bain & Band, 2016, p. 25; Berrar, 2001, p. 24; Hopt, 2011, p. 4 f.). Nowadays there is no doubt that the other stakeholder interests within the external relationships of companies towards e.g. competitors, investors, company owners, suppliers, customers, employees, managers and the society have to be considered, too (cf. Witt 2013, p. 6 ff.).

Consequently, I summarize that corporate governance practice has no clear defined framework. As Witt (2013, p. 1), Ulrich (2011, p. 59) and Früh (1999, p. 11) accurately describe, the term of corporate

[51] The theoretical foundation for corporate governance is based on the principle agent theory of Jensen & Merking (1976). Several others follow this argumentation, e.g. Paetzmann (2015, p. 6); Ulrich (2011, p. 57); Pölert (2007); Deakin (2005, p. 12).

[52] For example, Ulrich (2011, p. 57) outlines that the solely consideration of the shareholder interests as the major point of criticism.

[53] From a timeline perspective, it seems that the narrow perspective is a further development of the rather broad corporate governance definition due to the recognized inefficiencies. Driven from the recent financial crisis and several prominent company failures a greater stakeholder orientation gets again more important as the latest initiatives of many standard setters and regulators demonstrate (cf. Hopt 2011; Tihanyi et al., 2014). Further support provides e.g. the conflict theoretical approach of Schewe (2005, p. 200 ff.).

[54] Cf. e.g. the studies of Mason & Simmons (2014, p. 77 ff.); Müller-Stewens & Lechner (2002, p. 10 ff.); Pfriem (2008, p. 493). In addition, the Cadbury Committee promotes a broader corporate governance definition as "… *a system by which companies are directed and controlled*" (Cadbury Committee, 2002, p.1).

[55] Brose (1984, p. 44 f.) clustered the corporate constitution into the following elements: Corporate regulations, corporate finance, co-determination, employee capital sharing, accounting and publicity, laws and regulation.

governance is still very vague and under development and depends largely on the different research disciplines involved. Regardless, I will introduce an own corporate governance definition at the end of this chapter for the purpose of this dissertation. The interpretation of corporate governance and the company specific regulations are influenced by the cultural background and micro- and macroeconomic environment of the company. They are the key driver that in general two different corporate governance systems have been developed, even if they always have different local peculiarities (cf. Tricker, 2015, p. 31 ff.; Becker & Ulrich, 2008, p. 261; Simberova et al., 2012).

This dissertation makes no detailed analysis of a country specific corporate governance system, but for reasons of clarity and comprehensibility, I will shortly outline the differences between the **German corporate governance system as representative for the stakeholder or control approach** (dual system) and the **American model as prototype for the shareholder model** (monistic system).[56]

Rappaport (1994) transferred the classical capital market theory approaches towards general management. The hereby-justified **shareholder value approach** emphasizes the special role of shareholders among other stakeholder groups.[57] The basic assumption is the discount of payment surpluses to the present tense. The initial starting point is that company owners have a positive reaction if they can expect a company value increase and therefore higher payouts of dividends. This means that the company success is directly linked with dividends and the investigations of Fishers separation theorem (cf. Fisher, 1930).[58] Particularly in Germany critics argue, that the shareholder value approach ignores other important interest groups like e.g. employees, which provide a significant contribution for the value creation of the company (cf. Ballwieser, 2009, p. 95; Ulrich, 2011, p. 61).[59]
The opposite view is the **stakeholder-orientated approach.**[60] Especially Kosiol (1973, p. 301) outlined the importance to consider the interests of various stakeholder groups in external financing decisions. Freeman (2010, p. 46) defines stakeholders as "…*any group who can affect or is affected by the achievement of the company's objectives"*. The initial argumentation is that a company is a coalition of different interest groups with the common target to secure the survival of the company and that it cannot be defined by mathematical derivations (cf. Ulrich 2011, p. 62).[61] I argue that a joint target definition among the different interest groups is difficult or even impossible to formulate, because it is not defined how to deal with potential conflicts of interests. A maximization of the stakeholder value for selected stakeholder groups is not possible without target conflicts, because the interests of one stakeholder group can to a certain degree only be maximized at the expense of others (cf. Jensen, 2001, p. 297 ff.). However, the consideration of multitude stakeholder interests without prioritization

[56] Koslowski (2013) and Skrzipek (2015, p. 9 ff.) provides a comprehensive overview about the recent debate among the shareholder value approach.
[57] In addition, several other authors follow the shareholder approach. Representing others: Donaldson & Davis (1991), Lewis et al., (1994); Copeland et al.,(1994).
[58] For the Fisher's theorem and corporate governance, cf. Kelsey & Milne (2008).
[59]A contrary view provides Bühner (1993, p. 221 f.) who argues that the often mentioned single shareholder orientation is not correct, due to the fact that the shareholder income (dividend) is a residual figure, which is calculated on the basis of the profit loss account (after e.g. the salaries, interest of foreign capital etc.).
[60] For a comprehensive overview about the recent debate of the stakeholder value approach, cf. Skrzipek (2015, p. 47 ff.); Mason & Simmons (2014). Merits and limitations are discussed from Pacala (2012).
[61] There are also authors who criticize the stakeholder orientation. E.g. Fritz et al. (1985) argue that they could not prove in the target setting of companies a single dominance of the profit orientation. For a comprehensive summary about critical aspects of the stakeholder approach cf. Bischoff (2013, p. 170 ff.).

increases the complexity and requirements for a target-focused general management (cf. Khadjavi, 2005, p. 15 ff.). While Ulrich (2011, p. 63) states that both approaches follow opposite assumptions, Bischoff (2013 p. 82) argues that the stakeholder value approach is solely a modified shareholder value perspective. Others argue that the shareholder approach is more favorable due to economic efficiency reasons (cf. Karmasin, 2015, p. 341; Wolff, 2013 p. 4 ff.; Khadjavi, 2005, p. 16 f.). The following table 1 provides a tabular comparison of both approaches:

Dimension	Stakeholder approach	Shareholder approach
Objective	Value maximization for all stakeholders	Shareholder value maximization
General structure	Team orientated productivity model	Principal agent model
Performance measurement	Fair distribution of the created value, maximizing the difference between incentives and input of all stakeholders	Shareholder value
Residual risk holder	All stakeholders	Shareholders only
Stakeholder influence	More stakeholders with influence of the governance process	Owners with influence of the governance process

Table 1: Characteristics of the stakeholder and shareholder approach.
Source: Compiled by the author, based on Bottenberg et al. (2017) and Hungenberg (2014, p. 30).

A firms' corporate governance framework is always defined by the particular corporate governance system. In an international perspective, the German corporate governance system is unique. While in the Anglo-American monistic model managers get primarily controlled by the market, German managers are additionally supervised by the different stakeholder groups like e.g. banks, employee representatives or important customers (cf. Welge & Eulerich, 2014, p. 41 ff.). In Germany, a system of corporate control predominates governance mechanisms that primary aims on stakeholder relationships and company internal control.

In the last few years, some authors argue that only a combination of both approaches towards a hybrid model is beneficial to achieve long-term value creation (cf. Ntim, 2018; Hungenberg, 2014, p. 30). Hilb (2016; 2009, p. 21 ff.) and Tricker (2015, p. 30 ff.) are supporters of an **integrated corporate governance perspective** and outline the importance to consider elements of both approaches and recognize corporate governance as package with elements of both. They highlight the necessity to integrate the interests of customers, shareholders, the society and the employees in one framework. Hilb (2016, p. 10) defines corporate governance as a system *"by which companies are strategically directed, integratively managed and holistically controlled in an entrepreneurial and ethical way in accordance with a particular context"*. Hilb (2016) differentiates between a traditional and new corporate governance definition. He explains that the traditional corporate governance discussion does not distinguish between different national, industry or even company specific cultures and outlines the necessity to always design corporate governance in the individual context of the company. In a rather traditional view, the supervisory boards are primarily recognized as a control function, while the new corporate governance promotes a proactive involvement to support the general management and the company structuring.

Particularly in listed companies, there is often an isolated implementation of committees with a supervision approach that prefers a pure financially driven perspective instead of a more holistic success monitoring view, which also considers the different stakeholder groups (shareholders, customers and the public) (cf. Hilb, 2016).

In the current business management research, I recognize a shift towards a more holistic and integrated corporate governance perspective. While the traditional corporate governance definitions have been undifferentiated, the new understanding focuses on an industry specific, company individual and stakeholder oriented corporate governance (cf. Hilb, 2016). In the context of multinational corporate groups an integrative approach is crucial to reflect the different business models and the multiple local specifics in the host countries of the subsidiaries. Despite this, corporate governance is often equated with management and control (cf. Witt, 2001, p. 85; Dillerup & Stoi, 2013; Küting & Busch, 2009). However, as Becker (2009, p. 60) outlines, management control and supervision is a basic integrative instrument of general management and requires no separation.

Due to the unique characteristics of multinational groups, in this dissertation, I follow the integrated view of Hilb, Tricker and Hungenberg. Additionally, I combine it with the general management understanding of Hungenberg & Wulf (2015), Dillup & Stoi (2013), Becker (2007) and Ulrich (2011) out of the foregone subchapter 2.3.1. I apply the following definition in this dissertation:

Corporate governance is a framework for a long-term orientated general management, based on a sustainable and responsible value creation. It defines a system *by which companies are strategically directed, integratively managed and holistically controlled in an entrepreneurial and ethical way in accordance with a particular context. Corporate governance includes structural and processual dimensions and covers both technical and behavior related elements. The structural dimension addresses the company's internal and external structures that support the long-term value creation. The process dimension focuses on the design and value orientated steering of the internal company management (incl. supervision) and implementation processes*.

In the context of this thesis the intragroup corporate governance management comprises all measures and solutions that aim to ensure that the above mentioned target picture of corporate governance can be achieved on a group-wide basis.

Based on this definition, I will examine different corporate governance approaches in the following subchapter 2.3.3. As the next subchapter will illustrate, the often critically discussed principal-agent theory plays a crucial role but is only recognized as one approach among several others that supports a better understanding of corporate governance.[62]

[62] According to Nippa & Grigoleit (2006) and Hilb (2009) are the major critics the assumption of a pessimistic human image or the solely consideration of extrinsic motivation.

2.3.3 Corporate governance approaches

In the scientific literature, there are many approaches to explain corporate governance phenomena that are described in the prior chapter. Some scholars define approaches also as theories, but it seems questionable if all existing corporate governance approaches can really be described as complete theories, when they are analyzed by the general accepted criteria for theories.[63] This critic is supported by Wendt (2011, p. 75 f.); and Welge & Eulerich (2014, p. 9) who outline, too, that there is no general accepted theory to describe and explain the corporate governance criteria. I argue that the already mentioned multidisciplinary phenomena of corporate governance hinders the development of a uniform and comprehensive theory (cf. Welge & Eulerich, 2014, p. 7). Even so, various approaches exist, which have their origin in the diverse definitions, priorities and perspectives among scholars. Hilb (2016, p. 5) also critically scrutinizes that scholars often investigate corporate governance from the perspective of a certain theory and argues that the numerous undesirable developments in the past show that they are not appropriate to explain corporate governance phenomena.
For that reason, this subchapter will provide a short overview about discussed corporate governance approaches and their analytical frameworks. In a first step, I will differentiate between the micro and macro perspective. While the macro perspective addresses a firm's external environment and the institutional framework, the micro perspective concentrates on the company and internal corporate governance mechanisms and not the involved functions and individuals (cf. Charreaux, 2004; Wendt, 2011, p. 76). In line with Oehler & Wendt (2007, p. 125 ff.), Letza et al. (2004) Learmount (2003) and Bassen & Zöllner (2007), in the internal corporate governance view (micro perspective), I distinguish between economic and organizational theoretic approaches.

Economic approaches: Economic or financial approaches are based on the Principle Agent Theories and the new institutional economics.[64] They address the typical problem of separation between ownership and control. They focus on the relationship between company owner and management body and the arising conflicts of interests. Economic approaches focus on the shareholder interest phenomena and are usually developed on the assumptions of the shareholder approach or shareholder theory (cf. Denis, 2016). From a theoretical point of view, economic approaches can indeed take the interests of other stakeholder groups into account, but I found that in most cases solely the relationship with outside creditors is considered. Wentges (2002, p. 146 ff.) analyzed that the majority of the economic approaches follow the shareholder perspective.

Organizational-theoretic approaches: These approaches complement the corporate governance with organization-theoretic issues, such as the motivation of involved counterparts, organizational structures and processes or company-internal coordination. Furthermore, these approaches expand

[63] According to the definition of Wacker (1998) a scientific theory is characterized by the following four basic criteria: conceptual definitions, domain limitations, relationship-building, and predictions. Further characteristics of a 'good' theory are uniqueness, parsimony, conservation, generalizability, fecundity, internal consistency, empirical riskiness, and abstraction.
[64] For further details regarding the Principle Agent Theory, cf. Braun & Guston (2003, p. 302 f.); Holmstrom & Milgrom (1991, p. 24 ff.), Welge & Eulerich (2014, p, 9 ff.); Hilb (2009, p. 5 f.); Laffont & Martimort (2009, p. 347 ff.); Ulrich (2009, p. 530 ff.); Lubatkin (2007, p. 64); Schneider (1987, p. 481). In particular Hoenen & Kostova (2015, p. 104 ff.) and Ambos et al. (2019) provide an interesting study regarding the impact of Principle Agent Theory in multinational companies.

their objectives beyond financial and efficiency objectives and include e.g. social objectives or the impact of power. The most popular approaches are the nominative and instrumental stakeholder approach of Jones (1995), the Stewardship and Trust Theory of Kay and Silberstein (1995).[65] I classify the approaches that focus on the phenomena of information asymmetries and divergent knowledge in the knowledge-based approaches (cf. Teece et al., 1994, p. 2; Wendt, 2011, p. 91; Charreaux, 2004, p. 11).

It seems impossible to discuss the **institutional framework related approaches (macro perspective)** completely independently from the micro approaches, because they influence the design of the internal company structures and processes. Micro approaches specify the general framework conditions. The legal and regulatory corporate governance requirements define the general framework conditions for companies, and therefore how corporate governance is managed. Wendt (2011, p. 78) points out that also the relationship between e.g. countries or financial systems plays an important role here. Inspired from the suggested clusters of Charreaux (2004, p. 18 ff.), I distinguished the approaches in four sub-peer groups: legal and financial view; political view; endowment view and socio cultural impact.

Legal and financial view: Legal and finance related approaches investigate the consequences of the legal framework, the historical development and their possible causes. These studies investigate the implications and development of the financial system (cf. e.g., Erkens et al., 2012; Armstrong et al., 2015). For example, a good investor protection can be used as indicator for the maturity level of the financial system (cf. Wendt, 2011, p. 77). In this context, many researchers investigate and compare legal systems with an Anglo-Saxon tradition (common law) and the civil law based systems (cf. e.g., the studies of Glaeser & Sheifer, 2002; La Porta et al., 1997; 1998; 1999a; 1999b, 2000; Charreaux, 2004, p. 21; Licht et al., 2005; Lin et al., 2016; Megginson & Sitorus, 2018). Another important topic are country specific comparisons of the legal frameworks regarding the rights of investors and their role within the strategy-setting process and the impact of co-determination (cf. e.g., McCahery et al., 2016; Pratheepkanth et al., 2016; Aguilera & Crespi-Cladera, 2016).

Political view: These scholars discuss basic political ideas and potential restrictions in terms of their influence of a corporate governance framework in different countries and in their comparison to each other (cf. Pagano & Volpin, 2000; Charreaux, 2004). Such authors focus on the strong influence of managers on the corporate governance mechanisms as a consequence of the historical strong influence (control functions) of the shareholders or the limitation of equity shares for certain financial institutions (e.g. investment banks) (cf. e.g., the analysis of Wendt, 2011, p. 78; Roe, 1990; 1994; 1997; Joseph et al., 2014; Blies, 2013; Dicks, 2012; Marquis & Lee, 2013, p. 483 ff.; Dimopoulos & Wagner, 2016). Further reasons are ideologically and interest driven political issues which have firstly been investigated by Charreaux (2004, p. 25) or Roe (1990, p. 24 ff.). However, the strong influence of

[65] For further information regarding the instrumental stakeholder approach, cf. Jones et al. (2018); Jones (1995); Freeman (1999). For further information regarding the Stewardship Theory, cf. Contrafatto (2014); Madison (2014); Davis et al. (1997, p. 20 ff.); Donaldson & Davis (1991). For further information regarding the Trust Theory, cf. Welge & Eulerich (2014), Oehler & Wendt (2007, p. 132 ff.); Learmount (2002, p. 14); Learmount (2003, p. 165); Davis et al. (2004, p. 118).

managers seems not to be helpful for the economic development, because incentive schemes, acquisition activities and the competition among the market participants have a disciplinary effect and intervene as a corrective for the performed management activities (cf. Wendt, 2011, p. 79; Charreaux, 2004, p. 25). Other authors investigate the different implications of a more social democratic and liberal view and its consequences for corporate governance or the political influence of selected stakeholders and suitable structures of the political institutions (cf. Roe, 2000; 2001; Rajan & Zingales, 2003; Pagano & Volpin, 2005). I found that the financial and political view are not always contrary and often overlap (cf. Wendt, 2011, p. 79; Roe, 2002; 2003). Other studies indicate that economic and political issues are the key drivers for corporate governance and not – as often suggested - the legal and regulatory framework (cf. e.g., Siregar & Rudyanto, 2016; Soleimani et al., 2014; Gourevitch, 2003; Charreaux, 2004, p. 26 f.).

Endowment view: This category considers geographic circumstances and climate conditions like natural resources or health aspects (e.g. death rate) that provide information about the development stage of the countries (cf. Wendt, 2011, p.79). Those proponents assume that less developed countries also have less developed and more inefficient (financial) institutions. These researchers link corporate governance with those subject areas to the general framework conditions, especially regarding the development, access and enforcement of institutions concerning the distribution and protection of property rights and private interests as well as expropriation (cf. e.g., ElKelish, 2018; Cosset et al., 2016; Ho et al., 2012; Epstein & Buhovac, 2014; Bruton et al. 2010; Bell et al. 2012). Those determinants directly or indirectly influence the promotion of investments.

Socio-cultural impact view: These scholars investigate the impact of the socio-cultural factors like religion, trust or other social and cultural components and norms (cf. e.g., Ezzine, 2018; Bindabel et al. 2017; Kim & Daniel, 2016; Licht et al., 2005; Love, 2010; Rupp et al., 2010; Griffin et al. 2014; Bae et al., 2012, p. 289; Daniel et al., 2012; Abdullah & Valentine, 2009; Huse, 2007; Chan & Cheung, 2012). In addition, this peer group covers ethnic-linguistic aspects. The basic assumption of those scholars is that e.g. moral values are mainly driven from religion and thus also influence the corporate governance practice in a country. Nevertheless, the study of Nakpodia et al. (2018) found no strong impact of religion on corporate governance. Stronger trust implies on the one hand an efficient legal system, less corruption or the acceptance of individual social relationships and less potential for conflicts of interest. These scholars also classify cultural aspects as relevant factors for the general attitude. Those studies found e.g. that in more harmony-driven cultures shareholders' rights are weaker than in other cultures (cf. Charreaux, 2004, p. 31 f.; Wendt, 2011, p. 80). Despite this, the impact of religion or moral and the law and finance perspective are not necessarily in contradiction with each other (cf. Wendt, 2011, p. 80). I supplement that there can be situations where strong moral values can substitute deficits in existing legal frameworks or where both are equal. In the second case, it could be that the law enforcement gets easier if morality plays a crucial role.

Taking into account the new corporate governance understanding of Hilb (2016), I add **industry specific approaches** to the prior clusters: Particularly in the last years there have been many scholars who examined corporate governance mechanisms in industry specific contexts. They argue that corporate governance mechanisms lead to different manifestations in different industries.
Those studies make cross-functional examinations of different layers of the mentioned micro and macro perspectives. So far, the large majority of those authors focuses on the financial industry, but there are also authors who investigate e.g. public governance, hospital governance and nonprofit organization governance.[66]

Many mis-developments in the field of corporate governance indicate that the underlying theories are often applied in an undifferentiated and one-dimensional way and that there is a severe deficit of credible analytical as well as integrative corporate governance frameworks (cf. Hilb, 2016). Scholars analyze corporate governance phenomena in different contexts and underlying assumptions, which in turn leads to many different outcomes. The financial crisis and latest company scandals have shown that the in-depth research among various topics could not avoid unpredictable developments. I conclude that one of the main drivers for the recent shortcomings are missing universal and holistic approaches of many scholars, which ignore, on the one hand, existing - often company-individual interdependencies of direct or indirect corporate governance mechanisms – and, on the other hand, imperfect market realities in the real world. In complex, multinational organizations with heterogeneous framework conditions the mere transfer of existing approaches is not enough and instigates the necessity for business model specific corporate governance management models to increase its effectiveness. After an overview about the existing corporate governance approaches, I will examine the theoretical effect of corporate governance mechanisms and the necessity for a carefully balanced corporate governance management, in the following subchapter.

2.3.4 The effect of corporate governance mechanisms

Corporate governance mechanisms comprise all internal and external decision-making and control structures, which reduce corporate governance problems within a company (cf. Zöllner, 2007, p. 4; Ulrich, 2011, p. 70). However, Lessing (2009, p. 3) outlines that good corporate governance can only be achieved with regulatory checks and balances or appropriate mechanisms to be effective. McAlister et al. (2016, p. 74) supplement that a system of checks and balances is crucial for securing the consideration of multiple views and constituencies, a proper allocation of resources, power and decision authority and the responsibility for initiating change and strategic directions. That is why this sub-

[66] The following authors concentrate on the financial industry: Goergen & Tonks (2019); Del Brio et al. (2018); Felício et al. (2018); Love & Okhunjanov (2016); Anginer et al. (2016); Haan & Vlahu (2016); Avgouleas & Cullen (2014); Laeven (2013).The following authors concentrate on public governance: Jia et al. (2019); Drumaux & Joyce (2018); Lienhard (2016); Degenhart & Wessel (2015); Ruter (2015). The following authors debate hospital governance: Moon (2016); Yang (2016); Clark & Beatty (2016); Brandao et al. (2013). The following authors discuss nonprofit organization governance: Wellens & Jegers (2014); Hirth (2013); Alexander & Weiner (1998); Jegers (2009).

chapter 2.3.4 concentrates on the effect of corporate governance problems in the first paragraph and briefly summarizes the typical mechanisms as another critical component to gain a better understanding of corporate governance phenomena in a second step.

When taking into account the organizational value-added cycle, information asymmetries and the consequential corporate governance problems can be seen either as deficits, effective instruments, elements or measures.[67] Zipser (2011, p. 56) concludes that those deficits result in a discount to the real company value. Other adverse effects within the value-added cycle are the combination of success potential, success and liquidity and reduce the efficiency and effectiveness of the business activities. In a final consequence, the survival of a company and the achievement of other company objectives are at a risk. Strengthening of corporate governance, and therefore the long-term efficiency and effectiveness of the business, requires the implementation of suitable corporate governance mechanisms. In this context, scholars differentiate between internal and external governance mechanisms (cf. e.g., Walsh & Seward, 1990, Zöllner, 2007, p.15 ff.; Wagenhofer, 2009, p. 7, Hopt & Wohlmannstetter, 2011; Hausch, 2013).

Internal corporate governance mechanisms can be designed and implemented within the organization in an isolated manner and typically depict the owner and capital structures, the establishment of a supervisory function and appropriate managerial incentive schemes. In contrast, the **external corporate governance** concentrates on a different level, especially on the following six mechanisms: the legal environment, the market for corporate control, external auditors, stakeholder activism, rating organizations, and the media (cf. Zöllner, 2007 p. 16 ff.; Aguilera et al., 2015).
Zöllner (2007, p. 20 ff.) additionally mentions disclosure and transparency as further crucial mechanisms, while Labbé & Schädlich (2008, p. 313) become more specific and define it as a hybrid mechanism which unites the internal and external corporate governance to form an entire framework. However, Aguilera et al. (2015) state that external governance mechanisms act both as independent forces and in conjunction with internal corporate governance mechanisms. I argue that there is a strong necessity for a better integration of internal and external governance mechanisms to improve corporate governance practices. For that reason, this dissertation will explicitly consider elements of both internal and external mechanisms to ensure a comprehensive approach for the management of corporate governance. For the purpose of this dissertation, it is necessary to transfer and adjust the above listed mechanisms for the context of multinational groups, taking the hierarchical relationship between the parent and its subsidiaries into account.

Information asymmetries between the company owner and employed managers are difficult to reduce by contracts, because contracts are always incomplete and therefore remain unpredictable to a certain extent (cf. Jost, 2001, p. 13 ff.). Thus, Wagenhofer (2009, p. 8) recommends reducing the principle-agent problem in particular via the **limitation of decision rights, provision of information and the reduction of interest conflicts**.

[67] Becker (2003) provides a good overview about the Balanced Value Map, which is based on the Gälweiler cycle (cf. Becker & Holzmann, 2014, p. 4).

In a first step, it may be possible to **limit the decision-making scope** of the subsidiary boards e.g. to the parent's headquarters or the company owners. While this would limit the effects of negative decisions, it will also limit the action scope of the local boards in terms of positive, strategic decisions that create additional value. Quite apart from the fact, that the legal and regulatory frameworks set clear boundaries for the delegation of decision-making competences. I outline that especially in parent-subsidiary relationship clear roles and responsibilities are required to secure a common understanding regarding the intragroup expectations towards the subsidiary boards.
The **reduction of interest conflicts** in key corporate governance areas can be achieved in different ways. According to Schaaper & Gao (2018) parents control their subsidiary managers e.g. by share of capital for wholly-owned subsidiaries or large majority shares in joint ventures. The implementation of decision-making principles, predefined sanction schemes or the promotion of integrity, trust and ethical behavior can reduce the interest conflicts, but also increase the intragroup costs for bargaining (cf. Lunnan et al. 2016a; 2016b; Hubert, 2016).
Another prerequisite to reduce information asymmetries between different stakeholders is the **provision of information** and **high level of transparency** (cf. Tricker, 2015, p. 23). In multinational companies, a mix of reporting, internal corporate rules, proper documentation, clear structures and processes help to formalize the organization and minimize potential risks, misalignment and opacity (cf. Schaaper & Gao, 2018). The separation of management and control between the executives and an institutional supervisory organ (e.g. board of directors or supervisory board) as additional institutional control function and mechanism, are beneficial. Further supportive control functions, such as controlling, internal audit, compliance and risk management are obligatory, because they provide the required information basis to reduce information asymmetries and increase the quality of decisions taken (cf. Welge & Eulerich, 2014).[68]

In particular, Renz & Böhrer (2012) outline for the mitigation of the principle-agent problem in group structures the importance of a comprehensive framework understanding of the involved managers and transparency about the subsidiary specific mission within the corporate group network. In addition, a proper internal and external stakeholder management supports to minimize information asymmetries, enhances transparency and reduces existing governance gaps.

Wagenhofer (2009, p. 11) outlines that the implementation of corporate governance mechanisms are always associated with costs and additional effort. Costs can incur for additional instruments and controls like e.g. the implementation of the International Accounting Standards (IFRS), decision-making processes, incentive schemes or the enforcement of rights and the provision of contracts. Consequently, it is always necessary to consider that the optimum of corporate governance instruments has to be analyzed regarding their additional benefit for the company. There is always a trade-off between too much and too little governance mechanisms, which needs to be balanced carefully within each

[68] For further information regarding controlling, cf. Oehler (2004); Günther (2004, p. 25); Wagenhofer (2009, 1 ff.); Kajüter (2008), Wall (2008); Becker & Ulrich (2010); Sassen (2012); Freidank & Paetzmann (2013); Horváth (2015, p. 453 ff.).For further information regarding internal audit, cf. Tricker (2015, p. 394 ff.); Eulerich et al. (2013, p. 57 ff.); Eulerich (2012a; 2012b); Geiersbach (2011); Lühn (2009, p. 231 ff.). Further information regarding compliance, cf. Wecker & Galla (2008, p.43 ff.); Kleinhempel (2004); Wieland (2010, p. 15 ff.); Grüninger (2012, p. 3 f.); Schuchter & Levi (2013).

organization. The optimum is reached if the costs and benefits for an additional corporate governance instrument are equal (cf. Wagenhofer, 2009, p. 12). However, the comparison of direct costs and benefits is usually not possible or only possible by applying indirect and subjective indicators, such as the satisfaction rate of the effect and the estimated benefits. There is always a dilemma to find the right balance between too much and too little corporate governance mechanisms. Even with the implementation of the best corporate governance mechanisms insufficient markets will remain and entrepreneurial decisions will always be based on partial information and connected to risks. Despite this, both are necessary to meet legal and regulatory requirements, increase transparency and minimize the principle agent problem.

Based on the prior discussion of the corporate governance mechanisms, the next subchapter 2.3.5 continues with the debate over why corporate governance plays such an important role particularly in the financial industry.

2.3.5 Corporate governance in the financial industry

On the one side, the financial crisis has illustrated the existing deficits of corporate governance, but on the other side, it has also demonstrated the necessity to secure public trust with bank specific corporate governance mechanisms. Especially wrong incentive schemes, combined with weaknesses of the executive board and supervisory board members as well as deficits in the risk management and internal control systems have been major causes of the recent financial crisis (cf. Tóth, 2016; Hopt, 2011, p. 25; Wohlmannstetter, 2011, p. 58). Moreover, the complex and non-transparent bank structures further enhanced the crisis (cf. Laeven, 2013). In order to prevent such undesirable developments in future, this dissertation, and in particular this subchapter, discusses the important role of corporate governance in the financial institutes. I have identified three arguments in particular for the general otherness of banks and the thereof resulting greater emphasis for corporate governance within in the financial industry:[69]

1. **Banks play a key role for the overall economic activity within economies.**
2. **A banks business model is primarily based on opacity.**
3. **Strong external legal and regulatory requirements and state supervision.**

The **first**, often mentioned **argumentation** for the necessity of specific corporate governance requirements for banks is their important **key role for the overall economy** (cf. Hüther et al., 2015). Banks provide capital for the companies and in return, they expect an efficient resource allocation from them. By taking this role, banks fulfill a key function to facilitate economic growth (cf. Hüther et al., 2015). As an outside creditor banks play a major role for the corporate governance practice of their customers, which likewise means that a defective corporate governance of banks implies a risk for the corporate governance of all companies (cf. Capriglione & Casalino, 2014; Nini et al., 2009). While this argumentation underpins the overall economic relevance of a functional credit system and the key role of banks, it further implies the necessity for a professional general management and functioning gov-

[69] These arguments are based on the suggested clusters of Haan & Vlahu (2016) and Wohlmannstetter (2011).

ernance mechanisms of banks. Capriglione & Casalino (2014) argue that improved board structures, administrative procedures and disclosure requirements could result in better-governed banks. Effective boards of directors complete the external oversight of the authorities. Thus, it is crucial for banks to get professional and well experienced people to serve on the banks' boards and senior management positions, to manage the complexity of the business environment and new financial products. Bank organizations require competent leaders, who recognize new business opportunities, but also their risks, who have a healthy skepticism and take fast decisions. Solely regulatory and supervisory frameworks cannot guarantee financial stability (cf. Capriglione & Casalino, 2014).

I state that the corporate governance discussion in banks mainly focuses on the internal, operative aspects and requirements for the internal management. I argue that, if the state is seen as the competent authority to set high standards and to ensure their enforcements, the institutional banking supervision also can be defined as an entire part of the internal governance at banks.[70]

Since the recent financial crisis, the systemic relevance of banks is much discussed (cf. e.g., Amalia, 2018; Khoury, 2016; Gorton & Tallman, 2016; Hardie & Macartney, 2016; Gormley et al., 2015; Kaufman, 2014; Garrison-Kimmel et al., 2013; Drehmann & Tarashev, 2013; Pais & Stork, 2013). Banks, which are "too big to fail" because of their size and strong economic links, have a kind of state guarantee for long-term existence given by the governments. These too-big-to-fail institutions operate under an implicit government undertaking that, although it is a private business, the governments will bail them out with the taxpayers´ money if their existence is threatened due to their own misconduct or failures (cf. Gasparetto, 2015). De facto, outside creditors have capital insurance, because governments will guarantee their existence in case of a potential bankruptcy.[71] This deliberate overruling of corporate governance mechanisms limits the required caution and attention of the outside investors and leads to higher risk taking of the banks (cf. Dam & Koetter, 2012; Westman, 2010, p. 1). Banks have no sustainable incentive schemes, which take into account the (negative) effects of their decisions and business activities. The only solution to this problem are internationally aligned and legally binding measures, that are defined from the regulators and monitored from external supervisory authorities (cf. Sachverständigenrat, 2009, p. 137 f.). In this role bank regulators and supervisory authorities become an additional key player of a functioning corporate governance system in the financial industry.

The second argument why banking specific corporate governance regulations are crucial is because of their **business model, which is largely based on opacity**.[72] Information asymmetries between capital lender and borrower build the foundation for the business model of banks. Financial institutes

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[70] For example, the EBA (2017a) defines detailed requirements for internal governance of banks. Further, e.g. the German bank supervisory authority (BaFin) documented in detail their view for a functional risk management in banks in the MaRsik regulations (cf. BaFin, 2017a)

[71] The bankruptcy of the investment bank Lehmann proves not the contrary. This event illustrates the bankruptcy of a bank can be the preferable option compared to a government rescue solution (cetrus paribus effect) (cf. Wohlmannstetter, 2011, p. 38).

[72] Empirical studies show different results regarding the increased lack of transparency in banks: Morgan (2000) and Iannotta (2006) analyzed that rating agencies rated bank bonds much more often with different banks compared to bonds from industry companies. Iannotta argues that the main reason is the lack of transparency of banks and the potential governmental banking liability. In contrast, Flannery et al. (2004, p. 419 ff.) analyzed that banking analysts have no other accuracy of their forecasts than analysts of other industries. Polo (2007, p. 5) concludes, that both investigations indicate that higher disclosure standards (due to governmental regulation) support the disciplining effect of the capital markets.

position themselves as independent intermediaries between both parties (cf. Craig & Von Peter, 2014). I argue that this indicates, that investors of the banks believe, that they cannot evaluate the associated risks of the credit business. Moreover, this argumentation is strengthened by the implementation of deposit protection systems and further state supervision efforts (cf. Srivastav & Hagendorff, 2015). Such investors completely differ from those characterized by the initial corporate governance theory. Those investors look for banks that pay higher interest rates, even if higher interest rates also mean higher risks (cf. Mullineux, 2006, p. 378). The underlying assumptions of this argumentation goes into the right direction, as it indicates further, that improved risk disclosures and increased control incentives in combination with less regulation can reduce the existing supervisory deficits (cf. Levine, 2004, p. 15). This can only be successful, if bank typical risks become transparent and the associated profits are based on the real risks.[73] Finally, it means that particularly the external corporate governance with a better supervision as well as disincentive systems (moral hazard) are major challenges.[74] This moral hazard problem in combination with a so far unsolved transparency problem of the banks' business model makes it challenging to overcome this obstacle (cf. Hellwig, 2014). This fact is another unique characteristic of the business model of banks. While manufacturing businesses first have to invest cash (e.g. for production, purchasing) to receive solely downstream and unsecure income, banks calculate their interest income (risk premiums) in advance before the potential risk event. I argue that this converse time sequence of income and expenses of banks leads towards two corporate governance problems. At first, it encourages a misguided incentive system for the bank managers and, secondly, it compromises monitoring disincentives of the investors.

I address concerns, that despite several regulatory initiatives, the external accounting regulations to a large extent still ignore the overall opacity for external stakeholders to evaluate potential profits in relation to the assumed risks. Compared to other businesses, it is often ignored that banks calculate their assets and liabilities together and this way support an even higher lack of transparency.[75] This discussion is not new, as already in the year of 2002, Schilder (p. 2) and Turner (2010) highlighted the need for a new accounting debate for banks, because modern finance instruments help banks to rapidly change their risk profiles without any notice towards externals that have to secure adequate bank supervision. If such information is not transparent, market-disciplining mechanisms are inadequate and also inefficient (cf. e.g., Mülbert, 2009, p. 425). Nevertheless, there are several initiatives to respond to the opacity problems in banks, as e.g. the new EBA guideline on credit risk management practices, and, accounting for expected credit losses (2017b), the IFRS 9 with its requirement to implement an expected credit loss accounting model or the IAS 39 which the incurred loss accounting model exemplifies.

[73] Several authors highlight the importance of risk transparency to increase corporate governance of banks: Ratnovski (2013); Bouvard et al. (2015); Zelenyuk et al. (2016).

[74] The scholars of the shareholder value perspective argue to realize profits with risks, which have a considerable low probability of occurrence. Even if those risks provide substantial losses in terms of their realization.

[75] A good example is the sale of a bond. The profit exists out of the ratio between the effective interest income and its refinancing costs. If the general interest rate level decreases while the maturity, it can be sold with additional profits before the final maturity date. Further, it is shown on the profit and loss account and can be used e.g. for dividends, taxes or bonuses. This means that the reinvestment of the created income can only take place to a lower interest rate while the refinancing costs remain at the same level. Otherwise, there would be losses in the upcoming years.

The **third argument** for the differentness of banks is their **strong regulation and supervision.**[76] However, even though this can be seen as a consequence of the above mentioned first and second argument, it is finally a unique characteristic compared to other industries. As the last two paragraphs have shown, typical corporate governance instruments have solely limited effects in banks and need to be supplemented with others. I find that in particular the supervision of banking specific risks is challenging. To address this control deficit, national and international standard setters and other authorities have setup bank supervisory authorities. In contrast to the typical corporate governance concepts that emphasize the equity governance, bank supervisors predominantly concentrate on risk governance issues (cf. Wohlmannstetter, 2011, p. 42).[77]

Accordingly, I argue that bank supervisory authorities are an essential part of a functional corporate governance system in banks. In the past, a group of authors discussed the question if the regulation replaces or complements the 'normal' corporate governance mechanisms (cf. e.g., Horn, 2014; Martynova & Renneboog, 2011; Macey & O'hara, 2003; De Jong et al., 2005). I found that the regulation initiatives are in general not the reasons, but rather the conclusion of the unique characteristics of banks (cf. Rudolph & Burghof, 2013, p. 115). Nevertheless, in such cases where the supervisory authority requests elements beyond the existing corporate governance mechanisms, it has also a causing role. While it can be valuable for the economy as a whole, it could have negative effects of good corporate governance in the worst-case.[78]

On the one hand, the foregone analysis highlights the important role of corporate governance within banks, but on the other hand, it also demonstrates the difficulties to define and balance the appropriate mechanisms with the desired outcomes. The previous analysis provided essential insights about the necessity of appropriate corporate governance mechanisms and their challenges in banks and therefore also in financial services subsidiaries. The analysis provides a solid foundation to draw first interim conclusions for the intragroup corporate governance management of financial services subsidiaries in the next chapter 2.4.

2.4 Corporate governance in financial services subsidiary networks

Up until now, I have made various rather isolated examinations of multinational group, automotive financial services and the term corporate governance. In the following, I will draw some first conclusions for the further progress of this dissertation project.

In a multinational group it is relevant to define clear responsibilities among the disparate corporate governance mechanisms, structures and processes as a key enabler. Chartier (2015) reveals that sound governance practices at the top of the organization in the corporate parent is no longer suffi-

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[76] Representing others, cf. the argumentation of Mullineux (2006, p. 378): "*…are banks different (special) because they are regulated differently and are they regulated differently because they are different (special)?*"

[77] So far, the literature only covers the micro or banking specific regulation debate, cf. Lundja (2010, p. 1): *"bank regulation is then defined as a special case of debt governance"*. Mülbert (2009, p. 429) defines regulation as *"…functional substitute to debt governance of banks"*. Solely Wohlmannstetter (2011, p. 43) outlines a dominant role of the supervisory authorities as framework setter for the individual banks and a functional financial system.

[78] An often raised argument is e.g. that banking supervision and the deposit guarantee mechanism have counterproductive effects. The investors signal a false sense of safety and avoid debt governance among the market participants (cf. Mülbert, 2009, p. 412).

cient, as today regulators, investors and the society expect governance practices that go beyond that.[79] This becomes even more important in the case of banks that have to cope with even stronger legal and regulatory requirements in comparison to other institutions. Since the last financial crisis, existing corporate governance mechanisms are critically questioned and further strengthened (cf. e.g., Werder, 2015, p.7; Paetzmann & Schöning, 2014a; Hopt & Wohlmannstetter, 2011; Kunz, 2006; Grundmann et al., 2009, p. 22 ff.; Möschel, 2009). Those framework conditions with different internal and external determining variables bring up several challenges for the intra-group corporate governance management:

- The hierarchical structures and decentral organizational setup to meet local requirements indicate the necessity to clearly **define which corporate governance elements and mechanisms** (i.e. management and supervisory organs, internal audit, compliance, risk management) get **managed from the parent's** headquarters and which duties are expected to be executed **on subsidiary level.** Clear defined roles and responsibilities between the headquarters and the subsidiaries help to increase transparency, reduce information asymmetries and the principle-agent problem (cf. Chartier, 2015).
- Mixed multinational groups with financial services divisions, such as car manufacturers, have to **deal with different levels of regulatory requirements** for each of their business divisions. The increased business volumes and professionalization of the automotive financial services business already resulted in a stronger supervisory focus of the national (banking) supervisory authorities and requires appropriate management and steering structures to fulfil their requirements (cf. Stenner, 2015).
- Multinational organizations have to deliberate and align internal and external corporate governance mechanisms in their group and structure the **different institutional corporate governance frameworks** (the one tier and two tier systems), depending on the location where the subsidiaries are officially registered. On the one hand, they have to take into account meeting international agreed standards and national legal and regulatory requirements in the parent's country of origin and the host countries of the subsidiaries (cf. Szabó & Sørensen, 2018). On the other hand, it is expected, that the group secures a certain level of alignment and organizational transparency to achieve the common overarching group targets.
- The rising trend of stricter legal and regulatory requirements increases the personal **management liability** and clawback provisions of the executives and directors (cf. e.g., Liu et al., 2019). In turn, the management attention for corporate governance topics among companies and their senior staff increases (cf. Hitz & Müller-Bloch, 2015; Warning, 2016).
- Another challenge for multinational companies is that the **corporate governance understanding** and its perception varies among the countries, depending on its role within the local legal and regulatory frameworks (cf. Szabó & Sørensen, 2018). Thus, it is a major obstacle to gain a common understanding among the entire multinational corporate group. Nevertheless,

[79] In many countries have been countless legal and regulatory initiatives to strengthen direct or indirect the corporate governance practice. For example, in Germany, some of the most important initiatives in the last decade have been the following: KonTraG (1998), TransPuG (2002), AnSVG (2004), BilReG (2004), BilKoG (2004), VorstOG (2005), KapMuG (2005), das UMAG (2005), EHUG (2006), TUG (2007), FRUG (2007), BilMoG (2009), ARUG (2009) and VorstAG (2009). A comprehensive overview about the legal and regulatory initiatives provide Welge & Eulerich, 2014, p. 113 ff.).

as corporate governance is a cross-functional topic and affects different functions, mechanisms, processes and soft topics, such as leadership or the corporate culture, it makes it more complicated to manage a multinational group (cf. Yasui, 2016).

As analyzed earlier, a multinational group exists of various intra-group relationships between the corporate parent and its subsidiaries. I conclude that this duality can also be applied for the management of corporate governance within multinational groups. Already the study of Kim et al. (2005) indicated that corporate governance of foreign subsidiaries should be designed in response to different levels of agency problems that are associated with varying strategic roles of foreign subsidiaries. Differentiating governance structures for each subsidiary is a key contingency requirement to achieve a better superior group-wide performance (cf. Kim et al., 2005). While Vagadia (2014) divides corporate governance into a strategic governance and operational governance dimension, other researchers, such as Renz & Böhrer (2012), propose to implement a separate subsidiary governance dimension or advise to differentiate between top governance and unit governance, such as Kaehler & Grundei (2019). To overcome the prior mentioned challenges, I follow the duality principle for the corporate governance understanding in a multinational group context:

- **Corporate governance on parent level** (defines how rights, responsibilities and power are defined, aligned and controlled within the corporate group).
- **Corporate governance on subsidiary level** (defines how subsidiaries deal with their different internal and external stakeholders and framework conditions in the multinational corporate group and the host country).

To my best knowledge, Hilb (2012) and Lenz & Krag (2008) have been the first who explicitly define **subsidiary governance** as a process-oriented framework that supports the strategical guidance of subsidiaries, to manage them in an integrative way and control them by a holistic approach, which is based on an entrepreneurial and ethnical-reflecting local adjusted manner. I argue that the subsidiary governance is directly linked towards the parent's corporate governance framework and should not be recognized in isolation (cf. Chartier, 2015). At its core, subsidiary governance is responsible for the operationalization of the strategy, vision and plans that get predefined from the parent for the entire corporate group. The term subsidiary governance is a relatively new research topic and only few publications discussing this topic exist.[80] It is mainly seen as the further enhancement of the corporate governance discussion. The existing national corporate governance regulations (e.g. DCGK; Cadbury Report etc.) target the listed corporate parents, but not explicitly on their subordinated subsidiaries. As chapter 3.2 will illustrate, the Basel Committee for Banking Supervision firstly introduced a chapter regarding corporate governance in group structures, in their revised version of their corporate governance principles for banks (cf. BCBS, 2015). Although many of the recent scandals have been the consequence of mistakes in decentralized subsidiaries and not on parent level, this is still an underrepresented field of study.

[80] Particular in the last four years, several scholars apply the term subsidiary governance: Sengul & Obloj (2017); Szabó & Sørensen (2018); Grassl (2016); Puri (2016); Farah et al. (2016); Chartier (2015); Cannings & Ward (2013); Gibson et al. (2013).

The earlier analysis indicates the necessity for more company and industry specific corporate governance management approaches. Authors like Hung (1998), Htay et al. (2013) or Hilb (2016) outline the importance of addressing the recent weaknesses with more integrated, universal corporate governance concepts instead of focusing solely on an isolated view on single mechanisms. Vagadia (2014) also promotes a new corporate governance understanding, away from the historic corporate governance and towards a broader, strategic and operational governance understanding.[81] Until today, corporate governance management of financial services subsidiaries is an underrepresented field of research. For that reason, I outline the importance of an integrated forward-looking corporate governance perspective, which combines different elements of the shareholder and stakeholder approaches, but also integrates industry and company specific characterizations as suggested in the definition by Hilb (2016).

However, as Malmi and Brown (2008) outline, the underlying idea of management control systems (MCS) operating as a package has existed for several decades. They explain that an appropriate management control can solely be achieved by a combination of different instruments of five groups: (1) planning, (2) cybernetic, (3) reward and compensation, (4) administrative and (5) cultural controls. This concept of Malmi & Brown (2008) goes beyond pure organizational control systems and concentrates on all layers, devices and systems which executives use to assure that the staff behaviors and taken decisions follow the predefined objectives and strategies. To overcome the intragroup complexities, multidimensional interrelations and existing information asymmetries, it seems appropriate to follow this view of Malimi & Brown (2008).

The gained results of chapter 2 provide a solid fundament to investigate the decisive determinates and requirements for the multidimensional management of corporate governance in financial services subsidiaries in the following chapter.

[81] Vagadia (2014, p. 3) defines the historic-oriented view is top down organized in e.g. ERP systems and focuses on segregation of duties, financial management, controls, committees, corruption and compliance to law. He describes the strategic and operational governance with oversight, insight, direction, alignment and commitment, empowerment and accountability, control and compliance, risk assessment and management, decision-making processes.

3. Decisive influencing factors for corporate governance in multinational groups with financial services subsidiaries

In the first section of chapter three, I will analyze the theoretical foundations of the benefits of corporate governance and the overall institutional, legal and regulatory framework determinants. Subsequently I will discuss existing management systems and concepts for the management of internal governance. Finally, the last subchapter will identify the critical governance mechanisms from the perspective of the corporate parent and its subsidiaries.

3.1 Theoretical influencing determinants

In the following, I will investigate the theoretical influencing determinants of corporate governance and general management in automotive multinationals. The analysis starts at first with the operationalization of governance efficiency and effectiveness, which builds the foundation for the subsequent analysis of the relationship between corporate success and corporate governance in the context of multinational groups. In addition, I investigate the embeddedness of corporate culture on the corporate governance mechanisms as further crucial pillar. All those influencing variables are relevant underlying foundations for the management model that will be developed in this dissertation.

3.1.1 Operationalization of efficiency and effectiveness

From my point of view, an integrated success analysis is a basic requirement to make an evaluation analysis of corporate governance. Yet, for the sake of completeness, it is important to mention, that the existing success analysis within the management theory has several weaknesses.[82]

Therefore, I will in the following at first discuss the operationalization of the term success via the construct of efficiency and effectiveness. Scholars have summarized these issues in the context of organization and reality-orientated controlling and have primarily focused on the success and performance measurement (cf. Müller-Stewens & Schnupp, 2017; Krüger et al., 2008, p. 4 ff.; Dyckhoff & Ahn, 2001). Hereby, particularly Becker & Benz (1996, p. 22 ff.), Sill (2009, p. 11 ff.), Daniel (2008, p. 1 ff.) and Guserl & Pernsteiner (2015) provide a solid foundation. They find a positive correlation between corporate governance, general management and company performance. The general problem within the operationalization of success is the initial starting point of the business-related success research. There is a debate about the content and about the question if efficiency and effectiveness are different elements or if they are both subchapters of a joint construct as promoted by Zloch (2007, p. 61 f.) or Gladen (2014, p. 186). While Gladen (2014, p. 186) summarizes the efficiency and effectiveness under the umbrella term of overall company efficiency, Robalo (1992, p. 16) and March & Sutton (1997, p. 705) argue that both terms are synonyms for success. A contrary argumentation is provided by Bünting (2013, p. 73) and Schulte-Zurhausen (2014, p. 5), who outline that efficiency is a prerequisite

[82] Representing others, Wolf (2008, p. 210 ff.) identifies the following weak points: (1) unclear definition; (2) insufficient consideration of the stakeholders interests; (3) problems with the definition of success KPIs; (4) problematic sample size of success-related information; (5) multi causality of success; (6) missing definition of the time component; (7) unclear definition of time slots; (8) uncleanness about the striven success level of the management; (9) lack of appropriate tests regarding the theoretical relevance of the respective concepts.

to achieve effectiveness. Then again, scholars like Becker & Benz (1996, p. 25) argue that efficiency is always in the foreground of every business management related decision and promote a purpose orientated efficiency approach.[83]

One of the most cited differentiations is by Drucker (1963, p. 54) who explains that *„it is fundamentally the confusion between effectiveness and efficiency that stands between doing the right things and doing things right".* In this context, Mellewigt & Decker´s (2006, p. 54 ff.) argumentation "*doing the things right*" for effectiveness and "*doing things right*" for efficiency seems to be consistent. The effectiveness describes the orientation on the right objectives, but without an exact definition, and it cannot be defined as one single standalone figure (cf. Bünting, 2013, p. 74; Schulte-Zurhausen, 2002, p. 5). Efficiency characterizes the degree of achievement of the predefined objectives and considers the input-output ratio (cf. Bünting, 2013, p. 74; Häberle, 2008, p. 326). I follow the above outlined understanding of this paragraph.
Ulrich (2011, p. 81) concludes that efficiency and effectiveness have different effects on company level. Effectiveness is directly linked to revenues, success and liquidity. Increased efficiency can be achieved with cost reductions via the optimization of internal process. Consequently, efficiency and effectiveness operationalize the company success as sub-elements. Efficiency and effectiveness are crucial for setting the right objectives and therefore, they are important for corporate governance. Moreover, it is crucial to consider that the definition of success always depends on the individual perspective and varies among the stakeholder groups (cf. Hausch, 2013, p. 61 ff.; Funk & Rossmanith, 2007, p. 6; Schenk, 1998, p. 64). I define efficient and effective corporate governance as follows:

Efficient corporate governance means that prescribed targets are achieved with a minimum of potential time and costs. The minimum requirement defines that there has to be a higher increase of additional benefit of the corporate governance measure than its quantifiable monetary costs regarding the implementation into structures and processes.

Effective corporate governance means following the right objectives in the long-term. Subsidiaries have to follow a strategy that supports the overall targets of the multinational group for a long-term orientated increase of the corporate value and therefore for their company owners (shareholders). The effectiveness has to be measurable as absolute or relative scale to analyze potential changes. Consequently, subsidiaries require pre-defined targets as benchmark for the measurement of the degree of achievement. In general, effectiveness supports the overall long-term survival of the company, even if it is difficult to operationalize.

To ensure the appropriateness of the model, this subchapter has shown the great necessity to concentrate particularly on efficient and effective governance mechanisms and instruments in its development. On this basis, I will examine the relationship between corporate governance and company success in the following subchapter.

[83] Sill (2009, p. 13 ff.) provides a good overview about the current literature. As the concrete measurement of corporate governance is not in the foreground of the corporate governance management model, I refer to this comprehensive literature overview.

3.1.2 Relationship between corporate governance and company success

The initial idea of implementing corporate governance mechanisms is to avoid and prevent company crisis, organizational failure, ensure trust of stakeholders and support in a final consequence the continuous improvement of effectiveness and efficiency and therefore corporate success (cf. Welge & Eulerich, 2014, p. 1; Wagenhofer, 2009, p. 11 ff.). Klein (2009) and Wagenhofer (2009, p. 12) outline that companies are solely willing to implement additional corporate governance mechanisms if the anticipated benefit is higher than the accumulated efforts needed. Zöllner (2007, p. 51 ff.) and Ulrich (2011, p. 83 ff.) enumerate four different corporate governance approaches, which may influence the company's success in a positive way: Theoretical orientation, external evaluation, company internal rules and internal evaluation. Those elements seem to be reasonable to manage and steer corporate governance, which is why I also apply these clusters for the following analysis. As I have already discussed the underlying assumptions of the theoretical foundations in the prior subchapters, I will continue with the external evaluation.

External evaluation: A popular approach to evaluate corporate governance is the application of external rankings, ratings or scoring models (cf. Linden & Matolcsy, 2004; Bassen et al., 2006, Alali et al., 2012; Li, 2018). The initial approach is to develop corporate governance models, which are based on pre-defined attributes and get matched in a suitable index. A good overview of such external ratings is provided by Zöllner (2007, p. 54 ff.), Jarrett & Stokes (2007, p. 10 ff.) and Arnsfeld & Stiglbauer (2011, p. 354 ff.). Gompers et al. (2001) performed the first comprehensive investigations in this context. They investigated 24 corporate governance elements of the Investor Responsibility Research Center (IRRC), aggregated them to an individual corporate governance index and afterwards analyzed 1,500 US companies. They clustered them in companies with good and rather poor corporate governance practices and subsequently analyzed their company performance between the years 1900 and 1999. The results highlight a much better performance of companies with good corporate governance mechanisms. In addition, the Institutional Shareholder Services (ISS) introduced a rating model, which considers 61 KPIs in seven clusters. Despite several studies proving a positive correlation between corporate governance and company performance, there are still other studies that demonstrate only a weak relationship between company performance and corporate governance ratings.[84] Further, there are studies, which indicate that corporate governance rankings can have negative effects.[85] Rowley et al. (2016) conclude that there is a hierarchy of firms' targets, where the target of profitability dominates other targets imposed by external ratings and rankings.

In sum, external ratings usually focus solely on the listed (parent) companies and have therefore only a limited direct impact on the evaluation of corporate governance practice in subsidiaries. Neverthe-

[84] The following studies prove a positive relationship between corporate governance and company performance: Danoshana & Ravivathani (2019); Core et al. (1999); Brown & Caylor (2004); Bhagat & Bolton (2008); Acharya et al. (2013). In a contrary, Donker & Zahir (2008) also examined popular corporate governance ratings and could not prove a strong relationship between corporate performance and corporate governance rating. Also an extensive Standsford study that analyzed 15,000 ratings from 6,872 listed companies found that casts strong doubt upon the value and validity of the ratings of governance advisory firms that compile indexes to evaluate the effectiveness of a publicly held company's governance practices (cf. Daines et al., 2010).

[85] For example, Rowley et al. (2016) found that if firms have both a poor governance ranking and poor profitability, they are less likely to adopt governance practices. This is contradictory with the initial idea behind such rankings.

less, some of the external ratings (e.g. ISS or GMI) have started to also consider KPIs regarding the corporate governance practice of subsidiaries.[86] This indicates at least an indirect influence of subsidiary governance on the rating of the listed parent company.

Company internal rules: Many companies try to improve their corporate governance practices by implementing company-internal regulations (cf. e.g., Schaaper & Gao, 2018; Tricker, 2015, p. 138 f.; Welge & Eulerich, 2014, p. 63 ff.; Werder et al., 2005; Pasalic, 2012; Talaulicar & Werder, 2008). The underlying foundations are either international best practices, corporate governance standards or national regulations, as the upcoming chapter 3.2 will illustrate. In other words, the statutory declaration of compliance of the listed parent company regarding the applicable corporate governance standards is usually the only opportunity for externals to get indications about the performed intragroup corporate governance practices. The assumption is that a high level of compliance with those pre-defined recommendations of external lawmakers indicates a better corporate governance practice.[87] However, as Bassen et al. (2006) and Ulrich (2011, p. 87) state, this approach says nothing about the quality of the corporate governance. In the context of the last financial crisis, Werder (2015) criticizes the strong orientation of codices among legal and financial regulations, which have resulted in wrong incentive schemes. It is questionable, if self-regulatory corporate governance reforms relying on disclosure without monitoring and legal enforcement, are effective (cf. Mahr et al., 2016). On the one hand, corporate governance can prevent bad behavior, but on the other hand, it cannot ensure right action as this depends on the individual actions taken from the decision-making bodies and its members. It seems that the existing corporate governance codices have in practice just limited influence towards subsidiaries, as they are primarily designed for listed companies or stand-alone companies and do not consider corporate group specific contexts.

Internal evaluation: Independent and individual developed methods for the evaluation of corporate governance are summarized among internal evaluation approaches (cf. Zöllner, 2007, p. 60). Cheng et al. (2015) explain that internal governance refers to the process through which key subordinate senior staff provides checks and balances in the organization and affects the decision-making. One of the most comprehensive examples is provided by the study of Drobetz et al. (2004) who developed a model, which consists out of certain elements of the German Corporate Governance Code and some elements of the Scorecard of the DVFA. A different approach was introduced from Weichsler et al. (2009), who developed an individual ranking for Swiss companies, based on empirical investigations of corporate governance and shareholder value indicators and found a positive relationship between corporate governance and shareholder value. Others, such as Du et al. (2015) and Strikwerda (2003)

[86] ISS (Institutional Shareholder Service) Quick Score is a qualitative driven data solution to identify governance risks within portfolio companies (ISS, 2016). GMI Ratings (Governance Metrics International) was in 2010 found and is a merger of three independent research providers. They developed three ratings: GMI Environmental, Social and Governance (ESG) Ratings; GMI Accounting and Governance Risk Ratings; Forensic Alpha Model (cf. Lo-Turco & Katrysh, 2016).

[87] The study of Goncharov et al. (2006, p. 432) has shown that a high degree of compliance with the DCGK is meaningful and that there is capital market pressure to adopt the DCGK regulation. Chhaochharia et al. (2016) illustrates a better corporate governance performance of US companies after the introduction of the Sarbanes–Oxley Act.

evaluate boards of subsidiaries and the delegation of decision-making competencies in group structures and draw conclusions for the corporate governance practice of the group.

Research studies related to corporate governance and success: The academic literature has for many years already investigated the relationship between corporate governance and success.[88] Despite the broad consensus about the importance of corporate governance mechanisms for the entire performance, there is still clear evidence missing that corporate governance supports the company's success (cf. Baker & Anderson, 2010, p. 99; Bassen & Zöllner, 2014).
In Germany, the first comprehensive investigation regarding the relationship of corporate governance and success can be found in the just mentioned study of Drobetz et al. (2004). Nevertheless, the examinations of Goncharov et al. (2006) and Mahr et al. (2004) provide contrary results and cannot prove beneficial effects free of doubt. Even so, there are also studies like those by Bassen et al. (2006) or McConnell & Qi (2016), who find a positive correlation of corporate governance practice at board level and performance. Cuñat et al. (2012) also verify a positive effect of internal corporate governance mechanisms on the shareholder value, even if this is contradictory to the analysis of Velte (2009) or Dabor et al. (2015), who solely provide limited evidence for the positive relationship between corporate governance and performance.
Furthermore, there is a rising interest among scholars to investigate the relationship of corporate governance and success among multinational companies. Representing others, Aulakh & Gencturk (2000), Andersson et al. (2002) and Hutzschenreuter et al. (2014) provide evidence that the parent-subsidiary governance structures have a positive effect on the long-term group performance. Most studies differentiate between short and long-term effects or investigate the consequences of cultural differences or multiple levels of subsidiary autonomy on the performance (cf. Lazarova et al., 2017; Farah et al., 2016; Gaur et al., 2017; Oehmichen & Puck, 2016).

I argue that many studies analyze the effect of corporate governance mechanisms, but the empirical literature has not yet consistently identified a strong relationship between corporate governance and company performance. However, a potential consequence of this is not the assumption that efforts to improve corporate governance are a waste of time and effort, but rather that it indicates the existence of limitations in research designs, which investigate the effect of solely one company dimension on performance, whereas governance mechanisms are numerous and interaction effects are quite probable.[89]
Even if the published statement of compliance of listed companies provides some indications for good corporate governance of the listed parent companies, they are insufficient and have no informative value to draw conclusions about the maturity level of corporate governance in their subsidiaries.
Many scholars discuss management in regard to a positive business performance under the roof of corporate governance and associate it with KPIs such as EVA (economic value added), return on eq-

[88] A comprehensive overview provides Zöllner (2007, p. 51 ff.) and Mustaghni (2012). Additional studies are provided by McConnell & Qi (2016); Kato et al. (2016); Yilmaz & Buyuklu (2016); Domadenik et al. (2016); Rose (2016).
[89] This argumentation is based on the analysis of Bassen & Zöllner (2014); Baker & Anderson (2010, p. 99); Larcker et al. (2007).

uity, share price increases or dividend payouts (cf. Hutzschenreuter, 2015, p. 93; Weichsler et al., 2009, p. 138 ff.). Despite this, Strenger (2002, p.118) already summarized, that corporate governance proves no perfect orientation for the search of *"true values"*. Corporate governance is an interaction-orientated approach, which is based on the shareholder and ownership orientated management and should be integrated in a much broader context of performance based general management (cf. e.g., Buckingham & Goodall, 2015; Bhasin, 2015; Brunner et al., 2013; Piser, 2013; Stiefl & von Westerholt, 2008, p. 1; Pölert, 2007; Rappaport, 1999, p. 15 f.). It is too short-sighted to assess corporate governance solely among e.g. financial KPIs, it rather has to follow a comprehensive perspective considering multiple internal, external, direct and indirect determinates to adequately assess its multi-dimensional character.

I argue that an evaluation methodology with different elements of the external and internal evaluation approaches fits best for a corporate governance analysis of multinational corporate groups with subsidiaries in different locations. To consider the various natures of the subsidiaries it seems inappropriate to apply solely the generic corporate governance standards for listed companies, but instead to develop a corporate governance approach that fits to the business model and group structure specifics. To avoid an arbitrary and comparison free evaluation of intragroup corporate governance, I will develop a multidimensional management model, which considers various group internal and external, legal and regulatory related factors.

In the following subchapter I will investigate the relationship between corporate culture and corporate governance, before I thereafter analyze the implications between subsidiary governance and group success.

3.1.3 Relationship between corporate governance and corporate culture

The corporate culture plays an important part for the effectiveness of corporate governance mechanisms.[90] In the business management related literature, several approaches exist to explain the corporate culture phenomena (cf. Robbins, 2001, p. 594 ff.). Even if the corporate culture research first started in the 1980s, corporate culture already exists since the setup of companies as a social, productive and autonomous system.

The initial starting point of the *recent* corporate culture research is the investigation of Ansoff (1979). Six years later, Schein (1985) published one of the most discussed studies for firm culture.[91] According to his research, three different patterns play a crucial role for corporate culture.[92] On the highest level, there are predominant behavior schemes, the so-called **artifacts.**[93] They are the most obvious

[90] Davó et al. (2019) provide an overview about the impact of culture and law on corporate governance models. Among others, particularly Arjoon (2005) argues that legal compliance mechanisms are insufficient to secure corporate governance behaviour and may not be addressing the relevant issues that are important to ensure ethical behaviour.

[91] Schein (1985, p. 9) defines the corporate culture as "*a pattern of basic assumptions – invented, discovered, or developed by a given group as it learns to cope with its problems of external adaption and internal integration – that has worked well enough to be considered valid and, therefore, to be taught to new members as the correct way to perceive, think, and feel in relation to those problems."*

[92] For a further debate of the Schein model, cf. Hogan & Coote (2014); Yilmaz (2014); Schein (2010; 1991).

[93] Definition Artifacts: According to Trice & Beyer (1993), the visible artifacts can be clustered in six elements: Symbols, buildings, language, stories, rituals and ceremonies.

part of any corporate culture. The second level are **joint values and norms** and give guidance for appropriate conduct.[94] The third level are **basic assumptions**, which form the foundation of the company values that are never questioned by the employees.[95] Schein (2010) describes corporate culture as a *"pattern of assumptions"* that are defined for an organization.
A well-known alternative approach was introduced from Robbins (2001, p. 595 ff.), who identified primary characteristics that help to evaluate corporate culture: Innovation, risk taking, accuracy, target orientation, person/individual orientation, team orientation, aggressiveness and stability. Another approach implicates that culture impresses the unspoken code of communication among people within an organization (cf. Crémer, 1993). A similar view expresses that culture is a convention that provides guidance and coordination. The managerial literature highlights culture as *"a set of norms and values that are widely shared and strongly held throughout the organization"* (cf. O'Reilly & Chatman, 1996). Hereby the culture is associated with a kind of 'social control'. According to Pfohl (2006, p. 89 f.), corporate culture can be ranked as part of the behavior dimension of the normative management. In the context of general management the corporate culture is an important element for behavior steering (cf. Welge & Al-Laham, 2013). This view is supported from O'Reilly (2008, p. 85 ff.), who outlines that most individuals care about the people who surround them. A concrete form of the internal and external orientated corporate culture is the corporate behavior. Scholz (2010, p. 187) clarifies that behavior influences culture and culture controls the behavior. Altogether, there are several other definitions for corporate culture available, but only with minor deviations (cf. Wien & Franzke, 2014, p. 13). So it seems appropriate to apply for this dissertation the above mentioned definition of O'Reilly & Chatman, (1996).
One of the major challenges is that culture cannot be described as a fixed or flexible controllable determinant. It is always lively, dynamic, and created from a social group, which makes it difficult to implement in a short time. Hofstede published a popular study, in which he analyzed the different manifestations and characteristics of corporate culture since 1980 (cf. Hofstede, 2016; Hofstede et al. 1991). Hofstede (1983, p. 46 ff.) analyzed 116,000 employees of the global IBM Group in 50 different nations via a standardized questionnaire and identified similarities and differences of cultural groups. Since then, many researchers have further developed his findings (cf. e.g, Hofstede, 2016; Hofstede et al., 1991). Hofstede's main results have illustrated that important cultural dimensions can arise from power distance, individualism vs. collectivism, masculinity vs. feminism, uncertainty avoidance, long-term vs. short-term orientation and indulgence.

The overarching objective of corporate culture is to support the organization to manage the alignment towards the external business environment and the internal implementation, and it can have different functions, too.[96] A company culture is effective if it supports the organization to achieve its core job.

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[94] Definition norms and values: The level of norms and values include legal and regulatory regulations, which need to be applied within a company or help the involved organization members to differentiate what is right and wrong in terms of the corporate culture (cf. Schein, 1985; 2010).
[95] Definition basic assumptions: Basic assumptions build the foundation of a firm culture and provide basic guidance for the involved counterparts. They influence the thinking and behavior patterns and cover the unwritten rules of an organization that all employees know and (partly) follow without a critical questioning of them.
[96] Kotter (1996; 2008) connects corporate culture and organizational performance. A good corporate culture is the foundation for a good organizational performance. Typical functions of culture are the following: (1) Identification; The values and assumptions of the corporate culture are shared among all members are shared and have a

There are numerous studies available, which illustrate a positive correlation between a good corporate culture and organizational performance (cf. e.g., Polychroniou & Trivellas, 2018; Calori & Sarnin, 1991; Cox & Blake, 1991; Wilkins & Ouchi, 1983; Shahzad et al., 2012; Awadh & Alyahya, 2013; Schneider et al., 2013). A well-known study is provided by Kotter (1996), who examined 200 companies and proved that those with a good corporate culture increased their turnover, profit and share price much better in comparison to companies with a worse corporate culture. This is consistent with the findings of others, who also outline the importance of joint company values, norms and behavior to provide managers and employees' guidance and orientation. If employees perceive the management as trustworthy and ethical, it has a positive effect on the company's performance (cf. Guiso et al., 2014). Despite the fact that 92% of the executives feel confident that improving their corporate culture would increase their firm's value, only 16% believe their culture is where it should be (Graham et al., 2017).

Homma et al. (2014, p.178) outline that corporate culture is an instrument to support good corporate governance and that it helps to bridge non-regulated areas, as it is simply impossible and without sense to define rules for every single case. An appropriate corporate culture provides guidance for the question about *'what is right and what is wrong*', which implies that the company culture directly influences corporate governance and bridges existing regulation and compliance gaps (cf. e.g., McBarnet, 2019). In a corporate governance context, especially the functions of steering and orientation are important.[97] The study results of Aggarwal et al. (2016) suggest that governance mandates can tighten, but not eliminate, the value gap between poorly and well-governed companies. Müller et al. (2016) analyzed that behavior control, as a governance mechanism at the organization level, reduces the frequency of ethical failures. Fotaki et al. (2019) provide evidence that ethical, instrumental and organizational values increase corporate governance effectiveness. Corporate culture largely influences the acceptance and effectiveness of internal corporate governance mechanisms (cf. Schiehll et al., 2014). So far, there are selected studies available that explicitly focus on the inter-relation of corporate culture and corporate governance (one of the rare studies are Kumar & Zattoni, 2018, Bushman et al., 2016; McAlister et al., 2016). Most of the reviewed studies compare national culture and their impact on corporate governance mechanisms and illustrate that national culture influences the understanding, legal and regulatory corporate governance framework (cf. e.g., Humphries & Whelan, 2017; Li & Harrison, 2008; Bae et al., 2012; Daniel et al., 2012; Breuer & Salzmann, 2012).

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meaningful and motivational factor. (2) Orientation: Corporate culture is an inner compass of the organization to give guidance for its members regarding their decisions and behavior. (3) Steering: From a management perspective, corporate culture supports the achievement of the set targets and minimizes the risk for deviant behavior in the organization. (4) Stability: Corporate culture strengthens the internal cohesion and provides in this ways a certain level of predictability and continuity. (5) Differentiation: Joint values indicate internally a uniform meaning and a differentiation among external members of the organization. (6) Sensibility: this ensures that important developments, trends and changes within the organizational environment get realized and considered in internal processes. For an overview about the function of corporate culture cf. Baetge et al. (2007); Homma & Bauschke (2015); Homma et al. (2014, p.10).

[97] For further information about the impact of corporate governance and corporate culture: Bae et al. (2012, p. 289); Guiso et al. (2014).

In the last few years, there is a rising interest of the research community on the risk culture as a sub-element of corporate culture (cf. e.g., Nguyen et al., 2019; Mourouzidou-Damtsa et al., 2019; Sheedy & Griffin, 2018; Carretta et al., 2018; Ring et al., 2016; Palermo et al., 2016; Ellul, 2015; Iqbal et al., 2015; Roeschmann, 2014; Li et al., 2013). In the financial industry the active steering and management becomes an entire part of a forward-looking corporate governance management approach (Koh et al., 2016). While in the past, the regulators and scholars primarily focused on the remuneration practice as steering and sanction instrument to avoid misguiding behavior, nowadays rather the risk culture is in the foreground (cf. e.g., EBA, 2017a; 2017c; IRM, 2012; APRA, 2016; FSB, 2014c; CIMA, 2014).

As my prior analysis illustrates, corporate culture affects the effectiveness of corporate governance mechanism. Corporate culture embeds the individual action and is for that reason a crucial element for the effectiveness of corporate governance. Only if corporate rules are compatible with the individual values of the person, the risk of non-compliance behavior can be minimized. Nevertheless, if a person feels confident that a particular behavior is in accordance to the organization, the *'official rules'* will be secondary. Informal rules overlap the official rules and regulations. A compliant behavior with the corporate culture is more favorable than only being compliant with internal rules. I outline that a culture change cannot be achieved through top-down mandate or external regulations. It lives in the collective hearts and habits of people and their shared perception of *'how things are done around here'* and develops over time. The top management can demand compliance, but they can't dictate optimism, trust, conviction, or creativity (cf. Walker & Soule, 2017). Executives create a governance culture by performing strategic leadership, ensuring policy-based intragroup decision-making monitoring and reviewing and securing intragroup compliance (cf. Goldsworthy, 2019).
Corporate culture can make an important contribution to strengthen corporate governance, particularly if the formal regulations are equal to the staff's informal rules. In case of non-conformity of the formal and informal regulations, the corporate culture can increase the risk of non-compliance and the informal regulations will become general usage. As several examples showed, the sole focus on sanctions is not enough to solve the field of tension between formal rules and the impeccable behavior in business life. A functional corporate governance system needs to cover the right implementation of structures and incentive schemes (inclusive reward and punishment) as well as the compatibility of the *'formal, written'* and *'lived reality'* of the corporate values.

Even if many scholars outline the necessity of an appropriate corporate culture, it remains difficult to proactively manage culture to avoid individual misconduct. This illustrates the dilemma of the recent discussion – many scholars, regulators and authorities call for appropriate cultural changes, but at the same time struggle to provide conclusive guidance for a respective cultural target picture. Despite this, it remains to ascertain cultural and leadership related topics, that are becoming increasingly important within an integrated holistic and forward-looking corporate governance understanding.

After the analysis of the theoretical relationship between corporate governance and company success as well as the relevance of an appropriate corporate culture, I will transfer and consolidate the gained results towards the context of subsidiary governance in the following subchapters.

3.1.4 Consequences for subsidiary governance

Whether a multinational group is locally successful or not is largely decided on subsidiary level. The broad **subsidiary** literature indicates that variations in **subsidiary success** mostly depend on the entrepreneurial context of the organization (cf. O'Brien et al., 2019b; Strutzenberger & Ambos, 2014; Reilly & Scott 2014). Renz & Böhrer (2012) in particular identified **competitiveness, innovation, sustainability, leadership and organizational performance** as the key advantages of subsidiary governance. They found that those dimensions play a key role for the headquarters - subsidiary relationship. I follow this argumentation and conclude that those layers operationalize long-term value creation in multinational groups. Even if there are some studies available, which have analyzed the different individual layers in the context of corporate governance, there is no research found, that sets all those dimensions in a common context. Siller & Stierle (2017) complete, that the prerequisite for the full development of capabilities and skills, as well as commitment of the organizational members, require clear governance structures and processes. They highlight the necessity that corporate governance has to be strengthened from a corporate culture, which fosters innovation and integrity. There is the need of an emphasis of commonalities, e.g. in form of a common company vision that can be transferred to challenging corporate targets and competitive strategies.

The **competitiveness** of a company reflects many different important input factors for company success like e.g. market share, product potential, innovation potential, employee quality, quality of the company system, structure and processes. Few studies illustrate a positive relationship between corporate governance and competitiveness (cf. e.g., Ho, 2005; Haldar et al., 2016; Larcker & Tayan, 2015). There is evidence that particularly clear internal governance structures support the competitiveness of a company.[98]

Successful **innovation** is the source for long-term company survival, has a positive effect on the performance and thus results in long-term orientated profitable growth (cf. Möller et al. 2016).[99] Especially within the last four years, scholars have started to examine the relationship between innovation and corporate governance (cf. e.g., Jia et al., 2019; Sharma et al., 2018; Belloc et al., 2016; Yar Hamidi & Gabrielsson, 2016; Amore & Bennedsen, 2016) and found a positive correlation between both elements (cf. e.g., Sapra et al., 2014; Belloc, 2012; O'Connor & Rafferty, 2012; Teece, 1996).

Apart from that, it is also important to strive for internal and external **sustainability** as an important driver for the corporate success to balance the short-term profit maximization and support the long-term value creation. Today there is a broad consensus across the scholars, that the consideration of the society and other stakeholder groups is essential to generate sustainable company success (cf. Salvioni et al., 2018). The following studies provide evidence for the positive correlation between cor-

[98] For sake of completeness, I outline that Goshen & Levit (2019) argue that governance structures are irrelevant to improve firm value.

[99] This can be particularly achieved by a professional innovation performance management, consisting out of a professional innovation portfolio management, innovation assessments and audits, technology forecasting as well as a proper innovation accounting (cf. Möller et al., 2016).

porate governance and sustainability: Schwalbach & Schwerk (2014; 2008); Günther & Ruter (2012); Schaltegger (2015, p. 199 ff.). A sustainable approach for corporate governance can be a source of competitive advantage and a long-term success factor (cf. Salvioni et al., 2016). Eccles et al. (2012) provide evidence that sustainability companies significantly outperform their counterparts over the long-term, in both terms - stock market and accounting performance. In addition, the study of Salvioni & Gennari (2016) found out that transnationally acting companies, who promote the 'de facto convergence' between the different corporate governance systems, perform better, increase shareholder value and contribute to the sustainable development of the societies in which they operate.

Leadership is also recognized as a key determinant for the long-term success of companies. Among others, the studies of McColl-Kennedy & Anderson (2002) and Shin et al. (2015) show that there is a significant impact of leadership on a firm's financial performance. Other studies have proven that the way employees, subsidiaries, business partners and others are directed and controlled, affect the company performance. The following studies provide evidence for the positive correlation between corporate governance and leadership: Keasey et al. (2005, p. 183 ff.); Doh & Stumpf (2005); Wong & Laschinger (2013); Breevaart et al. (2015); Leroy et al. (2015); Arjoon (2015, p. 53 ff.); McAlister et al. (2016). Directors' personal moral values are often an underestimated, but powerful driver in ethical decision-making and provide guidance for the execution of the individual governance role (cf. Grant & McGhee, 2017). Nahum & Carmeli (2019) found evidence that the leadership style of directors plays a key role in the strategic decision-making. Mainly during the last decade many scholars investigated the positive relationship between leadership, company success and corporate governance.

Another key driver for long-term success is the design of the operational and organizational structures (cf. Wu et al., 2015). Despite the fact that the **organizational performance** is a key driver for modern high-performance organizations, it is still an often neglected factor. Belle & Belle (2016) state that despite the meaning of the topic, a progressive and shared understanding of the link between organizational learning and governance is currently missing. Structural embeddedness is an important driver of governance choice (cf. Kim & Jin, 2016). Despite this, there are some new studies, which underline the major role of aligned organizational structures and processes for the internal governance and state that they are strongly related with the entire corporate success (cf. e.g., Wu et al., 2015; Brocke & Rosemann, 2014; Oyemomi et al., 2016; Moon, 2016).

Further, it is a prerequisite that stakeholder interests have to be considered and an efficient and effective capital allocation needs to take place (cf. Ulrich, 2011, p. 89). Taking into account the examination of the prior subchapters, I connect the term efficiency and effectiveness of subchapter 3.1.1 with the above-described dimensions of Renz & Böhrer (2012). Those five dimensions are key drivers for a holistic, integrative and comprehensive corporate governance understanding and will play a crucial role in the introduced management model later on. That embeddedness provides an important contribution for the better understanding of the relevant intragroup mechanisms and its effects, as Figure 4 on the next page illustrates.

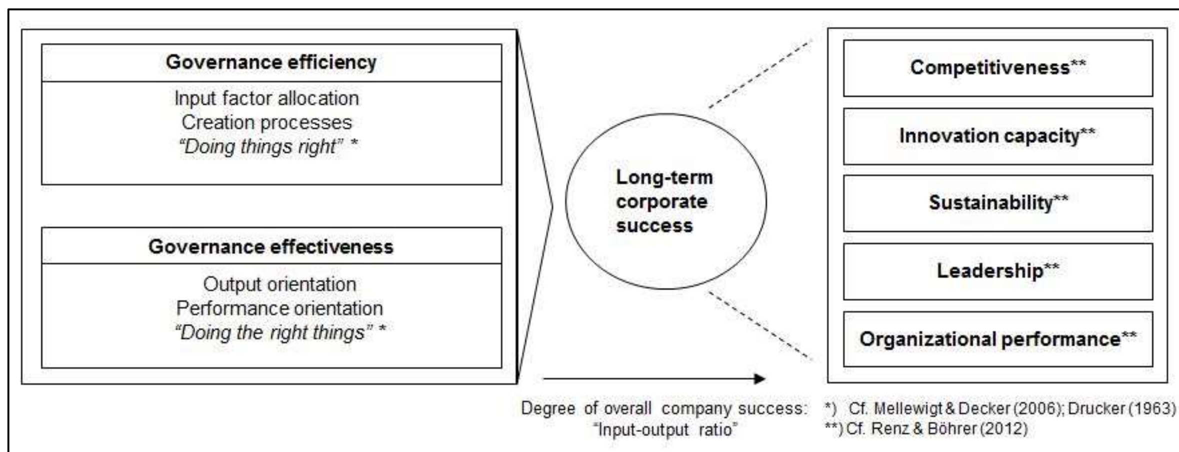

Figure 4: Key drivers for long-term corporate success.
Source: Own illustration.

In the specific case of the parents-subsidiary relationship, a professional intragroup corporate governance management can provide a sustainable competitive advantage, which means a better competitiveness, increased innovation readiness, sustainability, leadership and organizational performance. Moreover, it is also a legal requirement for various types of companies in many countries. This understanding goes beyond the traditional corporate governance definition of most organizations by putting it into a company-wide context and combines it with a forward-looking view to overcome mentioned shortcomings of the current debate.

The subchapter 3.1 provided an in-depth analysis about the operationalization of the term efficiency and effectiveness and corporate success in relation to corporate governance. Moreover, this chapter outlined the crucial role of a supportive corporate culture and made initial conclusions for the relationship between subsidiary governance and the success of multinational groups.
The legal and regulatory dimension builds another crucial influencing factor on the management model. As the prior discussion in subchapter 2.3.5 illustrated, particularly in bank subsidiaries the external regulation plays a key role. Thus, in the next subchapter 3.2, I will discuss the relevant institutional, legal and regulatory framework determinants.

3.2 Institutional, legal and regulatory influencing determinants

In many cases the term corporate governance is linked directly or indirectly to the legal and regulatory framework, which is why I will investigate this for the sake of completeness. Further, especially in the financial industry the regulation plays a much more crucial role compared to other industries, which also indicates the necessity to go more into detail, even if the primary focus of my dissertation does not rely on the legal discussion. As a starting point of the discussion, I will identify general core principles of the corporate governance regulation. The next subchapter 3.2.1 concentrates on the institutional, legal and regulatory framework and debates typical group-internal governance enforcement instruments. Hereafter, the subsequent subchapter 3.2.2 additionally investigates the changed supervisory approaches of regulators and the authorities, to further advance their supervision among banks.

Corporate governance is a complex framework that covers both obligatory and voluntary measures. It includes complying with the legal provisions (compliance), following general agreed standards and a set of corporate rules within the company. As discussed in chapter 2.3, another element of good corporate governance is the structure and implementation of administrative management and control mechanisms. Doh & Stumpf (2005, p. 42 ff.) highlight that successful organizations focus on a strong interaction between leadership and governance. However, to ensure good corporate governance, different approaches are possible. The adherence within the daily business as well as of supportive formal structures is equally important to secure a constituency. In all corporate governance concepts, the starting point forms a separation between the management and its supervisory body, even if a close collaboration between those two organs is required. Besides, Werder (2015, p. 18 ff.) explains that a common corporate governance understanding and implementation in the organization plays a pivotal role. In sum, proper corporate governance practice is a major contributor for a responsible, qualified, transparent and long-term oriented general management.

Originating from the initial governance challenges (incomplete contracts, different interests of stakeholder groups, and opportunistic behavior of the involved counterparts) it is possible to identify various concepts for the management of corporate governance. Aras et al. (2008, p. 6) define transparency, accountability and responsibility as the core principles of good corporate governance. Vagadia (2014, p. 22) goes beyond that and, in a more specific manner, covers eight elements: He points out that engagement is the basis for good governance. Further, he argues that standard setters have to secure that the different stakeholder groups can participate and challenge in the decision-making processes within the legislative process that determines the corporate governance regulations. Also, effective corporate governance needs to be fostered by appropriate legal and regulatory frameworks, including enforcement structures like independent court proceedings, to secure public's faith in the acting people. Another prerequisite to make sure that affected stakeholders can understand and steer the taken decisions and activities, is transparency and accessibility to information. Vagadia (2014, p. 22) outlines that a proper stakeholder management focuses on responsiveness among the stakeholders. A society's well-being relies on the principle that all of its members are taken into account and are not excluded from the societal changes. There is a necessity that good governance focuses on the effectiveness and efficiency in terms of resource usage and societal needs of a new public management approach. Accountability secures answerability and target-oriented enforcement practices in case of misconduct. In essence, I outline that both, public institutions and the private sector, need to be accountable to the society, other institutions and other stakeholder groups.

Werder (2015, p. 18) agrees with the defined principles of Aras et al. (2008, p. 6) and adds, as further important principles for good corporate governance, the separation of powers as well as the minimization of conflicts of interests. As a further prerequisite, it is from great importance to assure appropriate qualification and motivation of the organ members to support a value-orientated behavior.

The above-mentioned principles follow a broader perspective and focus on involvement, collaboration and transparency to achieve good corporate governance. The interpretation and measurement of good corporate governance practice strongly depends on the individual definition of corporate governance and is still subject of ongoing discussions among scholars, although most of them can be linked

to corporate social responsibility drivers and are recognized as an entire element of a value based management approach.[100] In this context Günther et al. (2016) outline that the company's individual interpretation of good corporate governance practice further depends on the different types of company specific situations. In the following paragraphs, I will discuss the suggested principles of Werder (2015, p. 18), as those principles form the underlying fundament of corporate governance regulations:

Separation of powers: A consequent separation of powers among the involved counterparts avoids and prevents power concentration to avoid a self-interested misuse of opportunistic options. It is necessary to implement systematic **'checks and balances'** to secure that actions and behaviors of selected persons are steered from a second party (cf. e.g., Ingley et al., 2013; Li, 2014; Larcker & Tayan, 2015; Lessing, 2009). This principle has to be reflected in the corporate structures, processes and it is an inherent part of effective internal control. A typical example is the German dual board system of e.g. listed companies, where a clear separation of management (executive management board) and control (supervisory board) takes place (cf. Tricker, 2015, p. 489; Werder, 2015, p. 18). At its core, most corporate governance regulations, such as the Basel Corporate Governance Principles for Banks (2015), the German Corporate Governance Code (DCGK, 2015) or the Sarbanes-Oxley Act (2002) aim for measures that strengthen internal checks and balances and finally the corporate accountability as a whole (cf. Pirson & Turnbull, 2015; Kim & Yoon, 2016). For multinational groups this means that there must exist defined clear roles and responsibilities between the parent and its subsidiaries and the operational and processual structures should be defined under the general premises of appropriate 'checks and balances'.

Transparency: A high level of transparency minimizes information asymmetries and opacity within the organization and among its stakeholders (cf. Stein et al., 2017). Organizational transparency defines the intra-organizational information sharing and the perceived information quality shared (cf. Albu & Flyverbom, 2019). I argue that the significance of transparency is strengthened by several legal requirements in terms of publicity, capital market and labor-law provisions that require companies to disclose important information. A high level of transparency about the company, its structures and interaction processes for externals builds the foundation to facilitate a fair market valuation, trust in the integrity of the management and other governance related key persons (cf. Baraibar-Diez et al., 2015; Armstrong et al. 2015; Hess, 2007; Böcking, 2003). Higher transparency standards ensure that individual opportunistic behavior soon becomes visible and leads towards a reduction of non-compliant behavior with potential sanctions. Multinational corporate groups use differential supervision to strengthen company internal transparency via global coordination.

Multinational hierarchical structure, which resides within a company's boundary but across national borders, is one of the most crucial features (cf. Zhou, 2014).

[100] Aras et al. (2008, p. 6) provide a comprehensive list about the objectives of good corporate governance: Creating sustainable value, ways of achieving the company targets, increasing shareholder's satisfaction, efficient and effective management, increasing credibility, ensuring efficient risk management, providing early warning system, controlling performance, developing control and internal audit, keeping board independent from management etc.

Avoidance of conflicts of interests: The basis for typical governance problems is the different or even contrary interest of the stakeholders (cf. Werder, 2015, p. 7). The **reduction of interest conflicts** is one of the most important tasks for corporate governance. From a principle-agent perspective, in particular the executives, senior managers and other directors require increased attention. Due to their hierarchical position and privileged authority to dispose, they have the most opportunities to prioritize their own interests before the overall company interests (cf. Lin & Yang, 2013). It also addresses potential interest conflicts among the members of the supervisory body or external auditors (cf. Werder 2015, p. 19).[101] Altogether, there are different ways to reduce information asymmetries, such as e.g. independency requirements for organ members to target on an independent, unbiased company interest perception. Those regulations are supposed to avoid that organ members getting pressurized to consider unreasonable personal or extraneous interests that may affect the overarching target of corporate wellbeing in a negative manner. I outline that there should also be mechanisms that avoid potential interest of conflicts in regard to conflict sensitive actions (e.g. the separation of consulting and audit function) or a right to reserve approval in obvious potential interest conflicts (cf. DCGK, 2015, 4.3.5; Ringleb, 2014, Rn. 847 f.). This can be a major dilemma for the subsidiary boards, e.g. if there are situations in which the parent and the subsidiary represent contrary interests that must be taken into account.

Management qualification: Another underlying principle of regulation is that members of the management and supervisory bodies need to be competent and committed to specify the company interests. The organ members and other governance related key functions (e.g. compliance, risk or internal audit) have to evaluate decisions taken regarding their contribution towards a sustainable value creation for the company as a whole.[102] Kaehler & Grundei (2019) highlight HR governance as an increasingly relevant part of corporate governance. To fulfill the expectations regarding the professional management and monitoring as an adequate management qualification, professional experience and regular training activities of the top managers are necessary (cf. Siebens, 2002.). Especially the key governance function holders have to contribute with their individual professional knowledge and experience towards the relevant factual issues.

Kirkpatrick (2009) found evidence that one of the reasons for the failure in the banking industry during the last financial crisis was an inappropriate board oversight, due to a lack of qualified directors. Further Faleye et al. (2014) found evidence that the industry specific expertise of managers is positively associated with firm value. Thus, an appropriate management qualification, professional experience and regular training activities of key function holders are necessary prerequisites for improved corporate governance practice. In addition, several national regulators started to tighten the requirements for the nomination of board candidates within the last years.[103]

[101] For further information regarding interest conflicts, cf. DCGK (2015, 5.4.2 and 5.5) and Kremer (2014). In the literature discuss scholars particular the equal consulting and audit practice of external auditors: Tepalagul & Lin (2015); Hommelhoff & Mattheus (1998); Loitlsberger (2002); Quick (2002); Werder (2012).

[102]Hinterhuber et al. (2013, p. 41 ff.) provide an overview about core competences of managers.

[103] For example, many countries have implemented fit and proper criteria for managers within bank institutes: FMA (2014) EBA (2017c); BaFin (2017b); FCA (2018).

Motivation: Another crucial key driver, that is however difficult to regulate, is the motivational aspect. The motivation of the key governance actors can be recognized as a preventive measure to avoid opportunistic behavior and encourage the intrinsic and extrinsic motivation to follow good corporate governance practice.[104] In this context, particularly the variable or the performance related remuneration plays a key role (cf. DCGK, 2015, 4.2.2; Ringleb, 2014). According to Werder (2015, p. 19) this also involves legal liability provisions to minimize contract and unlawful forms of opportunism with relevant sanctions. Until today, most compensation packages for CEOs are solely related to the financial performance and ignore long-term developments and sustainability aspects within the decision-making (cf. Maas & Rosendaal, 2016). Yet, the analysis of Maas & Rosendaal (2016) and Emerton & Jones (2019) shows, that a growing number of scholars, regulators and practitioners are acknowledging the need for inclusion of sustainability targets in the remuneration packages of mangers as a relevant supportive driver of good corporate governance.

I go beyond the identified clusters and argue that good corporate governance mainly depends on the inner conviction of the involved persons as well as a good interaction between governance and leadership. To achieve this, there is a common target picture required, which has to be supported by appropriate formal structures, processes and a good relationship between the management and the supervisory organs. In the end, it depends on the individual governance understanding and the taken actions throughout the company - from the board level to every single employee. Those above-mentioned core principles are of great importance in multinational companies as well, even if it seems challenging to secure a consistent implementation among all hierarchy levels and in different host country contexts. Nonetheless, the exact meaning of *'good'* corporate governance remains vague, and as such, supports my argumentation in chapter 2.3.1.
Keeping those underlying core principles in mind, the following subchapter debates the institutional, legal and regulatory enforcement instruments that largely influence the intragroup management of corporate governance.

3.2.1 Institutional, legal and regulatory enforcement instruments

The solution of corporate governance problems and the combined creation of an appropriate system relies on market mechanisms (market for company supervision) or on target measures of the responsible regulating authorities (cf. Kübler, 1994; Grundmann, 2001; Watrin, 2001, p. 23 f.). While the first case solely provides an institutional framework for the overall market-related processes (e.g. local Takeover Acts), the second case provides more specific regulatory requirements (e.g. prohibition of a personal union of board mandates as e.g. mentioned in § 105 German Stock Law).
As the subchapter of 2.3.4 illustrated, regulation is always associated with additional costs and affects the corporate efficiency.[105] Consequently, market-orientated solutions are more favorable. Nevertheless, markets are usually incomplete and result in typical allocation problems or welfare losses (due to e.g. management failure). For that reason, at least some governance regulations are necessary.

[104] For the differentiation of intrinsic and extrinsic motivation, cf. Ryan & Deci (2000); Reiss (2012).
[105] Costs arise e.g. for the enforcement of the regulation, cf. Braithwaite (1982); Watrin (2001, p. 103 ff.); Kirchner (2002).

As analyzed in chapter 2.3.4, it is important to concentrate on the optimum equality between regulation benefits and its additional costs. In essence, governance regulations lower agency costs and allow firms to grant less incentive pay (cf. Dicks, 2012).

Werder (2015, p. 20) and Siebens (2002) distinguish between different levels of corporate governance regulation. Another differentiation takes place between legally binding and non-legally binding (sub-statutory) regulations. While regulations adopted by parliamentary law-making procedures are binding for the addressors, sub-statutory regulations or '*soft law*' regulations usually have a voluntary character.[106] They are based on different community initiatives with representatives' out of the society, politics, management and science. Even if they go beyond the legal requirements in certain aspects, they are voluntarily self-binding principles for the addressed companies.
Regarding their influencing sphere the sub-statutory regulations are separated into general standards and company-internal regulations. (International) standards are usually defined as a framework for a particular group of company types or a specific industry. I found that the demarcation of the companies as well as the design of the standards depend on the degree of obligation. Most of the existing corporate governance regulations focus on capital market orientated companies or other stand-alone companies, and have for that reason only an indirect impact on wholly owned subsidiaries. Other standards address e.g. all listed companies on a certain stock exchange or firms in a particular country. Altogether, the level of obligation can be either voluntary, a '*comply or explain'* approach, or legally binding. While a '*comply or explain*' approach on the one hand provides flexibility for its application, a comparison among firms becomes a little more difficult (cf. DCGK, 2015). The additional value seems to be questionable, if standards are solely voluntarily applied without a legally binding character. In addition, many companies define internal corporate rules, which specify external legal and regulatory requirements towards the company specifics (cf. e.g., EBA, 2017a). Some scholars even go beyond that and define another, more personal dimension, which emphasizes the individual behavior and attitudes (cf. Tricker, 2015, p. 235 f.; Welge & Eulerich, 2014, p. 35).

Thus, there are different and sometimes even contrary views available of corporate governance on national and international level, which in some cases creates uncertainty about the interpretation and implementation (e.g. the interpretation of independency principles of directors) for the management of subsidiaries (cf. Szabó & Sørensen, 2018; Welge & Eulerich, 2014, p. 127; Stiglbauer, 2010, p. 14). Multinational groups have to consider both national and international standards. For the purpose of this dissertation, in the following paragraphs I analyze the different corporate governance standards and regulations.[107] I will hereby follow the suggested clusters of Werder (2015, p. 20 ff.) and differentiate among **international standards, national regulations, industry-specific standards and company-internal standards**.

[106] Strauß (2016) argues that the academic literature is quite familiar with the concept of "soft law" as such, whereas the missing definition of the term often leads to insecurity regarding handling the legal challenges arising out of operating with soft law. Cf. also the argumentation of Lutter (2001); Kirchner (2002); Werder (2015, p. 20).
[107] The corporate governance frameworks play an important role for the general framework conditions of companies, but it is not the scope of this dissertation to prove a comprehensive analysis of them. A comprehensive overview provides e.g. Welge & Eulerich (2014, p. 113 ff.). Szabó & Sørensen (2018) provides analyses the implications of corporate governance codes on corporate groups.

International standards

Particularly the published white papers and corporate governance principles of international standard setters build the basis for national standards and provide guidance for multinational companies to define their internal standards and regulations (cf. Welge & Eulerich, 2014, p. 127; Gerum et al., 2007, p. 42). The Organization for Economic Co-operation and Development (OECD) published its first **OECD Corporate Governance Principles** in the year 1999 and updated it in the years 2004 and 2015. Despite the fact that this transnational framework is not legally binding, it provides guidance to national regulators and helps to identify potential objectives and approaches for the implementation (cf. OECD 2004, p. 14). They form the basis for the national legislation among the G20 and the OECD countries, are widely used as statutory benchmark and are recognized as one of the main pillars for securing a sound financial system (cf. Welge & Eulerich 2014, p.128).

Since 2010 the **8. EU Guideline on corporate governance** requires all EU member states to transposition their recommendations into national law. In 2011 the European Commission published another discussion paper for a further improvement of corporate governance among European companies, where particularly the audit committee was highlighted (similar like in the Sarbans Oxley Act) as a crucial corporate governance instrument. This **EU Green Paper for Corporate Governance** gives guidance for new regulation and initiatives and it aims to set a uniform regulatory framework for corporate governance in Europe. According to the EU Green Paper, particularly the board of directors, shareholders and the '*comply or explain*' approach are at the heart of good corporate governance (cf. European Commission, 2011; EU Green Paper 2011, p. 3; Humphrey et al., 2011).

All those international standards help to secure a common understanding of corporate governance, but in a contrary perspective, their recommendations remain vague and target stand-alone companies. They avoid formulating clear expectations regarding the corporate governance in a group context and don't regard the parent-subsidiary relationship or clearly differentiate between the one- and two-tier systems. In sum, they generally argue that corporate governance defines the relationships between the company's management and supervisory bodies, its shareholders and its other stakeholders and formulate premises in which way companies should generally be managed and controlled.

National standards

Embedded in the internationally agreed corporate governance frameworks and common agreed standards, national standard setters formulate their individual country specific standards for corporate governance. The first country to published national corporate governance standards in Europe was the United Kingdom with the '***Cadbury Report on Financial Aspects of Corporate Governance***'. The Cadbury Commission is an association of the London Stock Exchange, the Financial Reporting Council and several economic representatives. The initial objective was to develop a single standard framework for corporate governance (cf. Schwalbach & Schwerk, 2014). After its completion, the '*Greenbury Report*' in 1995 and the '*Hampel Report'* in 1998 advanced the framework towards the "Combined Code on Corporate Governance" (cf. Bress, 2008, p. 31). Other European countries have followed this proceeding and have developed further national corporate governance frameworks. For example, in 1995 France introduced the '*Viénot Report'*; in Austria Schenz & Eberhartinger (2006) and their members developed the first Austrian corporate governance standard (cf. Gerum et al., 2007, p.

43). Also in Spain, Belgium, Italy and the Netherlands there have been initiatives following the Cadbury Report (cf. Bress 2008, p. 31; Ringleb et al., 2010, p. 27).

In Germany in the year of 2000 a governmental commission started to develop recommendations for corporate governance. The **German Corporate Governance Code** (**GCGC)** is a result of the corporate governance discussion since the early 1990s. In the year 2002, the first draft of the GCGC included the results of several initiatives, such as the code of best practice of the '*Grundsatzkommision Corporate Governance,*' the DVFA Corporate Governance Scorecard and the recommendations of the '*Berliner Initiativkreis'* (cf. DVFA, 2000; Bassen et al., 2006). Since its publication, all listed companies have the legal obligation to follow a *'comply or explain'* principle and they have to publish a declaration of conformity with the GCGC in their annual corporate governance reporting.[108] Since 2015, other capital companies are also asked to adopt the GCGC. Yet, there are also contrary views about the additional value of the GCGC. On the one hand, Kaspereit et al. (2015) provide empirical evidence that a higher level of GCGC compliance is associated with lower cost of equity capital. On the other hand, the study of Bassen et al. (2006) illustrates, that there is only weak empirical evidence on a better performance if there is a high level of compliance with the GCGC.

In the USA, all listed and foreign companies have to apply the standards of the **Sarbans-Oxley Act (SOX),** which primarily consolidates and modifies existing laws (Menzies, 2006, p. 14 ff.).[109] In the year 2002, the US Congress adopted the SOX to increase the corporate governance requirements, particularly in the case of internal control mechanisms, documentation, and disclosure standards. Yet, the overarching objective of the SOX is to increase the investor protection with tightened disclosure standards, and a functional internal control system should secure proper financial reporting (cf. Coates, 2007, p. 91 ff.). Some authors provide studies that find clear beneficial effects of the SOX implementation (e.g., Gu & Zhang, 2017; Ahluwalia et al., 2016; Chang & Choy, 2016; Abdioglu et al., 2015; Blair, 2016), but there are also others, such as Hostak et al. (2013), who argue, that the costs for the implementing and ensuring compliance with SOX standards motivates firms to withdraw from the U.S. market.

I argue that there is no doubt about the necessity and usefulness of such standards and regulations. However, many of the national standard setters solely reproduce already existing laws and regulations and disregard e.g. international best practices or recommendations on how to avoid mismanagement in companies for the future. All those standards largely ignore guidance about appropriate corporate cultures or leadership. Despite the fact that those topics are difficult to regulate in standards, I point out that these are the building blocks for its effectiveness. For me it is questionable, if a regulation concerning e.g. a maximum limit of board mandates, really helps to improve corporate governance.

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[108] Welge & Eulerich (2014, p. 114) provide a comprehensive overview about the legal and regulatory initiatives regarding corporate governance in Germany. Bottenberg et al. (2017) argue that the advantages of the German system particularly are the active integration of stakeholder knowledge, focus on strategic decisions, and a long-term orientation on firm performance.

[109] The Sarbans-Oxley Act was developed after the Enron and Worldcom scandals, where the US supervisory body SEC and investors have not realized the criminal activities of the management and the external auditors. Hereafter, there was a huge distrust against executives, directors and audit companies. National regulators had to intervene with new law and regulatory initiatives to avoid further mistrust and opacity within in the capital market (cf. Welge & Eulerich, 2014, p. 132 f.). The Sarbans-Oxley Act exists out of the following sections: (1) Public Company Accounting Oversight Board; (2) Enhanced financial disclosures; (3) Analyst conflicts of interests; (4) Commission resources and authority; (5) studies and reports; (6) Corporate and criminal fraud accountability; (7) White-collar crime penalty enhancements; (8) Corporate tax returns; (9) Corporate fraud accounting.

I state, that those standards should no longer solely orientate themselves to e.g. the existing Stock Corporation Acts, but rather orientate themselves to the management logic and should answer concrete questions of the daily management business. Most national standards predominately focus on external investors, but in future, there will have to be more emphasis to secure a broader acceptance among companies and the society by also taking their interests into account.

Financial industry specific standards

In the last years, standard setters have started to modify and adjust the existing corporate governance standards either towards special industries or towards different types of companies to improve their effectiveness. Corporate governance problems of financial institutes are qualitatively and quantitatively different from those of other companies (cf. Macey & O'Hara, 2016). In the year 2006 the **Basel Committee on Banking Supervision (BCBS)** published, on basis of the OECD principles, modified guidelines to improve the corporate governance of banks and updated them after the recent financial crisis in the years 2010 and 2015 (cf. BIS, 2015). The main objective is to address the corporate governance specifics in banks, taking into account the specific role of banking supervisory authorities.[110] They clarify the responsibilities of the parent and subsidiaries and the obligation to secure group-wide transparency, as complex and opaque structures may pose financial, legal reputational risks. [111] However, Wright et al. (2018) criticize that the reform is incomplete and Thelen-Pischke (2015) explains that most of the mentioned topics are also covered by other regulations. In 2017 the European Banking Authority (EBA) published a revised **guideline for internal governance** to harmonize the financial institutions internal governance across the European countries, taking into account the new requirements (such as e.g. the Capital Requirements Directive (CRD IV)).[112] As Goergen & Tonks (2019) and the Figure 5 on the next page summaries, there have been numerous initiatives of different regulatory bodies within the last years to strengthen corporate governance practice. In particular, the Group of Thirty, European Central Bank, European Banking Authority, Financial Stability Board and others have published whitepapers, discussion papers and industry standards, in which softer topics, such as appropriate risk cultures become increasingly important.

[110] The revised principles particularly stress the importance of risk governance and internal control functions and the value of strong boards and board committees. The revised BCBS principles included for the first time a section about subsidiaries in group structures (cf. BIS, 2017). Critics argue that BCBS principles focus too much on company internal mechanisms and do not differentiate between listed banks and banks with a unique ownership structure (cf. Derleder et al., 2008, p. 230). I argue that a '*one size fits all'* approach is not suitable. Bank individual adjustments are required to ensure flexibility for the implementation, considering the individual bank size, risk profile, structures and complexity.

[111] The BCBS principles outline, that the parent's boards have the overall responsibility for the entire group, including a clear and functioning governance framework appropriate to the structure, business and risks of the group and its subsidiaries. They state that the parent´s board and senior management have to know and understand the group's organizational structures and associated risks. At the same time, they have to secure adequate subsidiary oversight, while accepting the independent legal and governance duties of the subsidiary boards. In contrary, subsidiary boards and senior staff are responsible for effective risk management processes in their entity and have to support the effectiveness of the overall group-wide risk management. Whereas the parent company should design the strategic, group-wide governance standards, design appropriate tools and reporting formats, subsidiary boards have to provide input towards their local application. In essence, it is expected that subsidiary boards secure compatibility with both, group standards and local legal and regulatory requirements.

[112] The framework for business conduct has further been developed and more emphasis is given to the establishment of a risk culture, a code of conduct and the management of conflicts of interest.

2009	2010	2011	2012	2013	2014	2015	2016	2017
FSB: Principles for Sound Compensation Practices **FSB:** Implementation Standards for the FSB Principles for sound Compensation Practices	**BCBS:** Principles for enhancing corporate governance **CEBS:** Guidelines on Remuneration Policies and Practices **European Commission**: Green Paper on corporate governance and remuneration policies	**EBA:** Guidelines on Internal Governance (GL44)	**BCBS:** The internal audit function in banks **Guidelines on Fit and Proper EBA:** (GL/2012/06) **BCBS:** Core Principles for effective banking supervision **G30:** Toward Effective Governance of Financial Institutions	**BCBS:** External audits on banks **European Commission:** CRD IV / CRR **FSB:** Principles for an effective risk appetite framework **G30:** A New Paradigm: Financial Institution Boards and Supervisors	**FSB:** Framework for assessing risk culture	**EBA:** Guidelines on sound remuneration policies (EBA / GL / 2015 /22) **BCBS:** Corporate Governance principles for banks **G30:** Banking Conduct and Culture	**EBA:** Draft Guideline on internal governance (EBA / GL / 2015 /22) **ESMA and EBA:** Draft Guideline on the assessment of suitability of members of the management body and key functions **ECB:** Draft Guidelines on fit and proper assessments	**EBA:** Guideline on internal governance (EBA / GL / 2015 /22) **ECB:** Guidelines on fit and proper assessments

Figure 5: Overview of post crisis corporate governance regulation initiatives for banks.
Source: Own illustration.

Regardless of the numerous publications there are just some standards that in particular focus on the governance management of group structures and subsidiary governance. Palermo et al. (2017) and Gozman & Currie (2015) confirm that financial institutes face increased pressures to reform their governance structures and (risk) cultural frameworks. At the same time, Schenkel (2016) criticizes that most of the defined measures are appropriate for large institutions but ignore the specifics of small and mid-sized institutes. To counter such criticism, the BCBS (2015), EBA (2016; 2017d; 2017e) and the FSB (2017) highlight the principle of proportionality within the design of internal governance structures to reflect the individual firm's characteristics. Whereas on the one hand, this could increase the effectiveness of internal governance, this on the other hand leads to additional complexity, a lack of transparency and room for interpretation among both, firms and supervisory authorities.

Compulsory self-regulation of companies

According to the legal and regulatory requirements, regulated companies have to define statutory self-regulations for their organization in most countries (cf. EBA, 2017a). Those internal corporate rules have to formalize the business model, internal procedures, the organizational setup and processes of the company to secure a reliable fundament (cf. Schaaper & Gao, 2018). They set the boundaries to perform the daily business, give guidance to the employees and increase organizational transparency to avoid organizational failures. Those internal rules aim on securing a transparent, consistent, guiding and standardized framework for the operational business. External regulations and the different interests of stakeholders influence the internal governance framework. In multinational groups, a professional group internal regulation management system that secures compliance of the performed business activities with the applicable local laws and regulations in the different host country locations, is of great importance to prevent the corporate group from any reputational and financial damages (cf. Guserl & Pernsteiner, 2015). Group internal corporate rules and regulations are the foundation to clarify the roles and responsibilities between the corporate parent and its subsidiaries, but also among the various governance functions and departments. To reflect the different hierarchical structures of multi-

national groups, they apply multi-level internal rules with different scopes, levels of details and addressors to secure global alignment and local responsiveness, as illustrated in the following Figure 6:

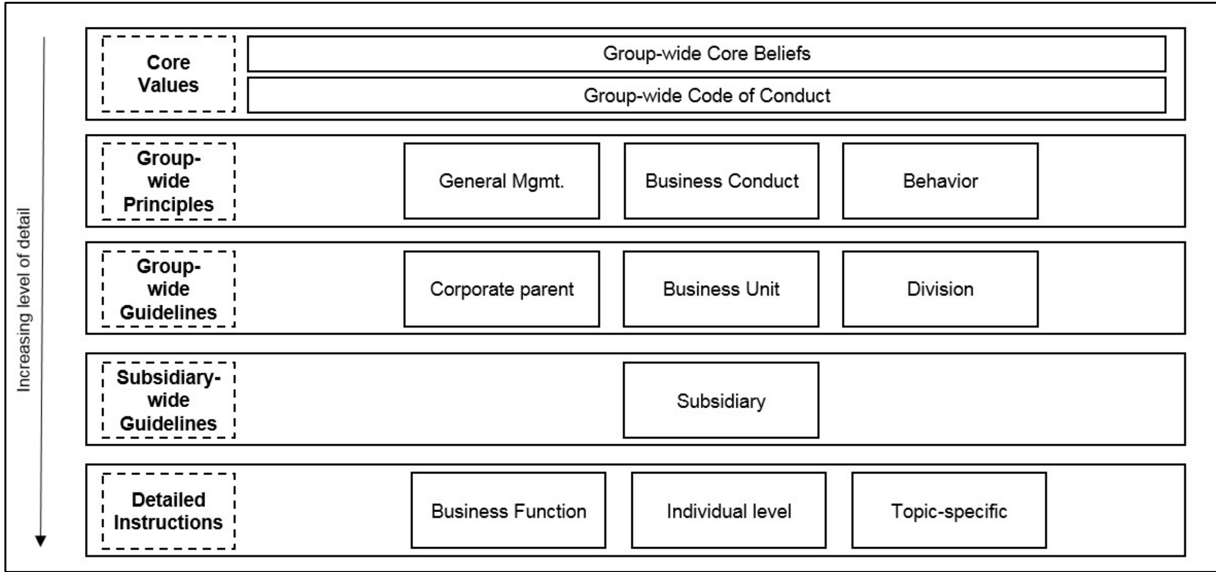

Figure 6: Corporate rules framework in multinational groups to ensure corporate governance.
Source: Own illustration.

The corporate core values and the code of conduct of the corporate group are the foundation of the general management principles and the staffs' behavior. Due to the different hierarchy structures, there are usually different levels of responsibility. The parent company formulates its expectations in certain focus topics in respective guidelines, which are applicable for the entire group (cf. Schaaper & Gao, 2018). Based on those group guidelines, there is a further detailing with business specific or individual subsidiary guidelines and standards by following a risk-based approach to secure transparency and increase intra-group alignment. Internal corporate rules are a key instrument for an appropriate compliance and governance communication (cf. Rademacher & Möhrle, 2014). The self-regulation should address gaps, which may arise out of unclear responsibilities, inadequate mechanisms of accountability or simply missing (external) legal and regulatory guidance (cf. Ojo, 2016). Nonetheless, it is crucial to understand to which extent the integration of regulations is appropriate, to avoid any additional bureaucracy (cf. Wei et al., 2017).

Despite the countless studies that analyze the effectiveness of corporate governance regulations, there is still no uniform picture whether they are as beneficial as generally assumed. Among Christensen et al. (2015), the prior paragraphs have also shown that compliance with corporate governance standards is not systematically associated with an improved performance. Even so, there is empirical evidence that a high level of compliance with national corporate governance standards is generally beneficial for the companies (cf. Cuomo et al., 2015). In addition, there is evidence that banks with more effective and professional organized boards are less likely to lend to riskier borrowers (cf. Faleye & Krishnan, 2017). I outline, that neither the regulators alone, nor the companies, provide the best mode for corporate governance management for all circumstances (cf. Or & Aranda, 2017).

Instead, it has to be hybrid and dynamic and it depends on the circumstances of the individual actor. Whereas corporate governance regulations set the institutional and regulatory framework, their effectiveness depends largely on their individual implementation on company level.
So far, most of the standard setters have just begun to develop specific standards for subsidiary governance and ways to overcome intragroup opacity challenges (cf. Cuomo et al., 2015).[113] The majority of the existing corporate governance standards do not fit and have solely partial or indirect consequences for subsidiaries, as they are primarily designed for stand-alone entities and ignore constellations with strong parent companies beyond them. This is a dilemma and clear guidance is still missing for many corporate governance topics in an intragroup context. Those partially unclear legal and regulatory framework conditions further increase the complexity to manage subsidiary networks. On the one hand, it is the legal obligation of the corporate parent to oversee the group-wide governance framework, but on the other hand, it is difficult to secure subsidiary governance if the separation of the governance duties among the parent and subsidiary boards are blurring, not clearly defined or even contrary in many jurisdictions. The current group governance regulations are fragmented and superficial (cf. Szabó & Sørensen, 2018).[114]
Despite all critics, I found that many of the topics, which were held responsible for the last financial crisis, are observed in the latest legal and regulatory initiatives.[115] At the same time, my analysis showed that there is greater attention to behavioral dimensions among regulators and a shift towards a broader understanding that underpins my promoted holistic, integrated and comprehensive corporate governance definition. It is important to understand that there are also other equally relevant company internal drivers (e.g. culture), which are impossible to be fully evaluated from external parties. It remains a dilemma that a high level of compliance with external standards does not necessarily lead to good corporate governance or prevent future crisis. Even so, the following subchapter addresses the changed supervisory approaches, which also started to put greater emphasis on the softer key drivers.

3.2.2 Supervisory approaches for corporate governance

As the previous analysis highlights, current developments in the corporate governance regulation are multiple and advancing rapidly, which leads to changed supervisory approaches of the authorities. On the one hand, the financial crisis has illustrated the deficits of the recent corporate governance practice, but on the other hand, it has also demonstrated their necessity to secure public trust with more bank specific corporate governance regulations and stricter external supervision.

[113] Calzolari et al. (2016) outline that there are already discussions about the necessity of a supranational supervision authority for bank subsidiaries.
[114] Szabó & Sørensen (2018) examined 48 corporate governance codes regarding group governance. They found some recommendations for group governance, but they are often found in different codes, often apply to a broader category of situations, not specifically group situations, and sometimes they are contradictory. Current recommendations for group governance are fragmented and superficial.
[115] The major drivers for the last financial crisis have been overcompensation, short termism and the related incentives for extensive risk taking, manipulation of managers, weak disclosure standards and lack of comprehensive oversight of the supervisory boards (cf. Marcinkowska, 2014). Those shortcomings are addressed e.g. in the revised corporate governance principles for banks (BCBS, 2015) or the latest update of the EBA guideline for internal governance of banks (EBA, 2017a).

Shleifer and Vishny (1997) and Hopt (2011, p. 24) differentiate between internal and external mechanisms of corporate governance in banks. Primarily for the supervisory authorities, the internal corporate governance mechanisms of banks are important. In the last years, the regulators and supervisory authorities modified their view on corporate governance, which inevitably resulted in changed approaches for the bank supervision. Five years ago, the assessments of the supervisory authorities were mainly executed backward-looking and concentrated on financial risks, systems and controls as the following Figure 7 demonstrates:

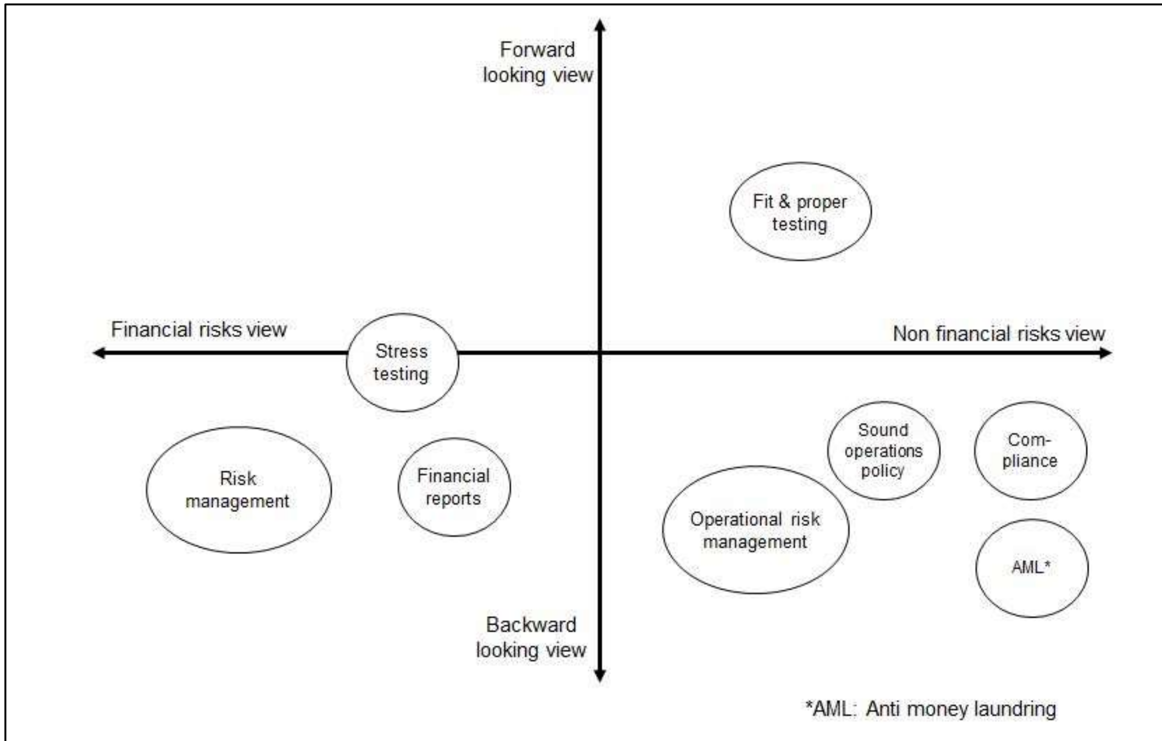

Figure 7: Pre-crisis approach for bank supervision.
Source: Covered in Kellermann et al. (2013).

Nevertheless, since then, the supervisors realized that some of the quadrants have been comparatively empty and that alternative approaches were required for comprehensive institutional assessments. On this occasion, supervisors examined recent research about behavioral science to better understand the implications of behavioral and cultural drivers. This aimed at a new forward-looking perspective and more comprehensive assessment of financial and non-financial risks to ensure an overall view on the bank organizations (cf. Ring et al., 2016; Raaijmarkers et al., 2015, p. 15).

As the Figure 8 on the next page illustrates, those new supervisory approaches require changes in both methodical procedures and content wise of the supervised focus topics.

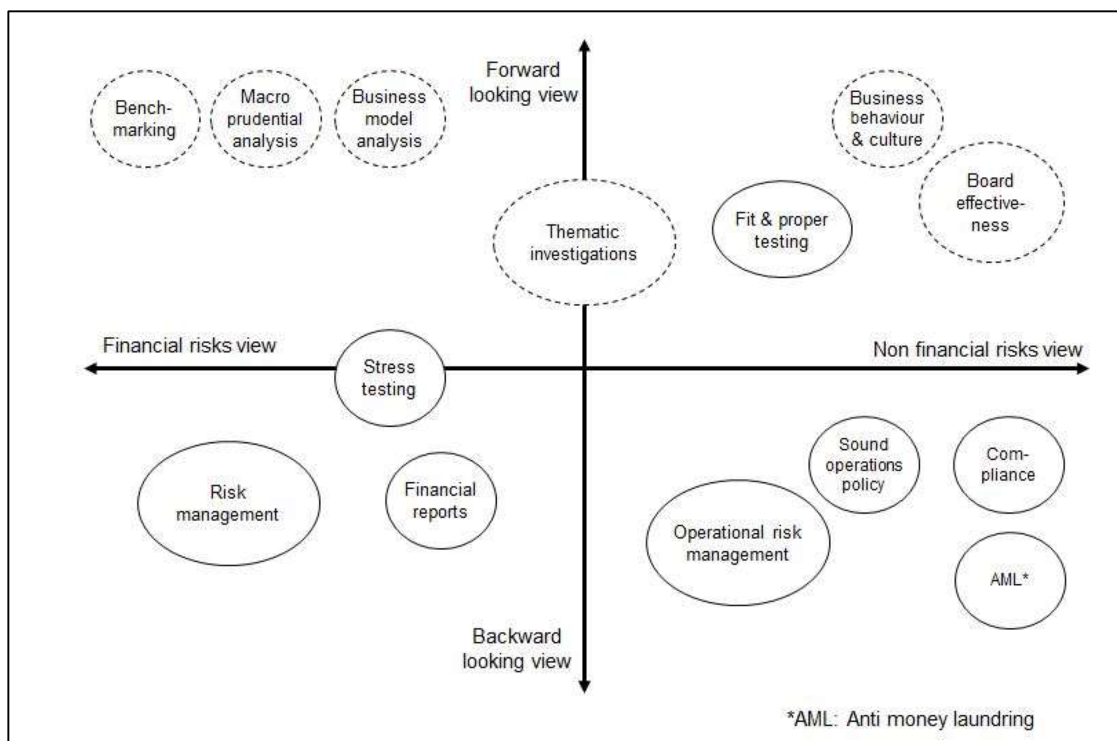

Figure 8: Post-crisis approach for bank supervision.
Source: Own illustration based on Kellermann et al. (2013) and Raaijmarkers et al. (2015, p. 16).

The post crisis supervision of banks follows an integrated approach, which combines the forward- and backward-looking view, considering the lessons learned from the shortcomings of the last financial crisis. This highlights the necessity of an increased attention on risk culture, behavioral elements and business model specific characteristics (cf. Roeschmann, 2014; Ring et al., 2016). Also, Lim et al. (2017) suggest focusing more on the behavioral dimensions instead of the traditional standard based approaches. All international standard setters (i.e. FSB, 2017; EBA, 2016; 2017; BCBS, 2015) outline the necessity for financial firms to implement adequate governance structures and culture frameworks to mitigate conduct-related shortcomings and activities. At the same time, they acknowledge the difficulties to evaluate and assess culture concerns, behaviors and attitudes. They state that all mentioned elements should not be considered in an isolated way (e.g. FSB, 2014a; 2014b). Even if this makes sense, it makes it even more challenging for banks to meet the regulators' expectations. Apart from that, I raise the question if integrity or appropriate risk behaviors can be achieved, if they are ordered legally or by written policies. Integrity or a healthy risk behavior develops over time, depends on leadership, the business environment and is difficult to pretend. Schwarcz (2019) summarizes that much has been achieved by the latest regulatory reforms to reduce systemic risk, but there is still much to be done.

Assessing the internal governance structures and culture of financial institutions is a major challenge for executives, boards and supervisory authorities, and an even greater challenge for outsiders such as creditors, depositors or investors. Because of the difficulties of assessing, elements that can only be judged by insiders, regulators and supervisory authorities typically use imperfect proxies like the risk governance structures that can be assessed externally. I emphasize that these proxies are imperfect measures for a complete assessment of a bank's corporate governance practice. In this method

there is a risk that banks might appear (on the basis of external governance measures) to have a stronger internal governance than is in fact the case. Despite this, there is no doubt about the necessity of strong internal governance.[116] Srivastav & Hagendorff (2015) also underline the need for internal governance mechanisms to safeguard that the needs of shareholders, creditors, and the taxpayer are taken into account.

From a financial stability perspective, a strong relationship between governance and risk is of central relevance. I argue that there is also a misalignment of incentives across different supervisory authorities regarding the oversight of cross-border banks. By law, national bank supervisory authorities have to focus primarily on national financial stability concerns, and thus do not necessarily internalize externalities of their decisions on others outside of their regulatory perimeter. As theoretically and empirically shown, this may lead to distortions in the regulatory decision process (cf. Beck, 2016). Nonetheless, I feel confident that the tendency to a single European Banking Supervision Authority (EBA) and the recently discussed structural reforms in banks will help to further increase corporate governance and the homogenization of international standards.[117] In a contrary perspective, it is also clear that supervision and regulation has been unable to prevent the last global financial crisis.

Corporate governance in banks and their supervision have become the focus of a flurry of recent research and heated policy debates, combined with increased supervisory activity. There is widespread recognition that the quality and the awareness for corporate governance depends much on the involved persons (Hilb, 2013, p. 217 ff.). That is why regulatory requirements increasingly focus on the **profile and competence of the board members** as well as their independence.[118] The individual qualification becomes more important within the selection process for new board candidates (cf. Körner et al., 2016; Paetzmann & Schöning, 2014). Moreover, the changed supervisory approaches require boards to transform their roles to a more proactive, future orientated, advising and co-decision-making role (cf. Stein, 2016, p. 89).

Altogether, the expansion of much needed, but comparatively high-regulated corporate governance requirements for the banking industry should not be the standard for other companies, as this would lead to an over regulation and affect the market mechanisms in a negative manner (cf. Hopt, 2011, p. 26). I suggest implementing, especially in the financial services subsidiaries, a modified corporate governance approach which differs neither from those of stand-alone entities nor from the earlier mentioned too big to fail institutions.

The efforts from the supervisory authorities aim for the right direction, but even so, I feel confident that they will neither prevent from future company crisis, nor from individual misconduct. Nonetheless they

[116] Kalodimos (2017) argues that the effect of internal governance on performance is economically significant but often difficult to identify because of confounding external disciplinary mechanisms and the endogenous choice of internal governance.

[117] Representative for other developments: The EBA published in the last years several guidelines to harmonize the supervisory culture among the competent national supervisory authorities within the European Union: Guidelines for common procedures and methodologies for the supervisory review and evaluation process (SREP) (EBA, 2016); the guidelines on stress testing and supervisory stress testing (EBA, 2017d) or guidelines on supervision of significant branches (EBA, 2017e).

[118] There are further studies that argue that professional experience and qualification are equal important than the independency of the supervisory board members, cf. e.g., Hopt (2016); Werder & Bartz (2014); Theisen et al. (2004).

provide an important contribution to further strengthen corporate governance and help to recover from the corporate governance crisis – also if many of the published requirements are not that straightforward as they might seem at first glance. The changed supervisory approaches highlight the necessity for banks to rethink and adjust their corporate governance management with new approaches. Hereby my later developed management model will be beneficial, as it will demonstrate an appropriate way to handle the changed requirements on a global scale.

After the discussion of the institutional, legal and regulatory corporate governance framework determinants and the changed supervisory approaches, I will examine the frameworks and concepts to manage internal governance in the next chapter 3.3.

3.3 Frameworks and concepts for the management of internal governance

To enhance organizational efficiency and transparency, different concepts and frameworks have been developed over the last years. Such concepts ensure an efficient steering in organizations via different methodical, process and organizational approaches (cf. Schwager, 2012). It is essential for the development of my corporate governance management model to analyze the strengths and weaknesses of prevalent concepts to subsequently integrate e.g. selected elements into the development of the model. Therefore, in the following subchapter, I discuss the internally accepted and well-known COSO frameworks for internal control and enterprise risk management. Hereafter, I debate the Three Lines of Defense Model as appropriate approach for the management of governance, risk and compliance in complex organizational structures. At the end of the chapter, I draw my attention to further-reaching concepts for the management of corporate-internal governance.

3.3.1 COSO Frameworks for internal control and enterprise risk management

In the early 1990s, the Committee of Sponsoring Organizations of the Treadway Commission (COSO) released their COSO frameworks (COSO's Enterprise Risk Management Integrated Framework 1 and Internal Control Integrated Framework 2) to improve organizational and financial performance and governance of firms. Both frameworks provide guidance for management on how to implement and evaluate effective enterprise risk management (ERM) and internal control processes, to enhance management and governance processes. Both COSO frameworks build a standard leadership umbrella for governing and managing a successful organization (cf. DeLoach et al., 2014, p. 1).
Particularly the COSO Internal Control Integrated Framework, builds the international foundation for internal control systems of companies. It is recognized as a leading framework for designing, implementing, and conducting internal control and assessing the effectiveness of internal control (cf. COSO 2013).[119] Moreover, the EBA defines an adequate internal control framework as a requirement for the

[119] The COSO defines internal control as "*a process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance" (*COSO, 2013, p. 3). I argue that this is a broad definition, but captures crucial concepts that are required to how organizations design, implement, and conduct internal control. At the same time, it provides solid fundamental principles for the application across organizations that operate in different entity structures, industries, and countries.

internal governance management of European banking institutions (e.g., Solvency II Guideline, Article 46). The overall objective is to enable the management to secure the achievement of the organization's overall operational and financial performance objectives, while safeguarding compliance with the relevant laws and regulations.[120] Internal control aims to enable firms to deal more effectively with changing economic and competitive environments, leadership, priorities, and evolving business models (cf. DeLoach et al., 2014, p. 21).

Contrarily, the COSO's Enterprise Risk Management (ERM) Framework discusses its components in the context of what management does in running a business (cf. Brünger, 2009; Moeller, 2007; Krause, 2015). The ERM Framework is the foundation for internal control and its reporting, and it provides clear structures and a transparent communication basis between the operative business, the management and its control functions (cf. King, 2016; Hamacher, 2015, p. 44 f.). The ERM Framework asserts that management judgments, with appropriate board oversight, guide the implementation of strategy, risk management and control. The elements of the COSO ERM Framework emphasizes to include all relevant elements within the management process that enable the management to make well-informed risk-based decisions (cf. DeLoach et al., 2014, p. 19). At its core, the ERM addresses the concern that company-wide risks might not be managed adequately or that they are even ignored due to a lack of risk ownership and transparency (cf. Sweeting, 2017, p. 2 ff.). That is why the COSO ERM Framework defines different roles, responsibilities and accountabilities for each corporate governance element and supports in that way organizations to design, operate, and assess the effectiveness of their internal control systems over financial reporting (cf. Pett et al, 2015; Schwager, 2012). The Figure 9 on the next page clarifies how internal control is an inherent part of the ERM, while the ERM is an integral component of company's business model and consequently a key driver to enhance internal governance.

[120] Among others, especially Blumenberg (2014, p. 98) highlights that a functional internal control system is an obligatory legal and regulatory requirement for banks.

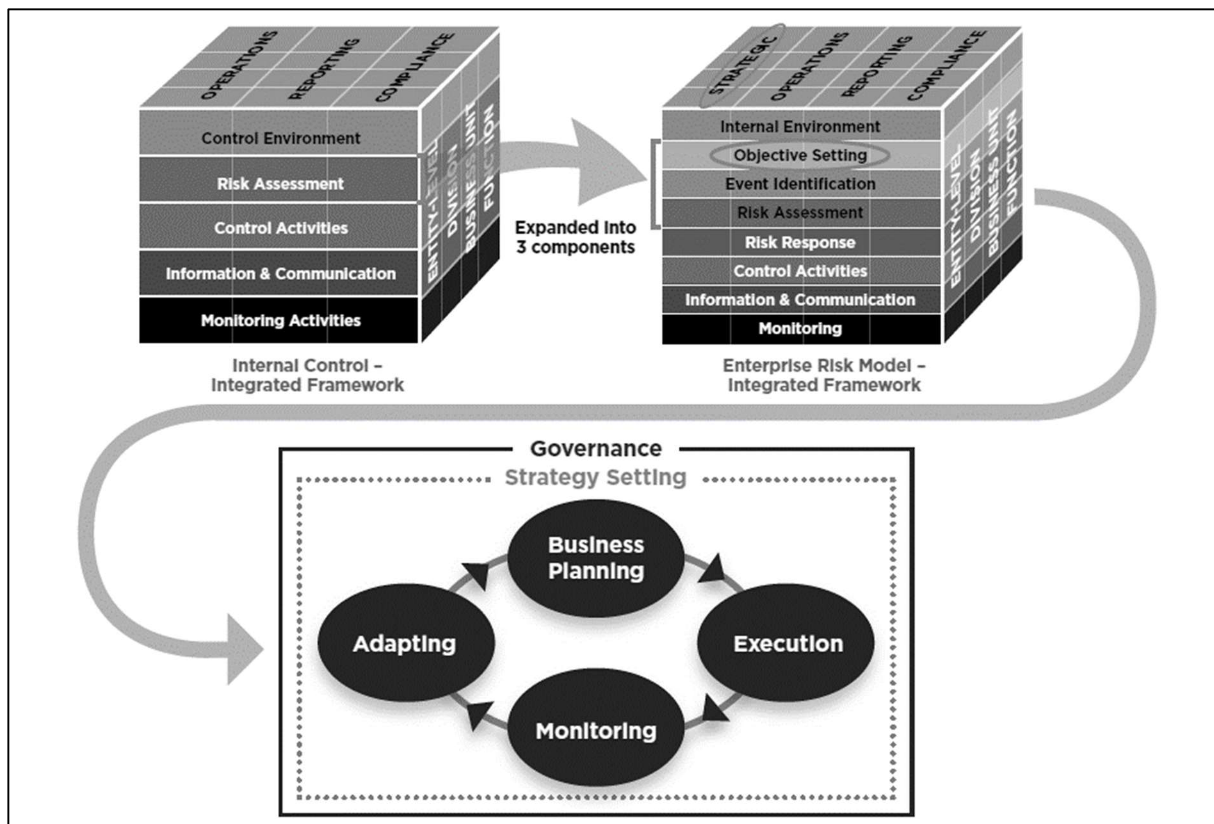

Figure 9: Relationship of ERM and Internal Control to Contextual Business Model.
Source: Covered in DeLoach et al. (2014, p. 5).

It seems accurate to argue that if taking into account a simple but holistic view of governance and management processes, the implementation of the ERM Framework contributes to achieve a better organizational performance (cf. DeLoach et al., 2014, p. 3). The overall governance environment relies on the organization’s vision and mission. Embedded in the governance environment, the strategy setting has to be executed. This defines the process by which the management body in its management function (and, if implemented, its supervisory function) defines a strategy on how to achieve the goals that are consistent with the overall organization’s mission. The close interlink of those two elements (governance and strategy setting) build the basis to ensure long-term corporate success and to influence internal business planning, execution, monitoring and adapting.[121]

The ERM Framework has become subject of many investigations among the academic community within the last years (cf. Kaya, 2018). There is no doubt that implementation of the COSO ERM Framework improved particularly the effectiveness of internal controls in banks and strengthened the internal governance management (cf. Altheebeh & Sulaiman, 2016). The COSO ERM Framework has become increasingly relevant due to an increasing complexity of risks and the further development of national regulatory frameworks (cf. Fraser & Simkins, 2016; Lai & Shad, 2017). Many studies provide evidence that organizations can strengthen their corporate governance with ERM processes and

[121] Inside the business model are four elements based on the time-honored cybernetic concept of the ‘*Plan, Do, Check, Act Cycle*’. De Loach et al. (2014, p. 3) highlight that these four elements are the prerequisite for the operational management to manage successfully the execution of the set defined corporate strategy.

demonstrate that it has a (significant) positive impact on corporate value and performance (cf. e.g., Lechner & Gatzert, 2017; Farrell & Gallagher, 2019; Viscelli et al., 2016; Soltanizadeh et al., 2016; Gatzert & Martin, 2015; Beasley et al., 2015). Other positive effects of the COSO ERM are a general greater awareness about risk-related topics and an improved internal audit performance (cf. Mohd-Sanusi et al., 2017; Tsai et al., 2017). Even though this risk focused planning and control are often promoted as the fundamental elements of an ERM, there are also surveys, which indicate that their adoption is relatively limited (e.g., AFP, 2014; Milliman, 2014; PWC, 2015; 2017). Ittner & Keusch (2017) found that the limited adoption of the ERM, on average, is not beneficial. Challenges arise particularly out of defining the organization's risk appetite and tolerances, limitations in the quantitative risk assessment and forecasting methods or the general inability to anticipate infrequent or external events can hinder effectiveness of the risk-focused planning and control procedures (cf. Ittner & Keusch, 2017; Mikes, 2009; Power, 2009; Danielsson, 2008; Taleb, 2007). Even so, many empirical studies found that there is a positive relationship among the triangle of value creation, ERM and internal control (cf. Kaya, 2018).

To sum up, in the same way as risk can mean different things to different people, so is ERM able to do the same. The ERM aims to secure a management of all risks on a holistic basis and not just on the individual management of each risk, taking into account any easily quantifiable risks, but also risks that are more difficult to quantify, such as the negative financial consequences of reputational damages. Furthermore, I outline that the ERM focuses on a holistic assessment of all risks across the entire organization to recognize the diversification and concentration of potential risks and avoids silo thinking within the different organizational units. I point out that it prevents different applied risk levels and risk appetites in different organizational units of the same organization. Consequently, the implementation of the *COSO* provides a valuable contribution to enhance the internal governance management. Even so, I raise the concern if the top-down planning and control as promoted from the COSO Frameworks alone, is as effective and straight forward as it may seem at a first glance. I argue that especially in multinational group structures, in which various internal and external forces are influencing a firm's business environment on different levels, a combined top-down and bottom-up approach is more preferable to secure an effective and comprehensive risk management.
Risk management does not need to look the same in different organizations. It should be fit for purpose, having the level of sophistication, formality, and transparency that is needed for the significance of the objectives and associated risk potential. In this particular case, I feel confident that the COSO frameworks support firms to enhance their risk management practice.

In the following subchapter 3.3.2, I concentrate on the Three Lines of Defense Model as a comparatively new, but often applied approach for the steering of governance, risk and compliance related topics in multinational groups.

3.3.2 Three Lines of Defense Model

Besides the introduced COSO Frameworks, other organizational concepts have also been developed within the last decades to strengthen governance, improve organizational efficiency and reduce the probability for organizational failures and respond to tighter regulatory requirements.[122] Hereby, in particular the Governance, Risk and Compliance (GRC) Framework is an often applied frame scaffold that includes the necessary action levels for a successful management of a company (cf. Long, 2017; Blythe & Machold, 2011).[123]

For the management of the integrated governance, risk and compliance management system and for monitoring the entire corporate risks, the comparatively new Three Lines of Defense Model provides an appropriate framework. In 2013, the Three Lines of Defense Model for internal governance was introduced by the European Confederation of Institutes of Internal Auditing (ECIIA) to respond to the continuously rising complexity of organizations. As the number of business sub-units, divisions and departments of corporate organizations is increasing constantly, the necessity remains to coordinate and align the different parts with each other and to identify company-wide risks. Hereby, the Three Lines of Defense Model plays a key role to coordinate the various teams, departments, or even single persons to enable the identification and assessment of risks as early as possible (cf. IIA, 2013). Specifically, banking organizations implemented this management and steering logic and customized it to their individual organizational setups, even if its effectiveness is still untested (cf. Davies & Zhivitskaya, 2018; Mabwee et al., 2016). Respective authors highlight that this model helps to define, explain and clarify the different governance management, oversight roles and accountabilities (cf. e.g., Eulerich, 2012a; 2012b; Boella et al., 2014; Welge & Eulerich, 2014, p. 60 f.). The Three Lines of Defense Model consists out of three pillars as illustrated in Figure 10 on the next page.

[122] For example, in Germany the KonTraG and AktG (§ 91 (2) and the § 93 (1) AktG) and the § 43 (1) GmbHG lay the legal basis. It defines that the executive management is held responsible for the risk management and legally obliged to implement a risk management system.

[123] Racz et al. (2010) provided the first scientific validated definition and described the GRC Framework as "*an integrated, holistic approach to organizational governance, risk and compliance that ensures that the organization behaves ethically and in accordance with its risk appetite and internal and external policies, by aligning policies, processes, people and technology, thereby increasing efficiency and efficiency."*

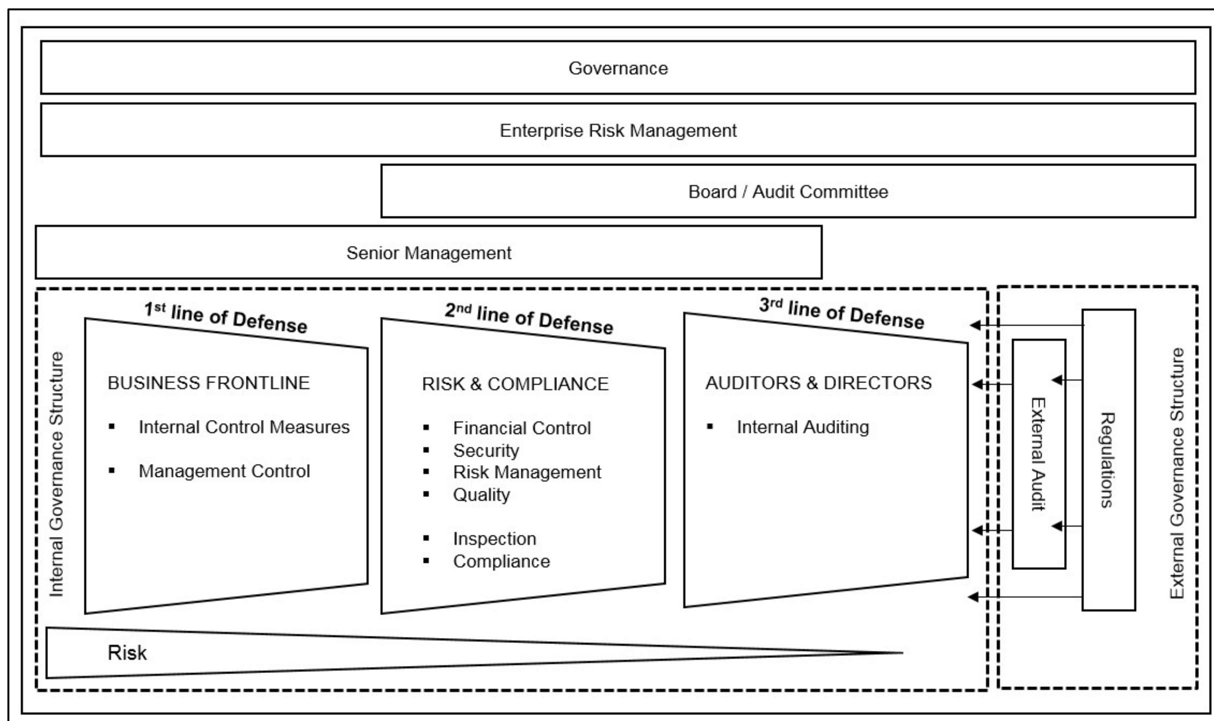

Figure 10: Three Lines of Defense Model for companywide risk management.
Source: Own illustration, based on Eulerich (2012b) and ECIIA (2011).

- **First line of Defense:** The operative business functions are responsible and have to account the assessment, management, monitoring and reduction of risks. The initial approach is to increase efficiency and effectiveness of internal processes via regular controls in IT processes or the middle management. Welge & Eulerich (2014, p. 61) explain that this secures that every function is permanently controlled by the superior hierarchical level.
- **Second line of Defense:** In a second step, a risk management function and other supporting functions (e.g. compliance, governance etc.) have to steer and regulate the efficient implementation of risk management methods of the operative business management in the first line of defense (cf. Bungarz, 2017). The second line supports and gives '*risk guidance*' to operative functions and risk owners. The second defense line consolidates the results of the operative business, draws potential conclusions, measures for risk reduction and prepares regular management reporting (cf. Welge & Eulerich, 2014, p. 62; IIA, 2013).
- **Third line of Defense:** The third line is responsible for a further risk reduction of the risks that are not identified by the first two lines of defense. The internal audit function acts as independent control and consulting function for the first two lines of defense (cf. Bungarz, 2017). In this role, the internal audit function supports the executives, managers and the institutional supervisory organs to fulfill their governance duties.[124]

[124] The internal audit provides regular monitoring activities to ensure the appropriateness and effectiveness of the supervisory, risk and control structures within the organization (cf. Bungarz, 2017; Welge & Eulerich, 2014, p. 62; IIA, 2013; 2009; 2016).

Some authors argue to implement other external influencing factors and to define the external audit function as fourth line of defense, which ensures external stakeholders a true and fair view of the financial reporting.[125] Again, others argue to also consider other legally binding supervisory organs that supervise the company in the model.[126]

Even so, scientific studies about the effectiveness of the Three Lines of Defense approach are rare. Davies & Zhivitskaya (2018) ask the critical question if the model diffuses risk management responsibility and reduces risk accountability. I attribute this to the fact that this conceptual framework is initially applied for developing situation-specific management control, which makes it difficult to make comparison analysis between different organizations. The model promotes risk ownership and a stronger risk management culture while eliminating inefficiencies, gaps and overlaps that often occur in the management of risk and compliance by multiple counterparts. Organizations, that have implemented a strong Three Lines of Defense thinking, are generally more risk intelligent.[127]

On the downside, the layers largely influence and depend on each other, which could also limit their effectiveness. If people know about existing redundancies, they tend to relax their vigilance and assume someone else is on full alert. In addition, the overall ignorance about the functioning of the Three Lines of Defense remains to end up in the duplication of roles in many organizations, gaps in coverage, opacity and may create in that way new risk potential (cf. Seago, 2015; Mabwee et al., 2016). Also Arndorfer & Minto (2015, p. 7 f.) argue that the model has several core weaknesses. On the one hand, there is often a misalignment of the risk takers in the first line. Whereas those experts act as the most crucial control function, this responsibility is contrary to their usual objective to generate sufficient revenues and profits for the company. Historically, most of the compensation schemes of those first line functions are more orientated on the financial performance than on control targets.
On the other hand, there is often a lack of organizational independence of the second line functions. Most risk functions usually have a formal reporting line towards the board, but in the day-to-day business most of the reporting, communication and collaboration takes place with the senior staff instead of the board, which could affect their independence. In this context, too, the compensation is a critical factor, as many organizations struggle to incentivize risk and control awareness and generate profits at the same time (cf. Arndorfer & Minto, 2015, p. 7 f.).
A further weakness is the lack of skills and expertise of many second line functions regarding the business of the first line functions.

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[125] For example, Bungarz (2017) argues that the external auditor provides an independent overall view regarding the effectiveness of the Three Lines of Defense approach. On a contrary, I outline that the external auditor primary focuses on financial related risks and evaluates not the ways in which the executive management board or other managers handle other management related risks (e.g. strategically, operative or compliance risks).
[126] For example, Welge & Eulerich (2014) state that this ensures transparency about a comprehensive action framework, which considers internal and external requirements and defines clear relationships among the involved parties.
[127] Potter & Toburen (2016) found out that those organizations tend to be capable of quickly identifying and reacting to risk, are more efficiently deploy scarce resources to manage risk on a prioritized basis, and have better internal risk transparency.

Arndorfer & Minto (2015, p. 8) raises critique that there are often inadequate and subjective risk assessments of the third line of defense which also hamper the effectiveness of the model.[128] Davies & Zhivitskaya (2018) criticize that there is no possibility of external evaluation of the implementation stage in firms.

Nevertheless, I outline its necessity and beneficial effects. Especially in decentrally organized multinational group structures it is an appropriate way to enhance group governance as a whole, define clear risk responsibilities on subsidiary level and secure transparency in the consolidating parent entity. Financial services companies should implement the Three Lines of Defense approach and adjust it towards their size and organizational complexity (cf. BCBS, 2015; EBA, 2017a; 2017b). While the situational implementation could increase the effectiveness, it also leads to less comparability on the other hand. To overcome the above mentioned weaknesses, I follow the argumentation of Arndorfer & Minto (2015, p. 8 ff.) and Bungarz (2017) that it is to enlarge the model with the external auditor and the regulatory supervisor as combined fourth line of defense.
I underline the necessity to implement competent internal control functions in multinational group structures (in particular risk, compliance and internal audit) on parent and subsidiary level, that are held responsible to align the central defined group standards with local legal and regulatory requirements of the host countries. Central internal control functions on parent level have to secure intragroup consolidation and coordination to secure a holistic risk overview of the parents' management board for the entire corporate group (cf. Wulf, 2012, p. 89 f.).

Despite its weaknesses, the Three Lines of Defense Model and its underlying principles for the management of risks and the collaboration of the different governance functions, provides crucial information for the later development of the intragroup governance management model. To complete chapter 3.2, I debate additional concepts and frameworks in the following subchapter 3.3.3, which are widely used to manage and strengthen internal governance of companies.

3.3.3 Further concepts for the management of governance

Besides the rather methodical COSO approaches or the organizational steering model of the Three Lines of Defense, there are also process concepts, which contribute to a better governance in organizations. One of the most popular concepts is the **EFQM Excellence Model,** which was developed by the European Foundation for Quality Management (EFQM) in the year 1988.[129] Initially, it is a system based on quality management and defines appropriate financial and non-financial KPIs for the general management and organizational oversight (cf. Bruhn, 2013, p. 382 f.). Whereas most companies apply the EFQM system for their quality management, others modified this approach to other management purposes. An advantage of this model is the possibility to apply it for all companies, regardless of their

[128] The effectiveness of the internal audit activity relies on a well-established audit planning, which is based on a comprehensive, objective annual risk assessment of the entire organization. If there are failures in identifying or auditing high-risk areas and processes, it will lead to false audit scopes, focusing on wrong risk areas or underestimated risks, which limit the effectiveness of the third line of defense (cf. Arndorfer & Minto, 2015, p. 8).
[129] Further information regarding the EFQM Model provides Pfeifer & Schmitt (2014); Moll & Kohler (2013); Hohmann (2012); Felchlin (2009).

size, structure or industry. The EFQM Model helps to evaluate the internal strengths and weaknesses in order to identify the relevant factors (“enabler”), which primarily drive the company to excellence.[130] There is evidence that the EFQM Excellence Model helps organizations to generate a sustainable competitive advantage (cf. Calvo-Mora et al., 2017). Consequently, the EFQM Model can be used as a comprehensive governance instrument that supports managers to identify strengths and opportunities for improvement, which every member of the organization can address to achieve realistic goals (cf. Duarte et al., 2017; Mocanu, 2015). Despite this, Suárez et al. (2017) outline that there is still missing longitudinal quantitative research regarding the effects of its implementation in organizations. Others criticize, that the EFQM Model ignores cultural aspects and different maturity levels of organizations, which makes it particularly challenging for multinational group companies to implement (cf. Bolboli & Reiche, 2015). More barriers to its implementation are those related to the lack of time and the lack of physical and financial resources (cf. Gómez-López et al., 2017). I argue that even if the application of the EFQM Excellence Model for corporate self-assessments is popular, the non-existence of industry specific evaluation scores also limits the accuracy and effectiveness of the evaluation results. The model application as assessment instrument seems to be complex and it depends largely on the individual interpretation of the personal conjectures within the assessment of the criteria (e.g. leadership), which in turn could lead to varying results.

Other often-applied **management systems** are the balance scorecard and the ISO 9001 and ISO 14001, which provide further valuable insights for the general management (cf. Zech, 2015). The International Standard for Organization (ISO) is a well-accepted set of rules for an international quality standard (cf. Hinsch, 2015). ISO provides requirements for the design of quality assurance, evaluation criteria and processes to reach those quality targets. Regardless of the company´s size, all companies can apply the ISO norms (cf. Wagner & Käfer, 2013, p. 119 f.). Critics argue that the ISO primarily concentrates on norm conformity, which is associated with high bureaucratic burden and documentation requirements instead of prioritizing on further improvement potential.
To overcome the challenges of multidimensional target systems, many multinational companies use the **balance scorecard** (BSC), originally developed from Kaplan & Norton (1996, p. 53 ff.).[131] The BSC helps to coordinate, manage and steer the target operationalization and provides a framework on how the overachieving company targets can be achieved by lower hierarchical subunits. Gleich (2012, p. 76) outlines, that the BSC is a management cockpit to illustrate the relations between business activities, results and the defined strategy. The BSC provides a comprehensive tool for the strategy development, involves stakeholder groups and also considers the financial consequences. I argue that, whereas the BSC provides a comprehensive tool for information provision, communication and

[130] The model consists out of eight main criteria (leadership, strategy, employees, partnerships, resources, processes, products and services) and 32 sub-criteria, to evaluate a firm´s framework conditions (cf. Lorentschitsch & Walker, 2015, p. 399 f.). The criteria provide guidance for measures and solutions to improve the excellence and competitiveness of companies (cf. Sommerhoff, 2013, p. 29 ff.).
[131] The introduced balance scorecard of Kaplan & Norton (1996, p. 53 ff.) consists out of four dimensions (customers, finance, potential (learning and development) and processes. For example, the BMW Group uses the balance scorecard as effective instrument to break down the entire group targets towards the different subsidiaries (cf. Bauer 2010, p. 275 ff.). For further studies which also confirm the importance of the balance scorecard as management instrument, cf. Weber & Schäffer (1990; 2000); Lawrie et al. (2015); Hoque (2014); Niven (2014); Paul (2014, p. 193 ff.); Schlag & Runzheimer (2013); Bischof (2013).

target measurement, its implementation is often expensive and complex and linked to high administrative efforts. In addition, it is often not consistently implemented among all hierarchy levels within organizations, which limits the informative value of the BSC. Despite its weaknesses, there exist various versions of BSC for multiple purposes today. For example, Welge & Eulerich (2014, p. 281 ff.) adjusted the balance scorecard towards an executive management board scorecard and a scorecard for the supervisory organ as an instrument to measure the governance performance. Eisenberg (2018) discusses a balanced scorecard for board of directors in banks.

The analysis of this chapter 3.3 has shown that different concepts, frameworks and other systems exist, to enhance the internal governance of organizations and respond the continuous rising organizational complexity, but also meet the tighter legal and regulatory requirements. My analysis also highlights the necessity for appropriate, integrated and company-individual governance solutions to ensure effectiveness within the day-to-day business. While consistent company-wide approaches are from great importance, their local adaptability also has high priority – even if it is often associated with huge implementation and administration efforts, especially in large multinational group structures. As another weak point of the discussed concepts, I found that not one of those concepts takes into account the integration of subsidiary networks, as they are prevalent in almost all larger corporate organizations. This confirms my earlier stated perception that most parent companies solely manage their subsidiaries via terms and conditions, target agreements, yearly budgeting or simply personnel interrelations. For that reason, the next subchapter 3.4 examines intra-group corporate governance mechanisms in particular with financial services subsidiary structures.

3.4 Corporate governance mechanisms in multinational group corporations

The prior chapters have illustrated the numerous determinants that influence the corporate governance practice in group structures. The next two subchapters will consolidate the consequences for the group governance of the last chapters. At first, subchapter 3.4.1 debates the challenges in group governance of cross-border financial services subsidiaries out of the parents´ perspective. Second, the subchapter 3.4.2 reflects the challenges that arise out of a subsidiary perspective to ensure a dual view on the group internal corporate governance mechanisms.

Entering the debate, I clarify in the following Figure 11 the disparate determinants, which affect the intragroup management of corporate governance and which provide indications about the complexities of ensuring effective group governance. Due to the fact, that corporate governance is often defined as either a concept or specific part of the company, it is possible to dismantle corporate governance (equal to other functions like controlling) in a system of theoretic issues and a system of elements, which get affected from multiple direct and rather indirect influencing factors as illustrated on the next page in Figure 11.[132]

[132] This dissertation follows the understanding of Harbert (1982, p. 140) who defines a concept as general framework that determines the baselines of the fact design.

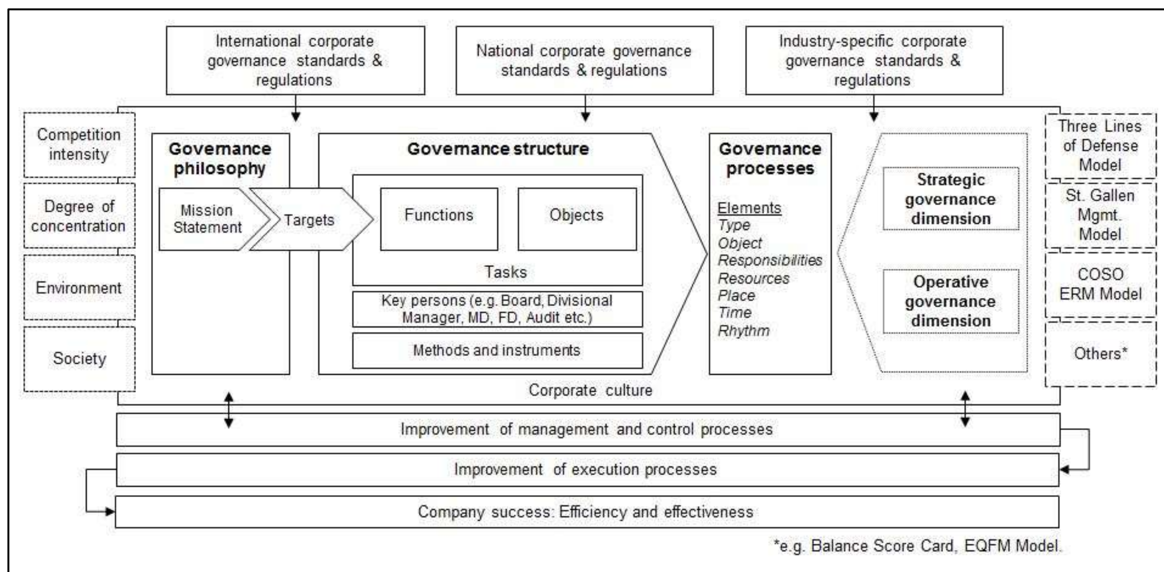

Figure 11: Influencing determinants on a firm's corporate governance practice and its outcome (horizontal perspective).
Source: Own illustration.

Environmental framework conditions influence the corporate governance management, because they set the boundaries for the design of the company specific governance mechanisms, processes and organization. The external framework comprises different aspects, such as e.g. legal and regulatory requirements, internal and national non-binding and/or comply or explain approaches or also industry specific standards. Industry specific determinants like competition, customer characteristics, the environment or general social or cultural circumstances also impact the management of corporate governance. Based on those environmental conditions, a joint **corporate governance philosophy** builds the fundament and it is the first step within the operationalization of governance (cf. Hilb, 2012, p. 97). Organizations often communicate this as part of their individual mission statement to secure a common understanding among all members of the organization and to provide them guidance.[133] As mentioned earlier, the mission is further specified in company individual targets and operationalized in individual **governance structures**. Those include among functions (e.g., supervision, control, management, leadership) and objects (e.g., processes, projects, products), key persons, task managers' methods and instruments.[134] In addition, the governance structures influence the design of the (**governance) processes** (cf. Purdy, 2012). As chapter 4 will demonstrate, the governance structures and processes prejudice the operational and organizational structures, which in large multinational organizations can be divided into a **strategic and operative governance layer** with different tasks and responsibilities of the parent and its subsidiaries (cf. Lötscher et al. 2015, p. 341). I state that this generic multi-level governance construct helps to better understand the complexities, interrelations and dependencies of organizations. I found that it improves the general management and supervisory mech-

[133] This dissertation follows the definition of mission statement of Leuthesser & Kohli (1997, p. 59) who defines it as a future orientated illustration of a target state of the corporate culture. It includes the way in which an organization reveals its philosophy and strategy via communication, behavior, and symbolism and is an important instrument to communicate this identity to key internal and external stakeholders. A mission statement covers the company purpose, values, goals and strategies, corporate creed, corporate philosophy and can be structured in different ways.
[134] According to Becker & Baltzer (2009, p. 6) tasks are the concretization of functions at objects.

anisms, and in doing so, enhances the execution processes. Finally, as my prior investigations have shown, this will lead to greater **efficiency** and better **effectiveness** of the organization.[135] It contributes to a better **competitiveness, increased innovation readiness, sustainability and organizational performance** improvements of the corporate group as a whole.[136]

Numerous authors already investigated corporate governance mechanisms, but most of the research mainly focused on comparisons of national corporate governance systems in an international perspective. Thus, there is only little research available regarding governance mechanisms in group structures with financial services subsidiaries.[137] For that reason, I will analyse those mechanisms in more detail in the next two subchapters.

While scholars distinguish between internal and external corporate governance mechanisms, I argue, that in a group context there are no clear boundaries between the internal and external mechanisms and some mechanisms even overlap (cf. e.g., Welge & Eulerich, 2014; Hausch, 2013; Huyghebaert & Wang, 2012; Zöllner, 2007). Thus, I prefer to differentiate between the parent (subchapter 3.4.1) and subsidiary (subchapter 3.4.2) perspective, in the next two subchapters about group governance mechanisms.

3.4.1 Subsidiary governance from the perspective of the parent company

For many multinational companies it is a challenge to track their subsidiaries, due to the large number within their portfolios. In most cases, they have different business models and governance policies and operate in different markets with different framework environments. One major governance risk for the corporate parents is a lack of transparency about the subsidiaries (cf. Cetorelli et al., 2014). Among others, in particular corporate governance principles for banks of the BCBS (2015) outline the necessity that parent boards have to be aware of their overall responsibility for adequate governance structures and processes within the entire group. The parent's board is responsible for their implementation and effectiveness. Particularly in large group companies it will be unavoidable to ensure any wrongdoing on the level of subsidiaries and to clarify how to regulate liabilities in this case. In general there are two options possible: On the one hand the potential personal liability of the parent company's directors and managers towards their company owners for a missing or inappropriate control of the subsidiaries, and on the other hand the parent companies' liability for its subsidiaries (cf. Petrin, 2016). Liu et al. (2019) provide evidence that clawback provisions significantly lower corporate risk-taking. The headquarters is capable of accurately tracking the subsidiary governance (cf. Bühner, 2013, p. 6). Potential risks need to be identified and transparent and headquarters should regularly

[135] For further information, cf. chapter 3.1.1. This view is supported e.g. from Aguilera et al. (2008), who argue that interdependencies between the organization and diverse environments lead to variations in the governance effectiveness. In contrast to the often promoted '*closed systems'* approaches, they developed a framework based on '*open systems'* approaches, which examines the organizational interdependencies in terms of the costs, contingencies, and complementarities of different corporate governance practices and its implications for the efficiency and effectiveness.

[136] For further information, cf. subchapter 3.1.4.

[137] A comprehensive overview about typical corporate governance mechanisms provides e.g. Bushee et al. (2013, p. 123 ff.); Huyghebaert & Wang (2012, p. 308 ff.); Zöllner (2007, p. 16 ff.). The following studies debate national corporate governance systems in an international perspective: Grapsas & Powell (2013); Salterio et al. (2013); Ulrich (2011, p. 133).

evaluate their capabilities to perform effective governance of the subsidiaries. In the following, I briefly highlight the key elements of subsidiary governance from the parent perspective among the suggested clusters of the World Bank and the IFC (International Finance Cooperation) (cf. e.g, Frederick, 2014, p. 21 ff.; IFC, 2015).

System for subsidiary governance tracking: The corporate parents should develop appropriate systems to track the subsidiary governance practices throughout the decentral networks (cf. Petrin, 2016; Bühner, 2013, p. 5). According to Frederick (2014, p. 21 f.), such a tracking system for financial services subsidiaries should allow the group's headquarters to have transparency about key governance elements within the subsidiary network.[138] Further, he points out that such an intra-group governance database can be necessary to meet the regulatory requirements in the home countries of the parent entity. Beresford-Wood & Buringa (2018) recommend an intragroup board portal system to manage and align the multiple boards in the corporate group.

Uniform policies and governance guidance: Gruhlich (2016) and Petrin (2016) highlight that directors and subsidiaries can profit from **uniform group policies** (e.g. manuals, internal rules, guidelines) from the parent, because it provides them guidance. I outline that guidance is particularly helpful for the following topics: clarification of the role and expectation of the directors, the parent's expectations of the local subsidiary boards, escalation procedures for conflicts between the headquarters and the subsidiary or the clarification of the responsibilities regarding strategy, risk, management, and control. Moreover, the information provision regarding the subsidiary boards, including the relevance of active and engaged subsidiary directors, expertise and required skillsets for the directors, nomination procedures, the specific roles of directors in subsidiaries or information regarding effective board sizes also have to be clarified. It is recommended to implement a uniform intra group guideline landscape that provides guidance for the day-to-day business of the subsidiaries, by following a risk-based approach. This enables the entire group to secure business continuity among the different business units. However, uniform policies should be adjusted locally by the subsidiary boards and directors to increase their acceptance and effectiveness on subsidiary level (cf. Ansari et al., 2014). To achieve a consistent and uniform policy management, proper induction programs, intragroup mentor programs with experienced managers and external trainings are basic prerequisites for the directors of the subsidiaries (cf. Bain & Band, 2016).

[138] According to Frederick (2014, p. 21) relevant information which should be available on parent level are e.g. (1) the exact number of subsidiaries within the portfolio of the group. (2) Real-time information about the local legal and organizational structure of the subsidiaries. (3) Assurance that the subsidiaries comply with both parent policies and host country legal and regulatory requirements including director appointments, officer appointments, minutes of the subsidiary board meetings. (4) Tracking of who directors are and how they are selected and nominated. (5) Tracking of the availability of secretaries who are in charge for providing policies on proper governance practice. (6) Proactive information provision of reporting to regulators, supervisory authorities, management and directors. (7) Information about the consistent implementation of policies and procedures.

Center of competence on parent level: It is recommended to **create a separate governance function** (center of competence) at group level to track and promote good governance, to enable and to support the subsidiaries and their senior staff.[139] Such a governance function can be located in the legal counsel or as staff function of the board within the corporate secretary. Mills & Haines (2015, p. 22) explain that most financial services organizations operate with a mixed approach of central and local governance functions. Frederick (2014, p. 24) shows that such a dedicated subsidiary function should be responsible for setting company-wide governance standards, creating a center of competence for subsidiary governance, maintaining companywide subsidiary governance policies and promoting corporate governance best practices. In addition, such kind of function should report directly towards the executive management board of the parent and collaborate with an internal subsidiary governance and oversight committee.

Proportional governance: Also, experiences have shown that subsidiary governance should always reflect the nature, scale and complexity of the subsidiary's business and related risk profile.[140] They have to be consistent with the adopted principles of the parent as well as be aligned with the site and nature of the subsidiary and local governance requirements. I recommend that the headquarters should execute a regular risk-based assessment to identify the most critical subsidiaries in their portfolio.[141]

Centralized versus localized management and control: The parent's responsibility includes an aligned intragroup risk management (cf. Kajüter, 2014, p. 147 f.). The parent has to carefully balance between a central oversight and local accountability of the subsidiaries (cf. Ansari et al., 2014). On the one hand, Diederichs (2013, p. 36 ff.) and Merbecks (2013, p. 45) outline that a centralized control function is obligatory to secure transparency about the group-wide risk situation. On the other hand, it is required that the local risk management systems are adjusted to the needs of the parent's headquarters to ensure consistency and high quality standards. I found that the central risk and control functions rely largely on the local expertise to be effective and that it should be a direct responsibility of the local management.

Some authors promote a better separation between management and control functions. Frederick (2014, p. 26) suggests that the local internal audit function should report to the local management but also directly towards the Head of Corporate Audit on parent level, who has to consolidate the information of the subsidiaries and report on a regular basis towards the parent's audit committee on group level. The local internal auditors should also report directly towards the subsidiary board to avoid that their estimations are filtered through the local senior management (cf. Kajüter, 2014, p. 210).

[139] Mills & Haines (2015, p. 22) provide an overview about the advantages of the central and decentralized approach for governance and compliance functions.

[140] This argumentation is based on several authors, such as e.g. Arnold (2015b) and Frederick (2014, p. 25).It is a conclusion of the situational corporate governance understanding of Hilb (2016). Meuleman (2014) also recommends considering local market specifics in an integrated governance framework.

[141] Such risk based assessments are common practice for performing internal audits in an effective and efficient way. They are also recommended in the SOX regulations, cf. Coetzee & Lubbe (2014); Li et al. (2015).

In addition, direct reporting lines for ad-hoc information towards the parent's board are crucial to be aware for any risks and issues affecting the entire group. The parent should define uniform escalation processes, but the local board has to be held accountable for it (cf. Graf et al., 2016).

The next subchapter 3.4.2 investigates the opposite view out of a financial services subsidiary to ensure a holistic, dual view on the governance management in the environment of a multinational group.

3.4.2 Subsidiary governance from the perspective of the subsidiary

There is a general perception among local regulators, that subsidiary governance should always follow the standalone approach (cf. e.g. BCBS principles). Yet, as already demonstrated in this dissertation, financial services subsidiaries are characterized by large heterogeneity: Some own a full bank license, others a leasing license, some have to apply the full set of governance requirements and others are more similar to family businesses than with listed companies, etc. Consequently, the expectations of subsidiary governance must be carefully adjusted towards the nature of the individual subsidiary. This subchapter investigates the drivers, which distinguish the corporate governance proceedings in financial services subsidiaries and other stand-alone entities. As in the previous subchapter, the structure of this one also follows the highlighted focus topics that have been identified by the World Bank and the IFC (International Finance Cooperation) in its publications and supplements it with further topics (cf. Frederick, 2014, p. 21 ff.; IFC, 2015).

Clarification of local board responsibilities to the parent versus subsidiary: There may be situations in which the local subsidiary's management is challenged regarding their loyalty towards the parent. From a pure company-law perspective, they have to represent, as the official legal representatives of the local legal entity, solely the interests of the subsidiary. There do exist laws in some countries, that explicitly include obligations to act in the interests of the company owners (shareholders) (cf. Lorenz et al., 2014, p. 164 ff.). Frederick (2014, p. 30) explains that bank subsidiaries are a special case, as the general public expectation is that they act responsible and avoid risks which may affect the whole group or even the health of the local financial system. There may be situations in which the local management is obliged to take decisions, which are contrary to the interests of the parent if negative effects are to be expected towards the subsidiary (cf. Eccles & Youmans, 2016). Parent interests may prejudice the subsidiary via various options, in either more or less visible ways.[142] Conflicts of interests may also affect the human resources management.[143] Thus, I outline that from a local perspective it may be challenging to understand the limits of loyalties and to define the right balance between the subsidiaries as an integral part of a group versus acting as independent, autonomous legal entity with differing obligations beyond the parent interests (cf. Yasui, 2016; Eccles & Youmans, 2016).

[142] Such actions can include granting a loan for other subsidiaries in the home country, loan transfers within different group functions for accounting or tax reasons, low interest loans, pricing decisions for shared services that the group executes for the subsidiaries etc.

[143] For example, a group-wide HR hiring process could lead to the fact that subsidiaries are faced to deal with managers or staff which are selected on the group needs instead of orientating itself on the needs of the local subsidiaries or potential local legal requirements for bank managers. Lazarova et al. (2017) found out that subsidiary autonomy for human resources topics is associated with higher subsidiary performance.

I argue that there is no universal standard possible to serve as blueprint on how to perform proper subsidiary governance, as this must be decided on a case-by case basis. In addition, I highlight the necessity to provide training and guidance for local managers on how to deal with situations where the interests of the parent and subsidiary differentiate.

Clarification of the directors' obligation towards stakeholders: There has already been a large debate about the issue to whom the subsidiary board owes its loyalty. In its core, there is consensus that the board of financial services subsidiaries has to act in the interest of various stakeholders and broader interests. However, there are different views on how this responsibility should be executed. Financial services entities are strongly regulated, require special business licenses and are supervised from the national supervisory authorities which primarily focus on safeguarding the interests of the depositors and debt holders, whereas the interests of the company owners seem to be secondary. Another unique characteristic of banks is that they have to serve the multiple interests of different stakeholder groups. According to the analysis of Avraham et al. (2012), more than 90 percent of the balance sheet of banks can be in form of debts. The OECD principles as well as the BCBS Principles highlight that the board has to act on behalf of various stakeholders and not primarily on behalf of the company owners (shareholders). They rather outline the legal obligation to act in the interest of the bank and a sustainable business development and to consider the substantial interest of the customers. From a subsidiary perspective, this is a dilemma, as they have to equally serve different parties with somehow contrary interests. Another distinctive feature of banks is the legal obligation of the board towards the supervisory authorities to ensure compliance with applicable rules and regulations (cf. Filatotchev & Nakajima, 2014).

The subsidiaries board role in the strategy setting: The strategy definition is one of the most important tasks of boards and the implementation occurs on the lower hierarchy levels and business units (cf. Furrer, 2016, p. 106 ff.). Although in a local context the subsidiary board is the highest institutional organ, it has cooperatively less relevance within a group-wide perspective. In general, the parent companies pronounce their overall strategic decision-making responsibility (cf. Blake, 2016, p. 10). The parent boards have concerns that there is a misalignment of the group strategy and its implementation on the lower hierarchy levels and for that reason focus on instruments to secure that the strategy is properly cascaded down to the subsidiary levels. Chen & Zheng (2018) found that strategic subsidiary autonomy is negatively related to subsidiary performance. According to O'Brien et al. (2013) it is unrealistic that small subsidiaries design their own strategy without involvement of their parent. In subsidiaries the local boards usually do not actively develop the own strategy, but provide important input towards the parent's headquarters that the developed strategy on higher hierarchical levels is practical and represents the local needs. Local boards have to be engaged in the strategy setting process and should provide regular feedback to ensure the strategy viability in the host country and increase the effectiveness of the local group strategy (cf. O'Brien et al., 2013).

Subsidiary boards' role in internal control and risk management: The prior chapters raised the question about the control framework of subsidiaries. Risk management and control are complex topics and should be embedded in a group-wide governance framework.[144] Nevertheless, the effectiveness of control and risk management depends largely on local knowledge and involvement. According to the analysis of the IFC and EBRD (2012), parents usually centralize their risk management, compliance and internal audit functions in the parents´ headquarters (cf. Apostolov, 2013).[145] The reason behind it is to secure a companywide approach, but Frederick (2014, p. 35) argues that the risk analysis and control should not only be executed in the overseas parent. To ensure a comprehensive view and secure fast reactions to local circumstances, they should be supported by local expertise of the subsidiary's risk function. Virtually every bank has a Chief Risk Officer today (cf. Rajgopal, 2019). Local boards should enhance the internal control and risk management via contextualizing of information, ensuring that central policies are adjusted towards the local subsidiary specifics and to make clear that the ultimate responsibility and accountability for internal control, compliance and risk management always relies on the local management (cf. Petrin, 2016). Consequently, local boards have to ask themselves if they execute a sufficient oversight of the local risk, compliance and internal control functions, or if they rely mainly on provided information of the group's headquarters. Whereas financial services subsidiaries should always develop and execute their own risk assessments to reflect their local circumstances, they should also share information and should collaborate with the responsible parent functions (cf. Kajüter, 2014, p. 128).

Subsidiaries director independence: As mentioned earlier, in the widespread one tier system (board of directors) the announcement of independent directors is a legal obligation.[146] Hard and soft laws outline the importance of independent directors, because of their integrity, objectivity and supposedly unbiased eye. Independent directors should secure objective reasoning and should monitor potential conflicts of interests.[147] However, in practice it may appear to be impossible or even unrealistic to meet all those expectations, especially in the context of subsidiary boards. Director independence at controlled companies is a much-discussed conundrum (cf. Strampelli, 2018). Frederick (2014, p. 38 f.) explains that this already starts with the nomination process, which is often solely a checkbox approach in many groups and ignores the independency, the personal fit and the character of the individual candidates. This practice is often insufficient and limits the requested independency to deliver objective local subsidiary monitoring. I argue that for subsidiary boards the formal independence is not that important, but rather the ability of the selected candidates to think objectively and challenge the management's decisions that are taken. This argumentation allows more flexibility and enables groups to nominate candidates, which are not completely independent of the subsidiary. Consequently, this

[144] For further information, cf. chapter 3.3.
[145] According to my analysis, there are some countries (e.g. Germany or Poland), which explicitly prohibit the outsourcing of risk management and internal audit functions to the parent company.
[146] For further information, cf. chapter 2.3.
[147] They are expected to play a central role in committees that supervise typical conflicts of interest areas (audit, remuneration and nomination) and they need to have well developed skills and competencies about the business specifics and the local market environment. They also have a representing role for the external supervisory authorities which means that they are tasked to take over even a pseudo-regulatory role for the bank monitoring. Moreover, they should be experienced managers with diplomatic skills to involve proactively in cases in which contrary interests arise between the parent and subsidiary.

means that managers of the group, but outside of the subsidiary, can also be suitable candidates for such mandates (for a similar argumentation, cf. Crespí-Cladera, & Pascual-Fuster, 2014).

Subsidiary board composition and directors' profiles: The board composition is a relevant key factor for the quality of the management and its supervision. On the one hand, there are local legal requirements that define and specify different board parameters in many countries (e.g. composition, board size, need for independence, fit and proper testing, member nationality, professional background). On the other hand, there are also expectations from the group that need to be taken into account from the subsidiaries. In conclusion, the parents select directors who are operationally effective, but do not develop independent strategies or challenge the fundamental practices of the group, as this could end up in potential interest conflicts between the parent and local subsidiary. Senior staff in subsidiary boards primarily focuses on the steering of the daily business of the subsidiaries (cf. Du et al., 2015). I argue that there should be a mix of senior staff with local expertise and experiences within the group network to ensure an overall perspective. Altogether, the role of subsidiary boards can be summarized as control, strategy, coordination, and service and helps to manage the headquarters–subsidiary agency problem (cf. Du et al., 2015). Even so, the different reporting relationships within a group network should not be underestimated and should influence the board behavior (cf. Frederick, 2014, p. 39).[148] For selected board members it is a prerequisite to understand their roles and responsibilities and to have transparency concerning the expectations of the group and local subsidiary (cf. Koveshnikov et al., 2017). Likewise, there should be regular trainings, which sensitize the management, directors and other key functions in regards to the challenges of subsidiary governance.

Subsidiary board committees: Committees are recognized as a helpful instrument to make decisions of great importance. Board committees enhance efficient and transparent decision-making and the consideration of different perspectives, as well as address issues with potential for a conflict of interests. The most common committees in listed companies are the remuneration, audit and nomination committee (cf. Jones, 2017). However, I raise the question if such board committees generate additional value in subsidiaries. Many national regulators request the implementation of audit committees and some even define that they have to be directed from independent directors (cf. Chambers & Odar, 2015; Chambers, 2014). Because the parent decides on both, the directors´ nomination and local executive nomination, those committees seem to be obsolete and are rarely recognized in financial services subsidiaries. The relevance of local risk committees is increasingly recognized as a crucial element of subsidiary governance (cf. Haan & Vlahu, 2016). Yet, I found that it is fundamental to differentiate between compliance in form, versus compliance with the spirit of those applicable laws (cf. Weibel, 2016). Even if all local legal and regulatory duties are fulfilled, committees can only be effective if the right mentality and supportive committee culture exist (cf. Jalal, 2017). The ultimate responsibility for the effectiveness of implemented committees lies with the subsidiary. Even if the parents feel confident that all needed decision-making purposes are covered via other control and reporting instruments, they should keep in mind the potential of committees to protect their interests.

[148] Sometimes there is local senior staff, which has reporting lines towards other directors of the group with other executive mandates within the group structures or even has to decide in their positions about the performance evaluation or even the individual remuneration.

Subsidiary board evaluations: Board evaluations have developed a crucial tool to improve board performance (Nordberg & Booth, 2018). Board evaluations evaluate the board´s function and provide indications on how the board performance can further be improved. Whereas in listed companies such regular board evaluations and efficiency audits are common practice, they are far less common in subsidiaries.[149] Within a subsidiary board evaluation not only the internal function should be addressed, but rather the relationship towards other group internal and external stakeholder groups and shared authorities, as well (cf. Blake, 2016, p. 72). In addition, it should investigate the level of intragroup autonomy of the subsidiary. Minichilli et al. (2007) and Frederick (2014, p. 42) explains that self-evaluation approaches are most effective and often used as internal governance tools.
External governance evaluations of the supervisory authorities mostly rely on minute's reviews, attendance records, fit and proper tests and on the statements regarding the directors' independence. I criticize that none of those measures help to overcome potential governance gaps in the subsidiaries nor provide recommendations for the further improvement of the subsidiary governance. However, the requirement for subsidiaries to conduct self-evaluations can force them to consider and reform their governance programs. As with other aspects of governance, the subsidiaries will solely take those evaluations seriously and foster changes if there is a strong "tone from the top" who also "walks the talk" (cf. Morrison & Shapiro, 2016).

The subchapter 3.4 provides a comprehensive overview on the challenges of the subsidiary governance. It also describes the field of tension that the parent and subsidiary boards have to deal with from a group internal, but also group external perspective. The subchapter 3.4 consolidates the prior analysis and their consequences for financial services subsidiary governance. Based on those findings, the next chapter 4 will examine the universal management of corporate governance in multinational groups with financial services subsidiaries. It will illustrate that the intragroup corporate governance can be best managed, coordinated and monitored if it follows an integrated tripartite approach with a strategic, operative and subsidiary governance dimension.

[149] Due to the enormous risk potential, some regulators (e.g. the FCA in UK, Capital Requirements Directive IV in Europe) already started initiatives to promote regular board evaluations for banks, which also includes regulated bank subsidiaries.

4. Intragroup corporate governance management in automotive multinational groups with financial services subsidiaries

The previous chapter 3 provided a comprehensive overview of different decisive influencing variables of corporate governance in multinational groups. The preceding chapters have demonstrated the field of tension that parents and subsidiary boards have to deal with. Those initial conclusions provide a solid foundation to investigate the corporate governance management in multinational groups with financial services subsidiaries in chapter 4. As priorly shown, the core idea of corporate governance is to provide the legal and factual regulatory framework for the management and supervision of a company. So far, the legal requirements of the management and supervision are much debated under the roof of the corporate constitution but have also strong inter-relations with corporate governance. This chapter 4 primarily addresses the intragroup management of corporate governance, especially taking into account the relationship between the parent company and the subsidiaries. Hereby, it is particularly important to discuss, if different parts can use imperfect contracts and in which ways the subordinated interests of the corporate parent are guaranteed. The organizational management and its control are fixed components of each corporate governance system and they are the beginning of further discussions. In essence, organizational regulations of the parent aim to limit opportunistic behavior and strengthen the motivation of the subsidiaries (and their management organs).

To ensure organizational transparency in the decentralized structures, it is essential to differentiate between the central coordinated governance by the corporate parent and the locally executed governance by the subsidiary. These days a global presence for many companies is a basic precondition to be competitive and successful in the long-term. The corporate parents have to decide if the subsidiaries are handled as independent companies or in relationships with clear hierarchical subordination. Clear roles and responsibilities have to be defined between the corporate parent and subsidiary, and proper decision-making processes need to be implemented. Moreover, ethnical values and cultural core principles for the subsidiaries and collaboration with each other in the group network are essential. The increasing legal and regulatory pressure of local (banking) supervisory authorities makes it mandatory for multinational companies to professionalize their management of the group governance. In some countries, companies have to make regular reporting about their efforts towards the authorities. Driven by the prior analysis, I outline that comprehensive subsidiary governance ensures a good integration, collaboration and monitoring of the subsidiaries, reduces management liability and reputational risks and also contributes to a better group performance.

Thus, I define three different governance dimensions. The overall responsibility for corporate governance relies on the group board (board of directors / supervisory board), that sets the boundaries, controls and provides expert advisory for the group executive management. The suggested multi-level approach for the management of corporate governance is based on some authors, who also distinguish multinational organizations in organizations with different hierarchical levels and mutual interde-

pendencies.[150] For that reason, in this dissertation, I apply the following three governance dimensions for multinational groups:

- **Strategic governance dimension:** The group executive management board on parent level is responsible for the strategic governance. It provides orientation for the entire group and sets the strategic direction and targets for the entire multinational group and its affiliated subsidiaries (cf. Lunnan et al., 2016a; 2016c; Du et al., 2015).
- **Operative governance dimension:** The divisional head (e.g. CEO Financial Services) in the corporate parent is responsible for the business model specific governance coordination among the subsidiaries. He defines strategic plans and he is in charge for the internal communication and information flow towards the subsidiaries in the respective division (cf. Wicharz, 2015). As well, he and his team provide guidance and suitable governance instruments for the subsidiaries that are aligned with the overall governance framework given by the strategic governance.
- **Subsidiary governance dimension:** The third dimension addresses the governance management and implementation among subsidiaries in the host country locations. Ensuring compliance with the applicable laws, regulations and corporate governance requirements are a clear management responsibility of the local subsidiary boards (cf. Petrin, 2016). The subsidiary governance has to ensure common standards across all subsidiaries regarding certain governance related key topics (e.g. the organizational structures, systems and processes) and has to clarify the task allocation between the parent and its subsidiaries. This dimension combines the different elements of the strategic and operative governance dimension towards the context of the subsidiaries. Subsidiary governance management is a prerequisite to secure governance consistency across all hierarchical levels, but also to avoid organizational failure and mitigate the risk potential of the entire group.

It is important to understand that there are several interactions between the different dimensions and hierarchies, which reflect the complexities of the real world in multinational groups. Although, these dimensions may be recognized as clear and logical, there must also be alignment among the different instruments within and between each dimension. The partition of corporate governance into different layers (even if they are named differently) is also applied from others (cf. e.g., Hilb, 2016; Vagadia, 2014; Renz & Böhrer, 2012; Bache & Flinders, 2004; Schmidt & Brauer, 2006; Van der Walt & Ingley, 2000).

While the prior Figure 11 concentrates more on the horizontal view of one single company unit with its multiple external influencing determinants, the Figure 12 on the next page summarizes the different hierarchical dimensions (from a rather vertical perspective) of intragroup governance with multiple business units and highlights the intragroup governance gap.

[150] Few authors suggest following multi-level approaches in multinational group structures: Representative for others: Hilb (2016); Vagadia (2014); Renz & Böhrer (2012); Kaehler & Grundei (2019); Ciabuschi et al. (2012).

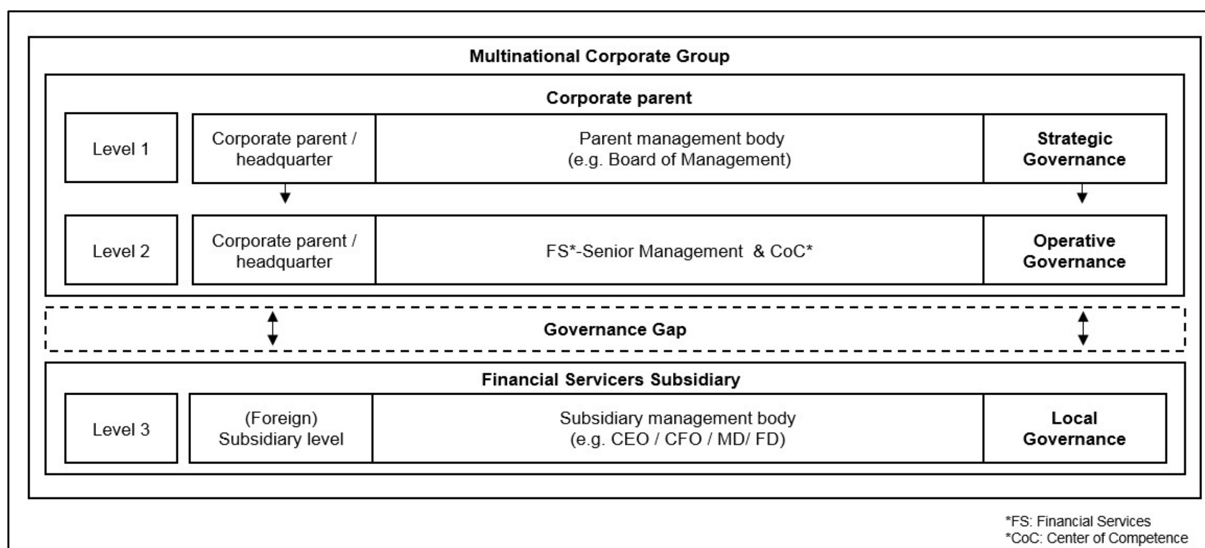

Figure 12: Multi-level corporate governance management in multinational companies (vertical perspective).
Source: Own illustration.

While the strategic and operative governance dimensions are often located in the parent, the concrete implementation has to take place in the different subsidiaries on site. Hereby, especially cultural, geographical and institutional distances need to be overcome to safeguard the effectiveness of corporate governance (cf. Gooris & Peeters, 2014).

I outline that it is impossible to develop a universal, holistic process and governance framework, which fits to all types of subsidiary structures. A corporate governance framework always needs to be adjusted towards the individual organizational structure, the institutional framework environments in the host countries and the degree of autonomy and empowerment of the operational units in the multinational group. An accepted and effective corporate governance framework also has to be compatible with the type of people in the organization, their behavior and the prevalent corporate culture. Individual roles and decision-making bodies within the group have to be aligned with the leadership style of the executive management and the promoted corporate culture in the subsidiaries.

Thus, I analyze in the following subchapter 4.1 the strategic and operative governance dimension and possible instruments how to manage them. Following this, subchapter 4.2 investigates the different governance related focus topics to secure a professional management and steering of the governance in subsidiaries. Subchapter 4.3 will then examine the associated corporate benefits arising therefrom, before I close chapter 4 with the conclusions for financial services subsidiaries in subchapter 4.3.

4.1 Management of corporate governance in multinational group structures

This chapter debates the strategic governance dimension (chapter 4.1.1) at first and thereafter investigates the operative governance dimension on parent level in subchapter 4.1.2.

4.1.1 Strategic governance dimension

The strategic governance dimension focuses primarily on the governance role and responsibility of the parent's CEO and the other group board members and it is directly linked with their leadership role. Hitt et al. (2012) define strategic leadership as multifunctional and managing via others. It helps organizations to accomplish change and incorporates the internal and external business environment to manage, guide and engage in complex situations. At its core, strategic leadership describes the abilities to anticipate, challenge, interpret, decide, align, and learn (cf. Schoemaker et al., 2013).
On the one hand, the executive management board is primarily responsible for creating a group-wide vision for the entire organization, deriving the strategic targets for the corporate group and providing orientation for lower hierarchy levels. On the other hand, they are responsible for development of a corporate culture and competencies which enables the lower hierarchies to develop own strategies (cf. Plakhotnik, 2017; Hill et al., 2014, p. 10.). Koh (2014) summarizes that the main output of the strategic governance instruments has to be awareness, agility, adaptability and alignment. I conclude that those are the core governance tasks, which the executive management board should promote. In the following Figure 13, I illustrate the different roles and respective governance instruments with which the parent's management body can contribute to sustainable intragroup corporate governance management:

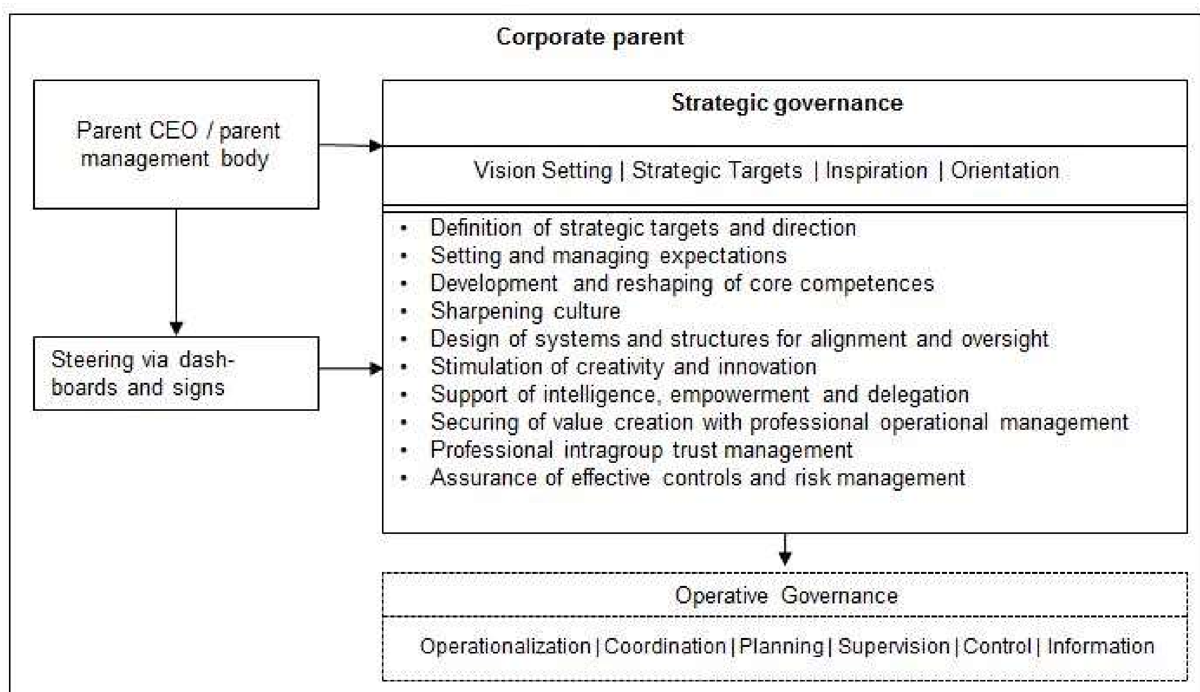

Figure 13: The strategic governance responsibilities and instruments of the parent's board.
Source: *Own illustration.*

The management of the strategic governance covers different elements and focus areas, which are the building blocks for an integrated intragroup governance framework.

Definition of strategic targets and direction: Strategic management defines the decisions and actions to define, implement and control plans in accordance with the organization's vision, mission, strategy and its objectives (cf. Hill et al., 2014, p. 15). However, despite the core role for the business performance, it has to be noted that many companies struggle with the implementation of their strategies. Executive boards have to implement organizational accountability frameworks to secure that for each strategic core activity a responsible function is defined to reach the agreed targets (cf. Thistle & Molinaro, 2016). Boards have to perform strategic leadership with charismatic, dynamic leaders who set high but reachable standards (cf. Koh, 2014). Good leaders get role models and have to ensure productive, effective policy-making and implement a deliberative process via constructive involvement, healthy relationships and positive emotional environment. Strategic leadership also influences the strategy development process, in which a compelling and appropriate vision is a central governance instrument. The combined vision for the entire group should be central in the governance process and formally incorporated into the group-wide governance system. A comprehensive group vision provides a common understanding and articulates a future state of the multinational group for all employees. My argument is that if employees are involved and engaged in its development it will raise the acceptance right from the beginning. Especially in multinational groups, a common vision is a central element to overcome geographical distances and cultural gaps between the subsidiaries around the globe (cf. Lunnan et al., 2016b).
On the one hand, a strategy planning process indicates that company strategies are the output of a plan, which follows a rational and highly structured top-down approach. However, on the other hand, there are also authors who criticize such kind of formal planning procedure. At its core, they argue that today successful strategies are rather the outcome of serendipity and the unpredictability of the real world and the role of lower management hierarchies make a rational strategizing procedure impossible (cf. Hill et al., 2014, p. 20). Altogether, those are all comprehensive reasons, but at the same time, I outline that in large multinational organizations there is the necessity of a formalized strategy planning process to ensure consistency among the strategic direction of the corporate parent, different business divisions and its subsidiaries. However, to secure an effective strategy communication is particularly challenging for group executives and should be bridged by a multidimensional strategy communication approach among all hierarchies (cf. König et al., 2017).

Setting and managing expectations: On the other hand, the parent's management board is also responsible for the internal and external expectation management and has to define appropriate procedures to set and manage them in an ever-changing and uncertain business environment. Hereby the regular strategy definition, planning, monitoring and continuous adjustment as an inherent part of good corporate governance, play a fundamental role (cf. Tricker, 2015, p. 447). Thus, a prerequisite for effective and aligned intragroup planning processes are transparent and clearly defined group objectives of the parent's management board, taking into account the interests of the major stakeholder groups (cf. Durand et al., 2017). Therefore, I found that a participative management approach that

focuses on the triangle relationship between the organization, their employees and external stakeholders is important, because it increases effectiveness, productivity, innovativeness, culture of constructive criticism, acceptance for change and identification with the company (cf. Räber, 2013, p. 11).[151] Apart from that, a higher employee's engagement increases the intrinsic motivation in a competitive business environment. However, cross-functional decision-making can be challenging and time consuming, but as Gast & Zanini (2012, p. 82 ff.) point out, it is crucial for effective organization-wide decisions. In particular, structured methods can help to aggregate information and balance power dynamics among the engaged stakeholders.

In a volatile, uncertain, complex and fast changing business environment, management boards also have to give guidance, must be a sense maker for their employees and explain them coincidental events and sequences in plausible contexts (cf. Scott-Jackson & Mayo, 2018). For example, Peng et al. (2016) provide empirical evidence that CEOs' intellectually stimulating behavior increases the employee's work meaningfulness and in that way affects the organizational performance. The authors conclude that effective leaders use internal and external information and that they are interested in real time information. They prefer operative information instead of taking decisions only based on accounting or financially based information and set them in a broader context with external information sources (cf. Hill et al., 2014, p. 17). Conflicts in the decision-making process and feedback loops stimulate innovative thinking, create a better understanding of options and improve decision effectiveness (cf. Hill et al., 2014, p. 20). The studies of Phadnis et al. (2016) and Ramírez & Selsky (2016a) indicate that scenario planning enhances the decision-making quality of executives.[152] Good leaders support an environment where discussions are used to practice and define rules for the decision-making (e.g. via pre-alignment matrixes, time limits for the strategy process etc.). Strong leaders focus on common and clear defined targets and connect them to areas of individual responsibility and trust.

Development and reshaping core competences: At the same time, it is expected that the management boards challenge, steadily redefine, and further develop the core competencies of the multinational group to ensure a sustainable competitive advantage. In the past an outside-in perspective as promoted from the assumptions of the Porter's Five Forces Model was dominant, but globalization and digitalization changed this towards a new strategic perspective that primarily focuses on the competences and capabilities of an organization, which is described as resource-based view or competence based perspective (cf. e.g., Nason & Wiklund, 2018; Zupic & Drnovsek, 2014).[153] While competencies

[151] Participative management methods focus on a higher level of intragroup participation and information sharing and includes internal and public information. Further, knowledge development and training to empower employees to understand the business and proactive participate to improve the performance. Rewards and remuneration schemes, which are linked to the organizational performance help to motivate employees for their pro-active collaboration. Moreover, power sharing in terms of decision-making (e.g. via quality circles, committees, survey feedbacks, suggestion systems, job enrichment and redesign) supports to enable employees to use and apply information and knowledge more efficiently (cf. Vagadia, 2014, p. 154).

[152] Scenario planning is an often used management instrument where teams systematically develop different future states and discuss them afterwards. It enables firms to manage environmental uncertainty by being "mentally prepared" to address the future by evaluating the critical uncertainties and its consequences for their business. For further information, cf. e.g., Lew, et al. (2019); Oliver & Parrett (2017); Ramírez & Wilkinson (2016a; 2016b); Amer et al. (2013); Peterson et al. (2003); Schoemaker (1995, p. 25); Goodwin & Wright (2001).

[153] For further information regarding the Five Forces Model, cf. Porter (1979; 2008a; 2008b). The following authors use the terminology of resource-based view: Wernerfelt (1984); Peteraf (1993); Mahoney & Pandian (1992); Seifert (2013); Barney (2001); Lin & Wu (2014); Bromiley & Rau (2015); Hughes et al. (2016). Instead, the follow-

are the resources, the capabilities define the probability of the company to involve those resources. I argue that management boards have to understand that the competitive advantage of a company is no longer bundled in the products, but rather in its core competencies.[154] Thus, competencies need to be transferred in processes and products, because otherwise it is impossible for them to support the value creation. High performance organizations understand and evolve core competencies in a clearly defined, but limited scope and support the differentiation, which in turn, results in competitive advantages and regular reviews, redefinitions and constant adjustments of the company's core competencies (cf. Worley et al., 2014). However, I point out that this also requires a culture of performance improvement and an agile learning environment within the organization. To understand those key drivers within their multinational group is a core responsibility of the parent boards, that have to make sure that each of the subsidiaries knows its core competencies within the group-wide network. The management board has to secure that there are group-wide processes to enhance performance, but also has to make sure that the gained knowledge delivered by those processes is used for decision-making and constant improvement. Further, the management boards have to support the adoption of greater intragroup agility, which means that they constantly review and adjust how to prepare their workforce for the future e.g. via putting the right people in the right places with the right incentives and reachable targets (cf. Chung et al., 2014). In essence, agile organizations aim to expand their talent base by increasing productivity and not by hiring new employees (cf. Worley et al., 2014). I supplement that agility also means delegation as part of a promise culture. People require a feeling of appreciation. They need to believe that they are acknowledged for what they do and they would like to believe in what the organization tries to achieve. Organizational agility is the basis to cope with rapid, relentless, and uncertain changes in a competitive business environment (cf. Schrempf & Schwaiger, 2018).

Sharpening culture:[155] Another fundamental governance feature for the management board is to ensure the framework conditions for a common intragroup corporate culture. Culture depends on core values, beliefs and codes of practices which make a community to what it is, influenced by individual and collective influences of the company. If employees feel engaged by the culture, they will be best committed towards the organization, the product or services (cf. e.g., Kompaso & Sridevi, 2010; Taneja et al., 2015; Pandita, 2019). An effective culture differentiates measurably from competitors, leads to a better organizational performance and firm outcome and thus creates a sustainable competitive advantage (cf. Berner, 2012; Plakhotnik, 2017; Polychroniou & Trivellas, 2018). Whereas the corporate culture has to involve common group-wide elements, it is equally important that the parent's management board makes sure that the subsidiaries have enough flexibility to enrich them. There is a great necessity of subsidiary-level variation through a set of internal organizational and external social conditions in which the headquarters-subsidiary agency dyad is embedded (cf. Kostova et al., 2018).

ing authors follow the terminology of a competence-based perspective: Baden-Fuller & Volberda-Henk (1996); Freiling (2004); Hülsmann & Müller-Martini (2006); Jeong et al. (2015); Kersiene & Savaneviciene (2015).

[154] Hamel & Prahalad (1994) define core competences as customer value, competitor differentiation and extendable. Quinn & Hilmer (1994) define it as skills and knowledge set, flexible and long-term platforms, which are capable for evolution, limited in numbers, areas where organizations can dominate and elements, which are in a long-term perspective important for the customer. Prahalad & Hamel (2006, p. 279) define the company's core competences as the collective learning of an organization.

[155] For further information, cf. chapter 3.1.3.

Kostova et al. (2016) highlight the necessity to consider both, shared core values among the whole group and supplementing local host country specific cultural elements of the subsidiaries. However, culture can only be changed in a long-term perspective with much effort in changing corporate attitude, values and images. This needs a clear management board responsibility and has to be part of the management process. Employees require empathy; otherwise, they will leave sooner or later. Research has proven that the combination of the organization's purpose, its goals and values are more important than the specific purpose of the organization (cf. Berner, 2012, p. 135 ff.). Management boards have to understand that companies, that focus on shared purposes, have a greater performance, more employee engagement and a better understanding of their core purpose (cf. Miller et al., 2010).

Designing systems and structures for alignment and oversight: The parent's management board is responsible to increase the organizational performance by providing the strategic direction and oversight about management decisions (Becker & Botzkowski, 2016, p. 84). While proper alignment procedures play a key role to increase the organizational value, they also have to ensure that all relevant functions and departments are involved into the realization of its purpose (cf. Zerfaß et al., 2014). Organizational alignment has to secure the appropriateness and effectiveness of the core business procedures and suitable organizational mechanisms to manage them. It includes governance mechanisms that enables management and guarantees accountability as a prerequisite for the definition and control of performance targets (performance management) (cf. Kneuper, 2015). For that reason, effective oversight processes and strategic planning policies and procedures are a basic pre-condition for effective intragroup governance. This requires also a definition, documentation and monitoring of all internal processes to secure process quality (cf. Kneuper, 2015).[156] Moreover, internal controls and appropriate organizational structures have to safeguard effective alignments between the parent's headquarters and subsidiaries (cf. Schiel, 2014, p. 91 f.). Contrarily, effective oversight processes should primarily secure a balanced risk reward assessment of management decisions. Whereas too risky adverse decisions indicate the ignorance of value creation potential, too risky decisions means that the management endangers the value creation. Thus, oversight should motivate the management for taking the initiative and take over the responsibility for their decisions. Besides, a proper target prioritization ensures a successful implementation of strategic directions and the alignment challenging (cf. Voggenreiter & Jochen, 2002). Effectiveness of internal control means that every decision maker is capable to make explanations for his decisions. For ensuring effective checks and balances, I argue that not only transparency, fairness and learning's from mistakes in particular are essential, but also different approval levels for different management roles.
The strategic and operative planning should be a clearly defined group-wide process on a regular basis to assure that potential changes that affect the future business environment are considered. Channon & Jalland (2016, p. 69) demonstrate the importance of understanding that the planning process in multinationals is a behavioral and political process that requires clear top management responsibly and commitment, and Porck et al. (2018) outline the importance of reaching intragroup stra-

[156] Kneuper (2015, p. 305) provides a comprehensive overview about quality measures for internal processes.

tegic consensus.[157] Further, policies and processes are an inherent part of many management systems. As mentioned earlier, group-wide policy landscapes help to secure organizational oversight and provide guidance to the subsidiaries. The scope of the different policies should depend on the function or activity, the degree of risk potential and the organizational structure (cf. Harper, 2015, p. 68 f.). This requires a professional business process management, because it describes how people think and manage their business (cf. Harmon, 2015, p. 37).[158] In essence, policies guide the achievement of predefined targets, whereas strategies and processes describe their way of implementation (cf. Harmon, 2015, p. 37). Consequently, parent's policies should always allow implementation options, require regular reviews and adjustments towards the subsidiaries business model, local regulations and business environment.[159] This duality approach safeguards that policies fit with the overall group vision, the group strategy, but also consider local subsidiary specifics (cf. Op't Land et al., 2008, p. 15).
Adequate internal control processes are another crucial management board responsibility. The parent's management board has to assess the organization from holistic, group-wide perspective.[160]

Intelligence, empowerment, delegation: As the prior analysis have illustrated, intragroup corporate governance management defines a group-wide approach that engages stakeholders and employees, and it supports a debate and consensus orientated culture. The parent's management board has to carefully balance confidence, dissent and commitment and aim on empowerment of all hierarchy levels. Empowered management boards should use their freed capacities to continuously question the business model via feedback loops and ongoing analysis of the business environment (cf. Hill et al., 2014, p. 20 f. & 31).
At its core, large multinational companies work efficiently because of the different opinions, independency (people think independent), decentralization (all people have different local gained knowledge), checks and balances and aggregation, which transfer individual judgment into a multinational group decision. (cf. Hillebrecht, 2016). I underpin that to be successful in the long-term as a one multinational group, a professional management, coordination and monitoring of the subsidiary networks, but also a regular exchange between the parent and the subsidiaries are essential.[161] The engagement and empowerment of stakeholders provides a creative environment due to their diverse access towards e.g. knowledge, skills or tools. This motivates employees, results in positive change and supports the cross learning between the headquarters and the subsidiaries. Opinion diversity and independence in decision-making are of great importance and should be regularly promoted by the parent's management board. Despite the increased alignment efforts, decentralization increases independency and specialization and it allows people to organize and solve problems by their own individual approach.

[157] Channon & Jalland (2016, p. 69) provide a comprehensive overview about the ten most important planning pitfalls in international organizations.
[158] The modern business process management consists out of six critical core elements: Strategic alignment, governance, methods, information technology, people and culture (cf. Rosemann & Vom Brocke, 2015, p. 110 f.).
[159] Vagadia (2014, p. 165) outlines that effective policies consider at least six elements: Purpose and objective, operational parameters which define in which scope the management and staff are excepted to operate, delegated authorities towards the management, authorities which are not delegated towards the management, process to address exceptions, reporting requirements.
[160] Eichler (2015) and Vagadia (2014, p. 166 f.) point out that the control environment is largely influenced by the management philosophy, organizational structures and applied methods, the implemented IT management systems and the internal and external audit programs.
[161] This argumentation is underpinned by the Wisdom of crowds' theory of Surowiecki (2005).

Accordingly, Hempel et al. (2012) argue that the decentralization requires a general formalized framework, which also ensures enough flexibility to secure the advantages of the decentralization, too. Further, I supplement that a decent culture is at least as important to secure critical evaluations and has to be regularly promoted by the parent's management board.

Stimulating creativity and innovation: Another core task of the parent's management board is the promotion of creativity and innovation.[162] To transform the company means to lead a way into an unknown environment, but with engagement and great effort for learning and taking new action, even if the future state at the end of the transformation is yet not clear. Successful top managers continuously transform the organization by always questioning and challenging e.g. the organization's strategies, core beliefs and assumptions and focus on how to drive innovation. Management boards have to support innovation, what means that they also have the will to take the connected risks and create a culture in which innovation is normal and rewarded (cf. Rainey, 2010, p. 13). Therefore, it is a prerequisite that the management board ensures that the organizational framework guarantees the flow of new ideas and minimizes cross-organizational boundaries to avoid silo thinking. Depending on the organizational setup, innovations should be directly reported to the respective divisional head or other senior staff, which have to reward effective innovation (cf. Hauschildt & Salomo, 2011, p. 25/215). Apart from that, the group-wide human resources policies should make sure to identify innovators among the employees and new job applicants, even if they often have a controversial career and correspond to no stereotype of the standardized human resources processes in many multinational companies.

Effective quality delivery via operations management: Another important element of the strategic governance addresses the operations units and quality management (cf. Vagadia, 2014, p. 186; Hafeez & Ruzevicius, 2011). The operational units are responsible to secure an efficient resource allocation within the multinational group. Especially in corporate groups with different business models in different divisions, a group wide operations strategy is a central element of the group strategy (cf. Grünig & Morschett, 2017).
However, to ensure implementation and interaction between the different divisions (e.g. production – sales – financial services), an accountability framework and clear performance expectations of the parent's management board are essential. In the year 1957, Feigenbaum introduced the Total Quality Management (TQM) with 14 core topics to ensure effective quality management. Those elements can also be applied for good corporate governance.[163]
Another often underestimated key determinant for delivering good quality and performance is a professional HR management (cf. Meyer & Xin, 2017). Kaehler & Grundei (2019) rank HR management as crucial part of corporate governance practice. A successful integration of human resources management practices and TQM targets reduce costs, increase product reliability, lead to greater customer satisfaction and end up in shorter product development cycles (cf. Bou & Beltrán, 2005, p. 71).

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[162] Zuraik & Kelly (2019); Prasad & Junni (2016) and Sariol & Abebe (2017) highlight in their studies the crucial role of CEO leadership behavior for the organizational innovation readiness.
[163] In essence, Feigenbaum outlines that quality and productivity improves if process variability decreases, and he argues that a company-wide responsibility, participative decision-making, empowerment and an improvement culture, builds the basis for good corporate governance (cf. Feigenbaum, 1957, p. 22).

However, this means that there are strategic workforce planning procedures in place to support effective service delivery and reduction of operational risks. Group-wide HR policies and delegation schemes have to be reviewed on a regular basis to assure that they are adjusted to the changing workforce needs and provide the framework for the definition of the local HR policies in the subsidiaries.[164] In addition, it is essential that there are intragroup escalation procedures for issues that cannot be resolved of the local management on subsidiary level.

Intragroup trust management: Any corporate governance effort aims to create trust among stakeholders.[165] Trust in an organizational context requires trust between people, between teams and between organizations within a clearly defined governed institutional framework (cf. Fassin, 2012). This involves strong KPIs that support positive behavior, a common understanding and equal targets that are based on open communication, clear escalation procedures and flexibility (cf. Frey, 2011). A basic requirement for trust of stakeholders is a general positive expectation about the others behavior, the created output and clarity of purpose. Increasing trust means closer collaboration, cultural alignment, shared control, time and combined accountability. Even if this seems to be obvious and easy to implement, building trust needs time to develop, but reduces the risk of opportunistic behavior and transaction costs among all involved participants in the long-term. Few authors outline the importance of intra-organizational trust within the parents-subsidiary relationship and argue that trust can reduce the principle agent dyad (cf. e.g., Koveshnikov et al., 2017; Lunnan et al., 2016c; Lunnan & Zhao, 2014; Williams & Du, 2014). Boards have to understand that, in multinational groups with differentiated subsidiary networks trust and a shared understanding between the headquarters and the subsidiaries regarding, each's purpose and goals are the building blocks for the collaboration (Ahlvik et al., 2016). Thus, Blank (2011, p. 51) states that from a governance perspective, trust requires a climate based on fairness among all stakeholders, open dissent and a clear differentiation between constructive professional conflict and not being loyal. Even if most executives are aware about it, I argue that it often gets ignored in the daily business.

In addition, intragroup trust can be strengthened by promoting diversity to avoid typecasting individuals, individual accountability and transparency about the required strategic issues. Clear processes, which delegate strategic topics from management board to lower hierarchies, also contribute to build confidence and trust throughout the group. In multinational organizations stakeholder management and a common language play a crucial role to overcome the geographical distance and cultural differences (cf. Ciabuschi et al., 2017). To sum up, institutional trust covers target congruence, collaboration, cooperation and communication.

The parent's management board can improve institutional trust by implementing a group internal policy that provides guidance about how to collaborate with stakeholders.

[164] The changed workforce needs are currently much debated among scholars in the context of industry 4.0. Cf. e.g., Gebhardt et al., (2015); Prifti et al. (2017); Fuchs et al. (2017); Sun et al. (2018); Hartmann & Wischmann (2018).

[165] The DCGK defines trust as an explicit target of the codex. For an overview how trust in an organizational context can be interpreted: Cf. Schnackenberg & Tomlinson (2016); Shaw (1997); Vagadia (2014, p. 191). Welge & Eulerich (2014, p. 139) also outline the importance of creating trust as part of good corporate governance.

Effective controls and risk management: Internal control and risk management are an important element of the strategic governance responsibility. On the one hand, internal financial controls are important to ensure that ongoing financial obligations are fulfilled, and they support continuance and the achievement of objectives (cf. Götze et al., 2013, p. 47 ff. and 385 ff.). On the other hand, also financial planning and budgeting processes are required for the strategic and business planning to facilitate an efficient resource allocation and are required for the target monitoring against financial targets. The parent's management board is in charge to define operational budgets, capital management planning / budgets and to install regular monitoring procedures of the financial performance for the entire corporate group (cf. Gladen, 2014, p. 17 f.). This supports to assure that those activities are robust, timely and congruent with agreed policies and external regulations. Hereby especially proper internal control mechanisms, but also an independent internal audit, are essential (cf. Raiborn et al., 2017). In addition, risk management is also a critical element of the strategic governance, because it has to secure a proactive and continuous assessment and management of strategic and operational risks to mitigate the risk of undesirable events (cf. Welge & Eulerich, 2014, p. 64).[166] The management board should consider risks as inherent element within its responsibility scope and its regular internal discussions within their board meetings, and it should secure a holistic group-wide risk oversight with appropriate systems and processes which support its decision-making. Thus, the management board has to secure an appropriate and functioning holistic group-wide internal control framework and risk management framework.

Altogether, the strategic governance is comparatively high level, but not less important than the others are. It defines the conceptual framework for the lower management levels to properly execute their governance roles and responsibilities. The management board largely influences the group-wide corporate culture and an appropriate *'tone at the top'* as well as *'walk the talk'* is a basic prerequisite. To avoid organizational failure and increase the effectiveness of the governance structures, it is essential that the corporate culture allows reporting potential issues or undesirable developments in an open way across all hierarchies. This has to be supplemented with clear alignment procedures and respective oversight structures. Apart from that, an adequate risk management is a prerequisite to define the acceptable level of risk taking and internal control systems are necessary to identify group internal weaknesses and potential threats, but also to secure that employees follow the intragroup rules.

This subchapter has also illustrated the heterogeneity and complexity of the strategic governance. It requires strong leaders to define the general framework conditions for the headquarters-subsidiary relationship. In turn, this is also a dilemma, as most of the described forces need time to develop and often depend to large extent on the individual interpretation of the managers.
Furthermore, there is no doubt that an effective evaluation of such rather informal driven governance elements by externals is difficult.

[166] In this context, scholars particular mention the earlier debated COSO ERM Framework and the Three Lines of Defense Model as central intragroup governance instruments. For further information, cf. chapter 3.3.1 and subchapter 3.3.2.

Based on this analysis, I examine in the next paragraph the implications on the operative governance, which is in the primary responsibility of the lower management levels, such as the divisional heads. The operative governance operationalizes the strategic governance framework towards the specifics of the subsidiary networks to secure effective and group-wide aligned subsidiary governance.

4.1.2 Operational governance dimension

According to Vagadia (2014, p. 37) operational governance is the missing linkage between the effort to follow good corporate governance practice and its implementation into the day-to-day business operations. Multinational organizations without well-defined administrative governance structures and instruments to manage the operational governance and procedures, lack in efficiency and support opacity. Operational governance covers all characteristics of decision-making, considering all elements, like the decision-making preparation, potential decision makers, its documentation and execution. However, also on the operational level of governance in a multinational group, there may be conflicts between the corporate parent and the subsidiary. On the one hand, there are personal politics of involved stakeholders, which may influence the working environment. On the other hand, there are large geographical distances, cultural differences and sometimes even divergent interests between the counterparts that may lead to struggles and increased alignment effort. For such reasons predefined rules for the decision-making are required, as they improve operational performance and prevent conflicts. I argue that it correlates with a greater efficiency, consistency and commitment among all organizational members to have a clear predefined decision-making framework.
In respect to the corporate governance definition of this dissertation, I define decision-making in its broadest perspective. Insufficient decision-making processes and missing decision-making competence schemes will be costly, increase bureaucracy (meeting culture, hierarchical complexity) and management liability, and they can bear a significant risk potential for the entire multinational group. Organizations without clear defined rules and a high degree of individual decision-making support opacity and favor a growing predominance of informal social networks. I underline that this informality also affects the governance visibility and legitimateness in a negative manner.
Subsequently, the main function of the operational governance is to plan, coordinate and deliver the strategic targets set by the parent's management board. The divisional head and governance functions on headquarters level are responsible to enable and assist the subsidiaries with appropriate governance instruments to perform their governance role within the day-to-day business. Another crucial function of operative governance is monitoring of the progress via performance metrics (e.g. who is doing what, why, when, by when, etc.) as the following paragraphs will illustrate.

Taking into account the strategic governance responsibilities, I have clustered different core governance processes for securing an effective operative governance management in multinational groups as shown in the following Figure 14:

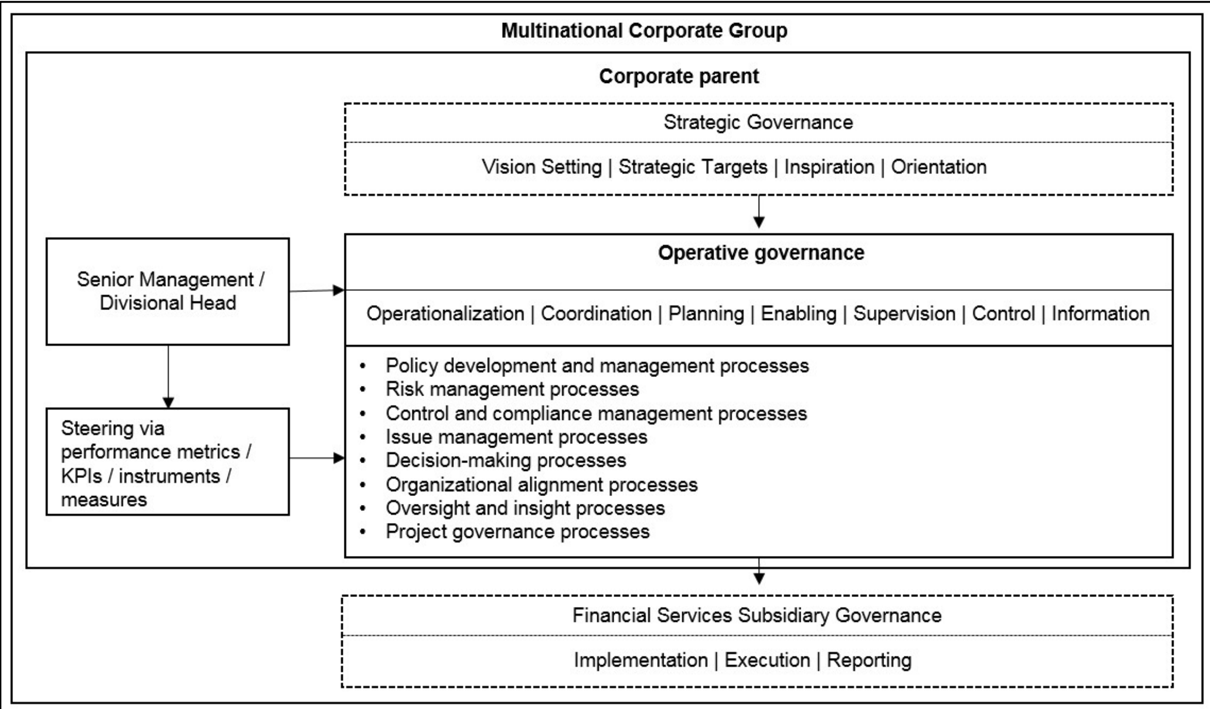

Figure 14: The operational governance determinates within multinationals.
Source: Own illustration.

In the following I will describe each of the eight core processes in more detail.

Policy development and management processes: Group-wide and division specific policies give guidance for the behavior in organizations and should be designed as business processes. Policies are a governance instrument to align the business towards the operational aspects of the company and provide for the management the opportunity to control and to run the organization in a better way (cf. Tricker, 2015, p. 164 ff.). However, I criticize that most of the policies in multinationals are written as text in a document, which makes it complicated to monitor and enforce their observance within the daily business. This means that it is not possible to automatically monitor the defined policies or potential overlaps towards other existing corporate policies. I suggest to implement policies which are rather designed as a set of controls and checklists than solely written in a documentation of the business rules. In the particular case of financial services organizations, it has to be additionally secured that the external legal and regulatory requirements are taken into account. At the same time, Vagadia (2014, p. 41) finds that there has to be a proper documentation and review process defined as an inherent part of the group-wide compliance process and starting point for the internal and external audits.

Risk management processes: In this context, risk management can be described as taking decisions that support the realization of the organizations overarching objectives by defining individual activities within functional and cross-functional areas of the organization. It has to encourage the daily decision-making with a standardized process to identify a best possible action procedure under uncertain conditions by the identification, assessment, understanding and communication of potential risk issues. A prerequisite for an effective risk management is an appropriate group-wide risk culture, which can be fostered by leadership, involvement, learning, accountability and communication (cf. Hopkin, 2017, p. 293; Diederichs, 2013, p. 52). Even if an appropriate risk culture is crucial to support the overall vision, mission and targets of the multinational group, it is also difficult to pre-define, implement or even to evaluate it.[167] Despite this, it seems appropriate to define a group-wide risk culture statement as a starting point to gain a common understanding of the expectations and the limits about accepted risks and outcomes of the management board (cf. Glaser, 2015, p. 347; Diederichs, 2013, p.15). In essence, risk management is directly linked towards future uncertainty, and all planning procedures have to include certain risk management elements (cf. Kajüter, 2014, p.17 f.). However, it is clear that corporate success is always linked towards the conscious assumption of risks. In addition, being innovative always means taking risks. Without risks there are no innovations. That is why, on the one hand, the divisional heads should focus on trust, but on the other hand, they also have to set clear boundaries with e.g. appropriate risk appetite frameworks to give guidance to employees.

Even in a rapid changing environment, many organizations follow a defensive risk approach. They solely focus on the controlling of potential risks and limit their growth potential in that way. Vagadia (2014, p. 42) promotes an alternative approach and argues that risk management has to concentrate on the evaluation of opportunities, which drive forward the organization (upside risk) and solely manage things which may affect the organization in a negative manner (downside risk). Risk management needs to be recognized as a shared activity of all organizational members. The management board has to give guidance for the risk taking and the treatment of expected risks within an appropriate group-wide risk policy, which delegates the design and implementation of the risk management strategy and framework towards the divisional heads and the lower ranked subsidiaries (cf. Glaser, 2015, p. 347). As debated earlier, there is no doubt that especially in banking institutions competent risk management functions are of great importance and an inherent part of good internal governance. Nevertheless, the *'tone at the top'* largely influences the awareness and priority of risk management (cf. Mtaki & Ganesh, 2016).[168]

Control and compliance management processes: In a broad definition, control covers different things to different people. The board predefines the group-wide internal control framework, but its management and steering across the affiliated subsidiaries is delegated towards the respective divisional heads and their supportive governance functions. Lu & Wenchang (2015) argue that control should be part of the organizational culture, because this affects how risk is recognized and how the

[167] For further information, cf. chapter 3.1.3.

[168] I argue that the risk communication especially in multinational organizations plays a crucial role, in which employees with diverse cultural background and differ risk sensibility have to collaborate with each other. An offensive, transparent internal communication is the key and it ensures, that the *'tone at the top'* can promote a climate of trust, which builds the fundament to secure that employees report potential risks without any feat of blame.

employees are aware about control. Concisely it covers *'the ways things are done*.' However, every organization operates in different ways and is affected by different organizational ethics, values, structures, reporting lines, authority, rules and documentation procedures. The Chartered Institute of Internal Auditors (2016) defines control processes as "*the policies, procedures and activities that are part of a control framework, designed to ensure that risks are contained within the risk tolerances established by the risk management process".*[169] As previously explained, in many companies corporate governance is solely translated in terms of control and compliance issues to secure the fulfillment of legal and regulatory obligations, but ignores that this can only be achieved with adequate internal governance structures. In Germany, the Institute of External Auditors (IDW) published a general accepted auditing standard (IDW PS 980) of an adequate compliance management system.[170] Moreover the ISO Standard 19600 *'Compliance management systems'* specifies the requirements and provides recommendations for the implementation to set a global uniform framework for compliance management in organizations (cf. Seidel & Wendt, 2017; Jonas, 2016).

A broader perspective defines this as process that encourages the organization to increase business performance and that goes far beyond the intention to secure the obligation of legal and regulatory requirements. In modern value driven organizations, there has to be a direct relationship between group-wide policies, the used processes and respective controls to ensure that the processes and policies are correct implemented. A compliance process has to cover externally driven (legal and regulatory) requirements, but concurrently it has to secure the implementation of group internal policies and processes to increase the organizational value creation, by securing that the organization works correctly and initiating improvement initiatives where needed (cf. Welge & Eulerich, 2014, p. 67). This approach expands the role of control and compliance towards wider operational processes and has to be embedded into the existing group-wide compliance management systems as a fundamental determinant of the group-wide internal governance management system.

Despite the challenge that there are different internal or external driven control categories that have to be taken into account, one of the main obstacles is the linkage between compliance, policies and processes.[171] While Sackmann et al. (2018) recommend to use digital business process compliance approaches, Bannenberg et al., (2013, p. 177) suggest to concentrate on automation and IT supporting tools, where policies, processes and controls can be connected, monitored and reviewed on a regular basis. Even if the COSO Frameworks provides a comprehensive basis, so far, a general accepted approach for control in complex multinational structures is still missing.[172] Thus, corporate groups have to develop their own company specific control frameworks.

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[169] The Chartered Institute of Internal Auditors (IIA) is a professional body focused exclusively on internal auditing. They have been active for over 70 years and unite a global community of 180,000 internal auditors globally.

[170] The IDW Standard consists out of the following seven elements: (1) compliance culture, (2) compliance targets, (3) compliance risks, (4) compliance organization, (5) compliance program, (6) compliance communication, (7) compliance steering and improvement. Seidel & Wendt (2017, p. 26) provide a comprehensive overview about each of the seven elements.

[171] Typical control categories are segregation of duties, authorization (authority levels, spending limits), physical (door entry systems, file access controls) and accounting (reconciliation) (cf. Simons, 2013; Welge & Eulerich, 2014, p. 70).

[172] For further information regarding the COSO Framework, cf. chapter 3.3.1.

Apart from adequate compliance processes, **internal audit processes** are also an important internal governance mechanism (cf. Ege, 2014; Raiborn et al., 2017). Internal auditors have an important control function for the boards. One the one hand, the corporate audit function aims on a holistic evaluation of the entire organization by standardized, group-wide audit processes and properly defined audit plans and it encourages the board within their oversight role to allocate organizational weaknesses and associated risks within the entire group. On the other hand, especially in the last years, the internal audit role has developed from a pure identification of risks to a control consultant. In some multinationals, the internal audit department is even used as training for executive candidates and other governance related key positions (cf. Albrecht, 2007; Carcello et al., 2016).[173] However, to secure the effectiveness of group internal audit processes, it requires a close group-wide collaboration between the internal, external audit, controlling functions and the audit committee (cf. Welge & Eulerich, 2014, p. 69; Ege, 2014)

Issue management processes:[174] Another important process to manage operative governance is a process that organizes, maintains and tracks the solution of issues, which have to be resolved in collaboration with different organizational units. Whereas there has to be a clear group-wide issue management process implemented, it should equally be defined as a core management task. A group-wide issue management system has to secure transparency about identified audit issues and taken management actions in the subsidiaries towards the divisional head and in severe cases even towards the parent's management board.[175]
On a subsidiary level, the local management boards are responsible for the definition of appropriate management actions to solve identified weaknesses. Moreover, there should be a regular reporting of the subsidiaries internal audit functions towards both, the local management board and the divisional head in the parent's headquarters. In any case, I outline the necessity to secure that there are no conflicts of interests for the internal audit function of the subsidiaries, if they have dual reporting obligations. Apart from that, there have to be implemented intragroup whistleblowing procedures in which every single employee has the opportunity to report governance breaches or other unlawful behaviors (cf. Ingenhoff & Röttger, 2013, p. 481). Whistleblowing mechanisms encourage the principals to overcome the problem of informational asymmetries in hierarchical organizations and they are a regulatory obligation for banks in most jurisdictions (cf. Mavrakis et al., 2017; Beim et al., 2014).

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[173] Berwanger & Kullmann (2012, p. 57) and Füss (2007, p. 62) differentiate between audit services: (1) Financial Auditing describes the formal check of the finance and accounting regarding the adequacy, correctness, and responsibility of the provided information. (2) Operational Auditing focuses on system checks and has to ensure a future orientated institutional and process-oriented structure. The overarching target is to check if the design of company processes, structures and systems is appropriate. (3) The Management Audit is responsible for the evaluation of management processes and institutions. (4) Non-audit related internal consulting.

[174] Synonyms for the term issue management are topic management or opportunity management. There are studies that debate the benefits of an issue management in multinational companies: Armbrecht & Hollweg (2001); Kuhn (2001); Kuhn et al. (2003); Ingenhoff (2013).

[175] According to Röttger (2013, p. 15 ff.) and Ingenhoff & Röttger (2013, p. 468) issue management has the following governance targets: (1) Identifying potential issues in the organization with a great necessity for management actions. (2) Understanding and prioritizing of issues to reduce costs and minimize other potential impacts. (3) Ensuring management attention for higher priority issues. (4) Taking issue related decisions at the proper level of authority. (5) Securing a clear stakeholder communication about relevant issues. (6) Implementing clear and accurate follow up processes of issues and related actions over the time to ensure progress.

In essence, an issue management system helps to predict potential risks to future performance and acts as early warning indicator of potential future problems. A group-wide issue management aims on the management processes and provides important information about the health of the organizational setup. The issue management is a central mechanism of intragroup corporate governance. It is vital to define clear responsibility, ownership and accountability for each identified issue and regular performance reviews, and sanctions are needed mechanisms for non-eliminated issues.[176] The management boards should request regular status reporting about the issue management in their organization. For that reason, adequate group-wide IT systems are beneficial with respective access rights for all mangers to identify, to assess and to consider issues within the broader strategic planning process (cf. Ingenhoff & Röttger, 2013, p. 482 ff.).

Decision-making processes: Effective decision-making is another key element of operative governance in multinational companies and it affects various levels (cf. Loorbach, 2010, p. 163 ff.). In literature, there are different technical and theoretical papers, which analyze effective consensus based on decision-making in a volatile environment.[177] In a business management driven perspective, it covers the business strategy alignment on the business unit level, multi-level collaboration for the collective strategy, cross-functional synergies and the corporate level for the general strategic direction of the company (Cf. Eisenhardt, 1999; Papadakis & Barwise, 2012). Concisely, strategy formulation means strategic decision-making and that becomes more significant in a complex and volatile business environment (cf. Chiclana et al., 2015).[178] It is a sustainable competitive advantage to make fast, widely supported and high-quality decisions on a regular basis. Especially in large organizations, good leaders interpret their role as '*making'* strategic decisions rather than *'taking'* strategic decisions and provide strategic direction. They take responsibility for the strategic decisions and lose the right to act as arbitrator if things go wrong.[179] Among others, Benson & Lawler (2016) indicate the multiple benefits of employee involvement in terms of productivity, profitability, and employee well-being.[180]

[176] The basis for an effective issue management are documented policies and procedures that secure the issue management with roles and responsibilities across all hierarchies. Ingenhoff & Röttger (2013, p. 482) point out that hereby a formal impact and prioritizing matrix, risk assessment and information of its tracking, status quo and lessons learned are essential components.

[177] Several scholars introduce technical driven approaches: the trust-based consensus model for social network in an incomplete linguistic information context of Wu et al. (2015); consensus models with utility preferences and limited budget of Gong et al. (2015) or the multi-agent fuzzy consensus model in a situation awareness framework of D'Aniello et al. (2015). Further, decision-making approaches that include both, fuzzy decision-making and consensus are introduced from e.g. Zhang et al. (2015); consensus in innovation contest categorization by means of fuzzy Partitions of Armisen et al. (2015) or the publication web tools to support decision-making in the housing market using hesitant fuzzy linguistic term sets of Montes et al. (2015).

[178] Papadakis & Barwise (2012, p. 2 ff.) outline five reasons for the importance of strategic decision-making: (1) Its scale, risk and long-term significance; (2) strategic decision-making bridges between deliberate and emergent strategy, (3) strategic decisions are an important source for organizational learning, (4) strategic-decisions are crucial in individual development (5) strategic decision-making goes across functions, divisions and academic disciplines.

[179] Vagadia (2014 p. 91) outlines that in this case the strategy and strategic decision becomes the ruler of the leaders, rather them ruling the strategy, which in turn, means that it gets even more difficult to correct strategic decisions. Leaders should concentrate on propose and make decisions without moving responsibility of the decision towards the leaders. As more important the decision is, as more the top managers should position their selves to ratify them instead of being the decision maker. Whereas this helps that people and employees get involved, it also enhances the acceptance of made decisions and raises transparency and documentation.

[180] The following studies provide evidence about the positive effects of employee involvement in the decision-making: Bosak et al. (2017); Bayraktar et al. (2017); Grawitch & Ballard (2016).

Multinational companies have to simultaneously generate profits for shareholders, while satisfying the legitimate demands of their employees and other multiple stakeholders. They have to deal with many strategic partners all over the world, which leads to additional complexity, more and sometimes even contrary stakeholder interests, which need to be coordinated, aligned and involved in the strategic decision-making processes (cf. Yin & Jamali, 2016; Banks et al., 2016). Altogether, on the one hand, within their decision-making, mangers have to overcome the pure complexity of the relevant key decision factors, the vagueness and the lack of clarity about the current and future outcomes. On the other hand, they have to deal with the volatility of the business environment and the uncertainty about the effects of potential changes (cf. Bruch & Feinberg, 2017). Kaner (2014, p. 99 ff.) suggests that a standardized decision-making process should involve consultation, collaboration, consensus building and engagement of all affected stakeholders and hierarchies.[181] Whereas this could help to get a greater picture of an improved decision-making, it could also decelerate the entire process in an inappropriate way. Nevertheless, authors outline that it is essential to understand that decisions made by a high degree of consensus and a rational standardized procedure, are key success factors for their acceptance. The decision-making procedure should be documented in detail to demonstrate a transparent rationale decision audit, and affected stakeholders should be informed about decisions taken and the reasons behind them. Based on theoretical underpinning theories for decision-making, Vagadia (2014) defines a comprehensive decision framework as follows:[182]

Characteristics of a good decision-making framework	
Facility	**Enabling role**
Decision transparency	Enabling and documenting develop responsibility and accountability for decisions amongst decision stakeholders
Decision understanding	Comprehensively examining the breadth and depth of the factors that affect the decision
Decision rationalization	Understanding rationally, decision scenarios, priorities and options
Decision implementation	Connect decision process and decision outcome
Decision process systemization	Bringing order, standardization and knowledge transfer to the process of decision-making across the organization
Decision knowledge	Creating a knowledge bank of decision analysis over time, leading to repeatable and efficient decisions across the organization
Decision focus	Focusing on the critical decision data and analysis requirements early, avoiding data paralysis and unnecessary data collection
Decision consensus	Identifying and resolving conflicts to reach consensus on decision choices across key stakeholders
Decision collaboration	Enabling focused discussion of critical issues between dispersed parties (remote in time and/or spaces)
Decision visualization	Making complex decision choices more comprehensible through graphical interpretation and representation
Decision analysis	Enabling automated and instantaneous evaluation and comparison of diverse scenario options

Table 2: Characteristics of a good decision-making framework in multinational companies.
Source: Own table based on Vagadia (2014, p. 100).

[181] Saaty (1990) and Papadakis & Barwise (2012, p.17 ff.) provide a comprehensive overview about a decision-making process. Power et al. (2015) recommend to implement in large organizations decision support systems.
[182] Vagadia (2014) refers on the Behavioral Decision Theory (cf. Slovic et al., 1977; Einhorn & Hogarth, 1981); the Game Theory from Von Neumann & Morgenstern (1944); the Theory of Games and Economic Behavior of Von Neumann & Morgenstern (2007) and the Analytic Hierarchy Process Model from Saaty (1994).

Saaty & Peniwati (2013) state that collaborative decision-making is the basis for sustainable strategic decisions.[183] This means that mangers have to aim on a balance of trust, promote dissenting opinions and commitment in their organizations. Kaner (2014, p. 99 ff.) agrees and supplements, that a culture of constructive dissent is essential and is the basis for critical evaluation of decision alternatives. He implies the need for the top management to make sure that final taken decisions have to be accepted, to be supported and implemented from everyone. Nevertheless, a prerequisite for this is that every participant has a fair and equal option to address his opinion in the decision-making process. Critics should be considered in the decision-making, and the rationale (and the reasons behind) for the final decision should be transparently explained. Whereas these approaches enable the management board to encourage divergent thinking, it also increases afterwards the acceptance for the decisions (cf. Bressen, 2007, p. 213). However, I point out, that consensus always requires a spirit of compromise and implies that the achieved decisions are somewhere ranked between the perfect agreement and total discord. Poor decisions are either in the one or in the other extreme. In a well-organized consensus-based decision-making, the outcome usually increases, and the decisions taken have a broader acceptance and better support for implementation and ensure the consideration of multiple perspectives.[184] I outline that decisions taken have to be monitored and regularly reflected and can be solely achieved by clearly defined decision-making structures and processes. Moreover, clear decision-making processes are a crucial element of the risk management (cf. Slovic et al., 2005, p. 35; Meidell & Kaarbøe, 2017). The regular examination of good practice and failures helps to further improve a consistent, efficient and effective decision-making.

Organizational alignment processes: The organizational alignment aims on the intentional congruence between targets, functions and activities among all hierarchy levels to avoid intragroup fragmentation, segregation and isolation (cf. O'Brien et al. 2019a; Meyer et al. 2011). This is a major obstacle for large organizations and is still often not well understood (cf. Friesl & Silberzahn, 2016). It determines the level to which the components of an organization are ordered and designed to facilitate the alignment of strategic objectives, the organization, organizational roles, policies and processes, management structures and metrics (cf. Frederick, 2014). The modeling of targets and suitable processes in an integrated way enhances transparency among strategic and operative layers and simplifies alignment obstacles (cf. Sousa & Do Prado Leite, 2014). In multinational organizations it is required that all members have a practical and common understanding of the corporate vision, but also of the business division they are referring to, because this defines their governance framework within the day-to-day business to a large extent.
Alignment processes start with a clear understanding about the origin purpose, the values and behaviors of the organization. Particularly a proper alignment culture, but also clearly communicated strategic group objectives of the management board, and the embedded division specific strategies are essential key drivers. This formulates the expectations of the parent's management board towards the lower ranked subsidiaries. If this should not be the case, there is a high risk that decisions taken be-

[183] An alternative approach promotes Rescher (1993), who argues that pluralism decision-making is better than consensus-based decisions. For a critical discussion of the consensus reaching models, cf. Pérez et al. (2018).
[184] Several authors argue that employee engagement is a key element of modern high performance organizations: Alfes et al. (2013); Anitha (2014); Shantz, et al. (2013).

come *'unaligned'* with the overarching group strategy, the organizational structure and its management processes (cf. Rondinelli et al., 2001). Therefore, it is essential that the subsidiaries are held responsible to align their strategies with the respective governance functions of the consolidation parent to create and to foster a group-wide understanding of how the group and division specific strategies has to be interpreted and implemented (vertical and horizontal) across the entire organization.[185] Organizational alignment requires consistency between strategic and cultural aspects of an organization. Targets have to reflect the values, and behavior should be consistent with the stated values. Statements of mission, vision and culture are worthwhile if they do not fit with the core components of the organization. The organizational alignment has to connect the entire vision, mission, strategy, culture, people, leadership and systems of the entire group to the best possible fit to safeguard value creation (cf. Hitt et al., 2016). Employees have to understand the set strategic targets of the management board and how they can be transferred into their individual actions, but this is only possible if there is an effective intragroup communication available and comprehensive information processes implemented (cf. Quirke, 2012, p. 7). I argue that the personal alignment efforts should also be a fixed component of each management evaluation. There are studies that provide evidence that there exists a positive, significant, and impactful linkage between IT governance mechanisms and strategic alignment and further, between strategic alignment and organizational performance (cf. Wu et al., 2015).

Oversight and insight processes: This oversight understanding includes all facets of oversight about what is going on across the entire organization and what measures are performed to achieve the strategic targets.[186] Oversight not only means monitoring, but also having transparency about the entire company system. A key governance responsibility of the management board is to have organizational oversight, which builds the indispensable precondition for organizational effectiveness, productivity, integrity and alignment (cf. Gast & Zanini, 2012). Despite this, in multinational organizations a balanced combination of central oversight and consistency with pre-defined group standards and enough flexibility for local adjustments is crucial. The increased complexity of organizations makes the execution of oversight more challenging and requires greater governance and oversight structures.[187] While this helps to prevent organizational failure and reduce other risks, it also contributes to overcome geographical distances and to take into account cultural differences between the home and the host country locations. A drawback of such oversight processes is often recognized as additional bureaucratically burden from the parent, even if they are also legally and regulatory required for bank entities (cf. Reinalda, 2013, p. 184; Capriglione & Casalino, 2014). Today the management boards are held responsible for proper risk governance and the assessment of the risks identified by those procedures and processes (cf. Fraser, 2016, p. 283 ff.; Viscelli et al., 2016).

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[185] Parisi (2013, p. 71 ff.) found out, the alignment processes between the board and the middle managers plays a crucial role that for the company performance and commitment of the employees'.

[186] This includes e.g. to make the moard transparent who has the authority to do what; what are those authority holders doing; what 's about the degree of strategic target achievement; what initiatives, measures and projects have been initiated and why; what is the current level of risk exposure; what is the degree of compliance with the internal policies and standards? (cf. Vagadia, 2014, p. 123).

[187] In this context refer scholars towards the ERM system and its positive effects in terms of oversight and firm performance: Al-Amri, & Davydov (2016); Callahan & Soileau (2017); Florio & Leoni (2017). In particular the study of Gates et al. (2012, p. 28 ff.) proves that a proper risk management oversight (e.g. the implementation of enterprise risk management) leads towards increased management consensus, better informed decisions, enhanced communication of risk taking and greater management accountability.

At the same time insight into what is happening and where and why it is happening is probably even more important. Harper (2015, p. 68 ff.) underlines the relevance that specific policies, processes, decisions, controls, issues, risks, etc. are aligned and adjusted towards pre-defined strategic objectives on the different levels. As several studies imply, the integration of appropriate IT systems can lead to a major source to gain competitive advantage and enhance the required insight and oversight on the organization (cf. e.g., Wu et al., 2015; Kniese & Bülchmann, 2015; Welge & Euerich, 2014, p. 70).

Information systems have developed from administrative, functionality oriented support systems to an integral part of modern management. IT governance not solely acts as a higher order capability by directing and monitoring the use of other organizational resources and capabilities, it also enables companies to act dynamically to achieve competitive advantage through exploiting opportunities created by competitive and environmental pressures. Today *Business Intelligence (BI)* and *Business Analytics (BA) systems* are appropriate supporting tools to enhance organizational knowledge culture and improve internal governance and organizational performance (cf. Ahmad & Hossain, 2018; Hiekkanen et al., 2013, p. 82). Even if BI and BA provide solid information, they still need to be set into the specific context and in the decision-making. Consequently, BA and BI can enable organizations to have a better decision-making basis and strengthen the group internal governance management.

Project governance processes: Another element to secure operational governance are clear intragroup project governance processes. Many problems exist because of too little management support, non-alignment or poor oversight; however, poor decision-making and risk management also exists in many projects (cf. Karavul, 2016). Projects usually operate along with the daily business, outside of the usual business processes and internal rules. Often projects are recognized as something special and they are not defined as an entire part of the day-to-day business. That is why often there are solely weak governance standards found for projects, resulting in additional risks, time and cost efforts. Especially in multinational organizations there exist multiple projects at the same time in different locations and different levels of complexities and interdependencies to each other and make a professional management of the project portfolio necessary. Gutiérrez & Magnusson (2014) state that rational and formal decision-making processes within the project portfolio management are often experienced as more legitimate than informal and non-rational ones. Yet, the governance function has to differentiate the project management techniques. To ensure project governance there are often implemented sub-committees who steer and advise the projects with additional expertise. Altogether, in particular the portfolio management, a project sponsor, a professional project management office and proactive project management are of great importance (cf. Too & Weaver, 2014). The Association for Project Management (APM) (2016) defines project management governance based on the project activities that are directly linked to corporate governance.[188] Effective governance of projects ensures

[188] APM (2016) defines the following key elements of effective project governance: (1) Clear defined accountabilities for resources and clear defined roles and responsibilities among different participants and a clear decision making process. (2) Implementation of an effective, transparent and understandable decision risk assessment process. (3) Implementation of a strategic project selection framework for the selection and prioritization of projects under the consideration of strategic company targets and investment. (4) Focus on managing risks and rewards in the right balance and efficient use of resources. (5) Securing of effective project reporting, progress

that the projects fit to the company strategy, are executed on time and budget and generate sustainable value. Studies regarding project governance indicate that project success in multinationals correlates with increasing stakeholder orientation of the corporate parent (cf. e.g., Joslin & Müller, 2016; Andersen et al., 2006).[189] For the sake of completeness, I outline that numerous methodologies and standards do exist to professionalize project management, but as this is not the initial focus of this dissertation, I will not go into further detail.[190]

As the debate of the last paragraphs has shown, the operative governance management in multinational organizations is challenging, complex and multidimensional. The numerous operative governance layers have to operationalize the strategic governance framework, which is primarily defined by the parent's management board. In sum, chapter 4.1 provided a comprehensive debate about the key layers of the overall intragroup governance framework. However, I emphasize that without the commitment and the support of the subsidiary boards the effectiveness of the management of those internal governance processes is limited. Thus, the following chapter 4.2 will examine the conclusive key activities to manage the intragroup corporate governance within subsidiary networks.

4.2 Subsidiary governance management

The last chapter 4.1 investigated a strategic and operational governance dimension in multinational companies to ensure a holistic group-wide governance framework and debated the different intragroup governance management instruments. In this chapter 4.2 I focus in the next step, in particular on the parent-subsidiary relationship. The subsidiary governance dimension focuses largely on how the parent can steer and manage the strategic and operational governance of their financial services subsidiaries to overcome the typical parents-subsidiary dyad and how to close the existing governance gaps.
The subchapter 3.4 has shown that there is a close alignment obligatory to minimize governance variances and the principle agent problematic within the financial services division. Principles (parents) cannot assume absolute self-interest and perfect rationality of agents (subsidiaries) but should allow them to vary. Thus, Kostova et al. (2016) explain the subsidiary-level variation through a set of internal organizational and external social conditions in which the described parent-subsidiary dyad is embedded.
Based on the earlier chapters, the following subchapters define the different governance-related focus topics to ensure proper internal governance in the subsidiaries that are expected from their parents. It helps to define and allocate the roles and to achieve a consistent approach within the execution of good intragroup corporate governance practice. Whereas this enables the parent to gain transparency

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and performance. (6) Ensuring with change management and organizational support for the change the intended benefits.

[189] Multinational groups usually rely on the required project competences '*in-house*' in the headquarters and get usually implemented by international project teams located at the headquarters location (cf. Koveshnikov et al., 2017). Chanda & Ray (2015) suggest to rethink the headquarters as the appropriate design place for projects which target on subsidiary related issues, because the headquarters staff often lacks a nuanced understanding of the micro issues in the subsidiaries.

[190] Among others, I highlight in particular the Portfolio, Programme and Project Management Maturity Model (Kwak & Ibbs, 2002; Sowden, 2008); Portfolio, Programme and Project Office (Reiss & Rayner, 2012), OGC gateway review process (Williams et al. 2010) and the Multi-factors Integration Management Method (cf. Anbang, 2002).

and the legally obliged oversight about the entire corporate group, it also encourages the subsidiaries to meet the local legal and regulatory requirements in the host country and provides the foundation to establish a certain level of group-wide minimum standards for governance.
The local subsidiary board is responsible to guarantee the subsidiary governance and is accountable for the corporate parent and local authorities (cf. Frederick, 2014). Even so, the subsidiary governance aims to close the intragroup governance incongruences.
Altogether, the core responsibilities of subsidiary boards are all activities that are related to control, strategy, coordination, and service to reduce the headquarters-subsidiary agency problem (Du et al., 2015). Moore (2015) outlines that the group-internal management of corporate governance is all about managing the entire group structure within a maze of regulatory, tax, risk and compliance obligations - locally, and also across the globe. Referring to the foregone examinations and the introduced subsidiary governance clusters of Renz & Böhrer (2012), I apply in particular six focus areas, which are the key components to achieve good subsidiary governance: **framework management, mission management, integrity management, stakeholder management, compliance and regulatory management,** as well as **governance management, risk and corporate audit management.**[191] Each of those key areas will be subject of a further debate in the upcoming paragraphs and lay the foundation for the execution of the interviews with subject matter experts and on the final development of the corporate governance management model for financial services subsidiaries.

4.2.1 Framework management

Framework management covers the question how subsidiaries can manage their business in the context of or in the multinational group system. Due to the opacity in many corporate groups arising out of the huge number of different subsidiaries, the framework management addresses the holistic understanding of the multinational group, its environment, the stakeholder groups, different interests and resources. [192] Distance affects the effectiveness of the headquarters network management capabilities by affecting headquarters-subsidiary interaction and, consequently, shaping headquarters knowledgeability about the subsidiaries' operations (cf. Mykhaylenko et al., 2017). Accordingly, an extensive governance framework is fundamental and supports a deeper systematic understanding of the subsidiary context. While this increases organizational transparency, it also creates a better understanding of

[191] Several authors outline the relevance of '*framework management*': Taggart (1997); Rugman & Verbeke (2001); Meyer & Estrin (2014); Phelps & Fuller (2016). Several authors use the term '*mission management*': Strikwerda (2003); Cornforth & Spear (2010); Renz & Böhrer (2012); Palmié et al. (2014). Several authors outline the relevance of '*integrity*' in this context: Jones (2017); Yasui (2016); Kumar & Gammelgaard (2016); Moore (2015). Several authors outline the relevance of '*stakeholder management*': Ackermann & Eden (2011); Crilly (2011); Jensen & Sandström (2011); Renz & Böhrer (2012); Frederick (2014); Benn et al. (2016); Loi (2016). Several authors outline the relevance of '*compliance and regulatory management*': Weber (2016); Moore (2015); Boella et al. (2014); Yovev (2014), Renz & Böhrer (2012). Several authors outline the relevance of '*governance management*': Otremba (2016); Moore (2015); Welge & Eulerich (2014, p. 227 ff.); Frederick (2014). Others outline the relevance of '*risk management*': Rüstmann (2017); Frederick (2014); Kajüter (2014, p. 251 ff.). Renz & Böhrer (2012). Again others outline the necessity of '*corporate audit management*': Sunderland & Trompeter (2017); Alessandra et al. (2016). Marks & Fox (2015); Chambers & Odar (2015); Frederick (2014); Renz & Böhrer (2012).
[192] The St. Galler Management Model provides a solid foundation for the overall framework: The model differentiates between the nominative, strategic and operative management and incorporates stakeholder groups and other environmental factors of the company. Moreover, it considers the interaction topics like values or norms. For further information, cf. Hoffmann et al. (2016); Rüegg-Stürm (2002; 2004, p. 65 ff.); Rüegg-Stürm & Grand (2015); Gassmann et al. (2013).

the roles, interests, and dependencies of the different actors within the entire group. On the one hand, a subsidiary is part of a local system, which is influenced by the country, its culture, market system, legal and regulatory environment, local competitors etc. (cf. Paul & Steiner, 2013). Nevertheless, on the other hand, a subsidiary is also part of a multinational group system with its company specific self-statutory internal rules, processes, values, company cultures etc. that also have to be taken into account. In essence, systems consist out of several sub-systems, and having transparency about those relationships is a prerequisite for good governance. Target orientated subsidiary governance means that mangers apply the group specific system knowledge to position the subsidiary in this system, combined with the flexibility needed for an optimal adaption to local market conditions while allowing the group to attain its strategic goals. [193] However, this means in turn that the parent company requires transparency about individual subsidiary roles to secure global alignment to reach the joint overarching strategic objectives. Egelhoff & Wolf (2017) highlight, that at one time, the parent must hierarchically lead the subsidiary network, but at other times, it also has to assume a more passive, facilitative role that allows direct interaction and decision-making among the subunits to coordinate intragroup interdependencies. I outline that an extensive framework understanding is an imperative prerequisite to design effective target level agreements for the subsidiaries. A good framework management requires regular exchange between the parent and the subsidiaries, aiming to create a common target picture. As prior research has already acknowledged, the interaction-based coordination and target definition between the subsidiaries and headquarters is most effective (cf. Friesl & Silberzahn, 2016).
I argue that the key enabler to achieve an extensive intragroup framework management is clarity about the **subsidiary business model,** oversight about **dependencies and relations** and transparency about local **legal and regulatory structures and requirements**. Moreover, **group wide systemic processes, systemic structured oriented thinking**, combined with clear separation of the **core competencies** between the parent and the subsidiaries, and consensus about the leadership role helps to strengthen the framework management. For that reason, each of those sub-topics, paying into the entire framework management, are discussed within the following paragraphs.

Subsidiary business model: Every subsidiary requires an own business model that describes the business approach within the group context to secure an aligned value creation (cf. Andersson et al., 2015).[194] For example, financial services subsidiaries in automotive groups have to support vehicle sales, ensure low cost funding for the group and provide financial services for the car buyers (cf. Haecker & Stenner, 2015, p. 79 ff.). Yet, this requires that the managers on every hierarchy level understand the groups' business model on the one hand, and the consequences for the local subsidiary on the other hand. Nevertheless, according to Christensen et al. (2016), many executives do not have enough in-depth understanding how business models develop through predictable stages over times. Moreover, many local MDs or FDs in the subsidiaries do not have the required experiences in e.g.

[193] The study results of Ahworegba (2017) provide evidence that foreign subsidiaries are only successful if they can modify the pre-defined policies from the multinational group towards the host country specific business environment. The study highlights that multinational groups manage local specifics by combining the different elements of their home and host country environments.
[194] Osterwalder & Pigneur (2013) concrete the required elements of a business model. They found that a comprehensive business model should always exist at least out of customer segments, the value proposition for customers, sales channels, customer relationship, revenue streams, cost structures, key resources, key activities and key partners.

strategic decision-making as they are often sent abroad by the headquarters in which different job characteristics are required. This builds the fundament that employees can put processes, structures, the role of other departments and functions as well as their own actions in a group-wide context. In essence, the business model of subsidiaries usually follows the system or is at least system orientated.[195] There exists clear evidence that subsidiaries of business groups with a clear subsidiary specific business model perform better (cf. Gaur et al., 2016). Consequently, it is essential for multinational groups to define a clear competence scope between the parent and its local subsidiaries. This posits a key subsidiary dilemma to interacting in this field of tension considering all group internal and external dependencies, but also makes a clear subsidiary specific business model to an even more crucial element of the intragroup governance management (cf. Reilly & Scott, 2016).

Dependencies and relations: Multinational groups have to deal with complex internal and external stakeholder frameworks, with different direct and indirect relations and dependencies, which in turn influence the interaction, information flow, capital flow and provided services (cf. Kostova et al., 2016; Gammelgaard et al., 2012; Schotter & Beamish, 2011a; 2011b; Freeman, 2010, p. 53 f.). I outline that to ensure efficient supply chain management, it is important to manage processes and the internal and external networks in a holistic and systematic way. Of course, there is no doubt that some dependencies can be better influenced and controlled compared to others. Another challenge is, that the earlier mentioned duality of multiple intragroup and external interdependencies still exist, which have to be properly coordinated. Financial services subsidiaries act on the one hand as a sales supporter for the national sales subsidiaries, on the other hand they are also responsible for the re-financing of the entire group (cf. Stenner, 2015, p. 1 ff.). It is a basic prerequisite that the boards have transparency about this system of dependencies and relationships to manage, review and optimize them on a regular basis (cf. Geppert & Dörrenbächer, 2011). Opacity within the different dependencies and relations leads to an incalculable risk potential for the entire group and it is a crucial element of a group-wide risk management. While complex systems result in greater flexibility on the one hand, they end up in a more complex and difficult monitoring in the corporate parents on the other hand (cf. Schotter & Beamish, 2011a). To achieve flexibility and local responsiveness, many multinational groups decentralized their organizational structures and transferred competencies to their subsidiaries (cf. Holm et al., 2015, p. 245 ff.; Geppert & Dörrenbächer, 2011.; Kreikebaum, 1998, p. 147 ff.). There exists evidence that a greater subsidiary autonomy increases inter-organizational relationships and improves the performance of subsidiary inter-organizational relationships (cf. Gammelgaard et al., 2012).

Legal and regulatory governance requirements: Multinationals have to manage multiple legal and regulatory requirements in the different locations where subsidiaries are officially registered (cf. Madhani, 2015b). However, transparency about the local legal and regulatory requirements is a crucial prerequisite regarding the setup of management and supervisory bodies in the different local legal

[195] Gassmann et al. (2013) provide a comprehensive overview about 55 different innovative business models. Further, referring on the St. Galler Management Model, I interpret the system orientation in a way that the business environment has to be involved in the entire business model development. This ensures positive network effects, because it helps to identify synergy effects, complementary actors and safeguards a group-wide holistic alignment towards the business environment and changes in customer requirements (cf. Meyer et al., 2011).

entities (e.g.one tier versus two tier board systems) (cf. Fiechter et al., 2011, p. 7 ff.). As debated earlier, most countries have special regulatory requirements for either bank managers (e.g. fit and proper tests of local authorities), key governance functions or for the board structures (e.g. bank entities require at least a CEO, CFO and CRO). Thus, Frederick (2014, p. 21) recommends to implement governance tracking systems of bank subsidiaries and Beresford-Wood & Buringa (2018) outline the need for intragroup board portals to monitor the multiple governance requirements.
In addition, it is critical to take potential business limitations into account regarding the local business license of the subsidiary (e.g. banking license, leasing license, banking intermediary, loans vs. deposit business, insurance business) and its consequence for the local offered product portfolio (cf. McCoy, 2015). The different financial services business models determine different governance structures and practices. A decentralized business model requires more independent and autonomous board structures, local governance and risk functions, local decision-making competences and market strategies (cf. Frederick, 2014, p. 17). There is no doubt that no single governance approach can adequately cover the different legal and regulatory requirements of each country.
Closely related to the regulatory requirements in many countries is the handling and the potential limitations of outsourcing activities (e.g. IT) towards other subsidiaries, shared service centers, functions in the headquarters or even towards external third party providers (cf. McCahery & de Roode, 2018; Zakierski, 2015).[196] There are gaps in most governance arrangements and financial institutes mainly rely on their own internal monitoring efforts (cf. McCahery & de Roode, 2018). Thus, I underline the necessity to have clarity about the locally required legal and regulatory requirements and the allowed business scope of the hold business license in the host country.

Core competences:[197] In essence, the source of competitive advantage for contemporary multinational groups is their ability to leverage distinct competencies among their subsidiaries (cf. Dimitratos et al., 2014). There are various classifications of generic subsidiary strategies or roles in multiple contexts, which have to be coordinated (cf. Morschett et al., 2015, p. 55). Especially the environment of the automotive industry is changing drastically and leads to fundamental changes of the traditional OEM business models and their traditionally built up core competencies (cf. Komplalla et al., 2017). Thus, the creation, group-wide alignment and management of strengths and core competencies are a core management responsibility (cf. Reid, 2015). To manage such complexities, subsidiaries allow the corporate groups to tap into many local systems of innovation to access diverse knowledge bases and integrate them in the creation of new competencies. In essence, core competencies are the special skills of the group to create success drivers and therefore also the overall competitiveness (cf. Slack, 2015; Dimitratos et al., 2014).

[196] Schoofs (2015, p. 45 ff.) outlines that it is obligatory to have a local provider management, which monitors service level agreements and any local legal and regulatory outsourcing restrictions for strong regulated bank entities. For example, in Germany are entities with a full bank license not allowed to outsource risk management, internal audit or the compliance function towards a third party (e.g. parent company) (cf. Schoofs, 2015; Dreher, 2015).
[197] Criteria for core competences are valuable (core competences increase efficiency, effectiveness, customer benefit and success), rare (core competences differentiate from other competitors), inimitable (core competences provide a clear edge), not substitutable (core competences cannot be replaced with similar skills) (cf. Barney, 1991; Fearns, 2013, p. 35 ff.; Marquardt, 2013, p. 31).

As Hilb (2001) accurately describes, there is great importance that both, the parent's and local subsidiary boards, should regularly identify and monitor the important internal finance, market, environmental and HR related strengths and weaknesses of their organization. Clarity about the core competencies define tasks and is therefore closely linked to the subsidiary's role within the multinational group and on top of this, it is a mandatory prerequisite to define subsidiary specific strategies (cf. Morschett et al., 2015).[198]

Systemic thinking: Systemic thinking defines the ability to solve challenges in a systemic manner and a structured approach including group-internal stakeholder alignment and taking into account different opinions (cf. Bieger, 2012; Schumacher & Rüegg-Stürm, 2012, p. 4).[199] A common agreed systemic thinking has to be encouraged independently of any intragroup hierarchy level, because it builds the fundament of the design and implementation for the entire corporate group system (cf. Giachetti, 2016). Additionally it needs to be considered that network thinking is another necessity for managing a subsidiary organization. In bank subsidiaries, this plays an even more crucial role, as this lays the foundation to secure a holistic identification and evaluation of systemic risks in the consolidation parent within the bank subsidiary network (cf. Frederick, 2014).
While there is no doubt that a network or systemic thinking culture helps to reduce complexity and increases organizational alignment, it is impossible to implement it in a short term (cf. Kirchhof, 2013, p. 38). In a long-term perspective it supports the entrepreneurial thinking, ensures a better identification of market potentials and contributes to achieve the joint group targets of the parent (cf. Baumfeld et al., 2014). For that reason, many corporate groups implement the scenario planning as management instrument to enhance the network and systemic thinking within the strategy processes (cf. Von Reibnitz, 2013, p. 22).

Systemic processes: As equivalent of the systemic thinking, the intragroup process landscapes also have to be designed in the same systematic approach (cf. Kirchhof, 2013, p. 38). Effective subsidiary governance is only possible to achieve if there are uniform organizational structures and processes implemented to a certain extent.[200] Clear processes and standardized process maps are crucial intragroup governance mechanisms and entire parts of the group-wide risk management system (cf. Rahimi, 2016).[201] Vom Brocke & Mendling (2018) make clear that it is the prerequisite for companies to master digital transformation and innovate their business models. Moreover, it is a prerequisite for

[198] Morschett et al. (2015, p. 56) describes the role of subsidiaries along the following different dimensions: The external context of the subsidiary (e.g. the relevance of the host country or complexity of the environment); the internal context of the subsidiary (e.g. the strategic orientation of the multinational group, local level of resources or competences of the subsidiary), coordination variables (e.g. level of autonomy), the strategy or task of the subsidiary (e.g. motive for the subsidiary establishment, internal or external sales, products offered, knowledge in- and outflow).

[199] According to Ulrich (2001) is systemic thinking characterized by the following elements: Holistic thinking in open systems, analytical and synthetic thinking, thinking in cycle processes, thinking in structures and information transforming processes, interdisciplinary and practical thinking.

[200] Hausner (2014, p. 369 ff.) suggests a guideline for the development of a standard organization model and debates implementation challenges in subsidiaries.

[201] A proper business process management (BMP) ensures a continuously enhancing subsidiary governance and maximizes the structures to a maximum extent and ensures enough flexibility for individual adoption (cf. Vukšić et al., 2013). Also, Dijkman et al. (2016) provide evidence that a higher BPM maturity leads to better process and firm performance.

group internal control and coordination of the affiliated companies. It is relevant to consider dependencies and relations and to illustrate how the business model is embedded in the business environment. Buckley & Carter (2016) explain, that the latest management literature interprets aligned and systematic business processes as team entrepreneurship to underline that they act on behalf of their internal '*customers'* (namely the organizational members). In global subsidiary networks, it is essential to implement alignment and feedback loops in the processes to safeguard a close intragroup collaboration (cf. Reilly & Scott, 2016). Contrarily, standardized processes may also hinder the agility and innovation capacity and support the inertia within the group due to bureaucratic and time-consuming processes. However, I find that the advantages of a certain process standardization clearly overweight, as in large organizations there is no other way to ensure organizational alignment, transparency and accountabilities – but also operational efficiency and effectiveness. In sum, the existence of functional systematic processes and '*target operating model'* implies increased efficiency and a better collaboration between the different functions towards a better resource allocation.

Altogether, there is the great necessity that managers focus on those above-mentioned focus topics in their respective context (cf. Renz & Böhrer, 2012, p. 28). In recent years, many multinational organizations encouraged their management teams to design and implement business continuity strategies to minimize the mishandling of an internal crisis and build organizational resilience (cf. Adamou, 2014). Even so, systemic thinking can only be achieved, if it is continuously demanded, challenged and promoted by the senior management. While the local management bodies have to understand the group framework and how to influence group initiatives in a proactive and continuous approach, the parent's management body is responsible for defining the overall strategic direction and ensuring alignment of the subsidiary network as a whole. Thus, the management bodies have to understand that this is an ongoing and never-ending process, and that they have to ensure that this self-understanding is properly communicated and continuously deepened to ensure the further intragroup development (Kostova et al., 2016b).
The framework understanding provides the basis for subsidiary governance. However, as the following discussion will illustrate, this has to be completed with an adequate mission management to be effective.

4.2.2 Mission management

The mission management covers the triangle of strategy, structure and culture as interface between corporate parent and the subsidiary organization.[202] The mission management sets the overall regulatory boundaries for the subsidiaries and its elements are based on the St. Gallen Management Model. In essence, the mission management is responsible for establishing group internal borders to secure the group-wide alignment and interaction to reach the overarching group objectives. Although the subsidiaries are an integral part of a multinational group, their interests do not necessarily converge with those of their parent. Gammelgaard & Kumar (2016) aptly describe the relationship with the simulta-

[202] The triangle interaction between the dimension´s strategy, structure and culture are often used structures within the management research for the assessment of business interrelations: Alvesson & Sveningsson (2015, p. 14); Probst (2013); Seghezzi et al. (2013); Bleicher (1992); Sattelberger (1996).

neous presence of cooperation and competition. On the one hand, subsidiaries and its senior managers are dependent on the parent's resources to fulfill their mandate. On the other hand, the subsidiaries and its managers have their own particular objectives, which may or may not coincide with the objectives of the corporate parent. This is challenging and can be a dilemma for the involved managers to act in this field of tension. Consequently, I argue that the individual mission of each subsidiary must be clearly predefined by the corporate parent. While a common group strategy of the parent provides guidance about the common objectives, it also has to secure their achievement with suitable organizational and operational structures, which are necessary for the coordination. It is essential to have joint values and common understanding as entire part of a common group-wide corporate culture.

However, in case of subsidiary governance this triangle can be assessed by the following issues: **subsidiary specific strategies,** steering and monitoring of the subsidiaries with a comprehensive **KPI system**, aligned **operative and organizational subsidiary structures**, professional subsidiary **board structures** and nomination procedure of respective **key persons**. As the following paragraphs illustrate, it also includes a professional **succession planning** and the appropriate management awareness regarding their role for sharpening a common **corporate culture**.

Subsidiary specific strategy: As a part of a multinational group, subsidiaries operate in distinct host countries and have to manage their external context locally (cf. Klopf & Nell, 2018). It is important to have a group-wide strategy that serves as an umbrella and defines how the multinational group should be internally organized and externally positioned in the market. The parent should be engaged in subsidiaries' strategy-making processes, as this provides a combination of formal direction for global efficiencies and autonomy for effective local responses (cf. Andersen et al., 2015). It is critical to determine, which qualifications and resources have to be allocated in the corporate parent and which should be executed or transferred towards a subsidiary.[203] Simultaneously, it is vital to analyze which additional resources need to be acquired via business partnerships, company mergers or acquisitions. In most cases, the local strategy process is pretended by the parent and is characterized by both, a combination of formal direction for global efficiencies and autonomy for effective local responses.[204] While strategic guidance from the corporate parent ensures that subsidiary decisions are aligned with the overarching group priorities and a distributed decision power - coupled with informal exchange of information – it facilitates strategic responses in line with local market requirements (cf. Andersen et al., 2015). Parent managers usually favor the autonomy of local subsidiaries due to their local market understanding (De Jong & Van Vo, 2019). Thus, many parent companies develop strategy tool kits under the umbrella of the group strategy, where subsidiaries can choose the elements, which fit best for their specific situation and, if needed, supplement them with additional elements (cf. Kotler et al., 2016). Nonetheless, a close interaction within the entire strategy process is required and local boards

[203] A typical example is the Sony Corporation: Sony was one of the first multinational groups, which implemented a high degree of independency towards their subsidiaries to increase flexibility and market specific strategies around the world. In the management literature is this approach often defined as *'local globalization'* (cf. Roost, 2008, p. 75).

[204] Hollensen & Schimmelpfennig (2014, p. 36) use in this context the terminology *'glocal'*: They argue that multinational groups have to ensure that there is the right mix between global standardization (e.g. to reduce complexities, realization of economy of scale effects, global brand perception) and localization (e.g. consideration of local cultural and customer specifics, regionalization of products etc.).

have to deliver essential input to secure that the developed group strategy on higher levels of the group is sound and practical for the subsidiaries. In mixed group structures with different types of subsidiaries and business models, division specific strategies are also of great importance. I conclude that the strategic planning procedure is a crucial steering and control instrument for the parent, even if the subsidiaries have a large extent of decision-making autonomy. Even so, as studies illustrate, it is most beneficial to follow a more collaborative approach within the strategy process and to execute regular local strategy reviews (cf. Verbeke et al., 2016; Matolcsy & Wakefield, 2017). At its core, activity sharing within the corporate strategies, low cost competitive strategies, and higher internal integration, lead to greater degrees of control of wholly owned foreign subsidiaries (cf. Matolcsy & Wakefield, 2017).

Subsidiary specific key performance measures: Parents combine multiple mechanisms, such as planning, standardized procedures and intragroup trainings to control their subsidiary networks (cf. Sageder & Feldbauer-Durstmüller, 2018; Harzing & Sorge, 2003). Issues like the financial management, refinancing and budgeting of subsidiaries are an important task of the corporate parent and require appropriate KPIs. Thus, there are required planning and performance management systems, which incorporate both, local specific and central defined KPIs (cf. Schäffer et al., 2010). In a group context particularly investment controlling plays a key role for the control of subsidiary networks (cf. Paul, 2013, p. 1 ff.). Even so, the intragroup financial reporting, which is primarily based on local requirements, can be also a major obstacle in a global organization. Appropriate group-wide IT systems are required, which have to increase cross-border convergence among the subsidiary controlling and have to help overcome the obstacle of aligning local controlling specifics (e.g. for taxation, accounting etc.) (cf. Hoffjan & Endenich, 2016). For that reason, regular intragroup as-is analysis, management reporting and forecasting procedures are required. While the KPIs should cover different dimensions that allow differentiation from other competitors, they also have to provide information about potential risks and their probability of occurrences to support the holistic group-wide risk management.[205] Especially for financial services subsidiaries of OEMs such KPIs should reflect the interrelations towards the other (car sales) subsidiaries in the group network.

In addition, I argue that customized KPI systems strengthen the individual responsibility of the subsidiaries and decentral organized controlling units enable them to execute their own target monitoring. Renz & Böhrer (2012, p. 31) clarify that subsidiary control provides necessary guidance for the local subsidiaries to achieve a better performance. KPIs are an effective and efficient instrument to regulate, manage and monitor the governance of subsidiary networks, even if there are also governance topics that are not possible to reflect properly in KPIs.[206] However, controlling lays the foundation for external group reporting, but also internally for a better information basis within the decision-making, comprehensive board reporting, and provides relevant information for the group-wide risk management (cf. Reichmann et al., 2017; Vanini, 2016; Becker & Ulrich, 2016).

[205] Typical dimensions could be i.e. customers, personal or financing. Potential KPIs could be number of new customers, number of contracts, retention rates, fluctuation rate, asset debt ratios, residual values, cross-selling rations etc. A comprehensive overview about further KPIs for the automotive and banking industry are provided from Losbichler et al. (2015, p. 382 ff. and 507 ff.).

[206] Schäffer et al. (2010, p. 310) recommend the implementation of an additional balance scorecard, which covers at least KPIs regarding financials, customers, processes, innovation, employees.

Subsidiary operational and organizational structure: Intragroup competence creation is only possible if there is an appropriate balance between internal and external embeddedness ensured among the foreign subsidiaries (cf. Narula, 2017). Appropriate structures and processes are a prerequisite to coordinate and manage internal resources to ensure an efficient and target orientated value creation. Clearly defined organizational and operational structures are of central importance for the management of subsidiary governance in multinational groups (cf. Reilly & Scott, 2016). Globally acting organizations require joint values and predefined management structures to secure the integration of the subsidiary structures within a preset group landscape and close collaboration (cf. Fink & Hartmann, 2009, p. 5). This forms the foundation to ensure oversight and organizational transparency on the one hand, and intragroup harmonization on the other hand.[207] Particularly bank subsidiaries are highly diverse and intensely affected by external regulation which makes a simple one-size fits all approach impossible or only possible on a comparatively high level (cf. Frederick, 2014, p. 13 f.). Subsequently, the already mentioned transnational approach, that combines the efficiency of global organizational structures with flexibility for local adoption of local specifics, is more favorable. However, also in that case, it is challenging to find the right balance between centralization for synergy effects and localization for local responsiveness (cf. Müller-Stewens & Brauer, 2009; Bouquet et al., 2016). In essence, it is important to create structures and processes that promote trust and delegation as well as enough supervision for the corporate parent (cf. Paliszkiewicz, 2011). As change is a usual practice, the organizational structures have to be flexible enough to adopt them on time. Parents, that are able to transfer those principles into their subsidiary structures, are more flexible and innovative (cf. Bouquet et al., 2016).

Subsidiary board role and supervision: Another essential part are subsidiary boards (cf. Du et al., 2015). To comply with host countries' legal and regulatory requirements, in many cases parents setup legal entities that only exist on paper (cf. Fatehi & Choi, 2019a; 2019b). While the local MD and FD, out of a local perspective, are the legal representatives of an independent entity, out of a group perspective they are the official representatives that have to represent the interests of the parent company. The success and effectiveness of the local subsidiary depends largely on the local management board members. Even if the individual role of the subsidiary boards differs in each corporate group, they are usually held responsible for the subsidiary control, strategy, coordination, and service (cf. Du et al., 2015). We can generally conclude that subsidiary boards are in practice often more passive to ensure compliance with local legal and regulatory requirements (cf. Du et al., 2011). Even so, there are also active subsidiary boards, which are actively involved in the strategy setting process and follow a local specific market approach.[208] Altogether, there is no general impact direction recognized and some multinationals also apply a mixed approach, depending on the strategic relevance of the market or their local market experiences (cf. Böhrer, 2011).

[207] The implementation in an consistent way is time consuming and complex, as there are multiple influencing determinates (e.g. company size, business model, industry, product characteristic, business and banking regulation etc.) that limit the design variations of the local subsidiary setups (cf. Böhrer, 2010; Alwert et al., 2009, Andresen & Gronau, 2005).

[208] A study of Du et al. (2011) across 83 subsidiaries in 14 different countries highlights that a foreign subsidiary is more likely to maintain an active board if it is a world mandate subsidiary. Particularly, if it has worldwide responsibility for a product line and performs a broad scope of value-added activities, if it is larger relative to the multinational enterprise, if it has a higher level of local responsiveness, and if its past performance is poorer.

In financial services subsidiaries, the local boards play a fundamental role for good corporate governance (cf. Yasui, 2016). Since the financial crisis, many bank regulators favor greater board autonomy, but independence of the subsidiary boards can be a dilemma for the corporate parent, the subsidiary as well as the supervisors itself (cf. Frederick, 2014, p. 15).[209] There has to be clarity about local required subsidiary board sub-committees and procedures for the regular board evaluation. I summarize that it is central that the corporate parent defines requirements for the allocation, expectations and responsibilities of the local subsidiary boards. Thus, to mitigate governance gaps, there should be defined mandatory bylaws for each board committee as well as for the sub-committees. It has to be determined whether members of the corporate parent must be in the local boards, if there are other stakeholder representatives in the subsidiary boards, and how the subsidiary boards communicate between each other and towards the corporate parent. Even if personal interlocking relationship within corporate groups are common practice and can be beneficial, it seems questionable how such directors should secure an independent and objective control if e.g. their personal career or variable bonus may depend on certain decisions which he has to take as director.
I outline that an effective subsidiary supervision further includes that there are regular reviews of the subsidiaries' operational and organizational structures to reduce complexity, opacity and mitigate the probability for organizational failure. At the same time, regular board meetings should be arranged (at least four per year) to communicate, discuss and align subsidiary specific topics (cf. Ruhwedel, 2012, p. 13).

Key persons: Governance key function holders (e.g. MD, FD, chief risk officer, head of internal audit, head of compliance) or also leading specialists (e.g. IT experts, R&D experts) can be key persons for a company. Companies have to carefully recruit such talents regarding their skills and their company specific strategic fit (cf. Lakshman & Jiang, 2016).[210] The perfect fit for the individual subsidiary varies and depends on the local culture, subsidiary size, stage of the local organization development, business scope, external factors (e.g. regulation requirements) and the desired position (cf. Wegerich, 2015). Since the recent financial crises, many regulators implemented *'fit and proper tests'* for senior management positions in financial institutes to evaluate their professional suitability and integrity for those positions. In many markets the local supervisory authorities have to give their approval for the nomination of new managers, which can be challenging for corporate groups in which the local management is usually send as expatriate without the obligatory local market experience (cf. Paetzmann & Schöning, 2014; Finesi, 2015). It is from great importance, that the diverse (local specific) stakeholder needs are considered within the nomination process of key persons on subsidiary level. In general, a greater subsidiary autonomy within the human resources management is associated with a better subsidiary performance (cf. Lazarova et al., 2017). Williams & Lee (2016) argue that establishing a participative climate within the subsidiary enhances both knowledge in and outflows at the level of the subsidiary. Multinational groups comprise a geographically dispersed and culturally differentiated

[209] For further information cf. chapter 3.4
[210] According to the study of Lakshman & Jiang (2016) multinational companies prefer parent country nationalities for key positions. They provide evidence that that size of operations in the subsidiary, mode of entry, knowledge transfer, and talent development requirements are key determinants of the choice between parent country nationalities and host country nationalities.

workforce that embodies both firm-specific and location-specific human capital (cf. Morris et al., 2016). Talents should be identified and developed in special group-wide leadership programs and consider employees from the headquarters and local subsidiaries (cf. Fink & Hartmann, 2009). While most multinational groups naturally follow a top-down approach for managing leadership development, there is also the necessity to find the right balance between a top-down and bottom up approach (cf. Evans et al., 2016). Singh et al. (2019) found evidence that cultural friction, arising due to a large share of home country managers in culturally distant locations, has a negative effect on subsidiary performance. In any case, it is essential that there is transparency about the required governance key functions and their group-internal but also group external requirements in the subsidiaries to secure a target-oriented HR recruiting. To create value and reflect the diverse cultural backgrounds, the perfect combination of different personal profiles is challenging but also a crucial success factor for the subsidiary governance.

Succession planning: Succession planning is an essential key element for every organization to safeguard its future and consists of developing a plan for individuals who might fill key functions if they are vacant (cf. Ballhausen, 2015, p. 93; Evans et al., 2016). Watson et al. (2015) also make clear that in a bank governance perspective an increased attention should rely on the depth of executive-level succession planning. Local key persons play an important role for the organization, because of their professional experience and corporate insights that are often a key driver to ensure business continuity. As legal representatives of the subsidiary, in particular the members of the subsidiary's management body (mostly the MD and FD) require an increased awareness within the succession planning (cf. Kobi, 2012, p. 73). Not solely due to the ever tighter personal requirements in many markets, but also due to the fact that those functions require outstanding management and leadership skills, which further implies the relevance for long-term orientated intra-group leadership and talent management programs.[211] At the same, such programs provide a crucial contribution for the intragroup knowledge storage and support the earlier mentioned systemic network approach.[212] On the contrary, I outline that the required executive knowledge for the management of a subsidiary is largely based on implicit knowledge of the local key persons, develops over time and is challenging to teach in standardized program formats. Despite this, those skills have to be transferred to younger executive candidates, which will succeed the key persons in future.[213] For multinationals leadership continuity with managers who can operate effectively in various cultural contexts gets increasingly important (cf. e.g. Sharma & Sengupta, 2018). Optimal succession planning periods are between 3-5 years, and a systematic succession planning for key positions should always be recognized as a clear management responsibility (cf. Stracke & Wilke, 2016, p. 181 f.; Rompelberg, 1997; Goodwin & Graebe, 2017; Wala & Miklavc, 2007, p. 5 f.).

[211] Talent and leadership programs are important to provide guidance, introduction in future responsibilities, corporate values and commits high potentials in a long-term perspective to the company (cf. Kunz, 2013, p. 11 ff.; Walsh, 2013).

[212] For further information, cf. chapter 4.2.1.

[213] There are also studies, which underline the positive effect of a systematic succession planning. For example Furkel (2004, p. 10 f.) investigated 110 European companies and found that companies which focus on a systematic succession planning have a better performance. Other studies provide similar results: James Kehinde et al. (2012); Rothwell (2011); Heinen & O'Neill (2004, p. 67).

Creation of a common corporate culture: There is broad consensus that a common corporate culture is essential, but also challenging to create among the different subsidiary locations with own subcultures. Thus, the corporate culture can be only limitedly influenced and controlled among distance between the different locations of the subsidiaries (cf. Moore, 2015).[214] Godiwalla (2016) provides evidence, that host country national culture of a foreign subsidiary unit has a major impact upon the unit's organizational culture and cross-cultural communications and negotiation styles. At the same time, national culture does create a major barrier to the transfer best practices from the parent's headquarters to its foreign subsidiaries (cf. Tallaki & Bracci, 2017). Even so, many authors pronounce the pivotal role of a common cultural understanding and indicate positive effects on the subsidiary performance (cf. e.g., Bhatti et al., 2016; Farah et al., 2016; Fang et al., 2010; Colakoglu & Caligiuri, 2008; Delios & Beamish, 2001). Thus, common corporate core values should be jointly developed, have to be regularly communicated and strengthened via reciprocal on-site visits to secure that those agreed corporate values are visible and lived. Evidence exists that a strong subsidiary's entrepreneurial culture strengthens the effect of headquarters knowledge transfer on its capabilities (cf. Li & Lee, 2015).
The existence of various sub-cultures across subsidiaries requires the working in inter-disciplinary teams, in which a global mindset culture with joint corporate core values and norms is necessary. This requires the support by the boards, and it needs structures and processes for global alignment, coordination and the infrastructure for global communication (cf. Henson, 2016). Harzing & Pudelko (2014) and Chan & Holbert (2001) supplement that it has to be fostered by regular assessments, short-term assignments for employees and regular job rotations to encourage the creation of a global mindset culture and to dispel the assumption regarding the parent's headquarters as the '*single center of competence.*' In addition, a global talent pool and appropriate rewards for employees with a global mindset should be supportive.
Nonetheless, senior managers of the corporate parent should create a minimum homogeneity and feeling of togetherness among the group as a whole. Bhatti et al. (2016) point out that the manager's experiential learning advances the subsidiary's knowledge, helps to improve trust in the group network relationships and contributes to identify new business opportunities which altogether leads to a better corporate performance. While appropriate expatriate exchange programs can strengthen this, they also sharpen a common culture and support the intra-group knowledge exchange (cf. Berry, 2015). On a contrary, Tao et al. (2016) state, that the level of subsidiary autonomy is reduced if the number of expatriates increases.
Apart from that, many parents use double mandates to secure their influence in subsidiaries (cf. Holle, 2015, p. 212 f). On the one hand, this also strengthens the cultural and knowledge transfer, but on the other hand, potential interest conflicts and cultural differences have to be discussed transparently and openly.
In sum, a common group-wide business culture defines the boundaries for subsidiary sub-cultures or the accepted risk-taking behavior and joint leadership principles help to guide the subsidiary's leader-

[214] The dimensions of company cultures are future orientation vs. past orientation, culture of mistrust vs. trust culture, efficiency orientation vs. effectiveness orientation, centralistic vs. federalist, contextual adoption vs. identity development, consensus orientation vs. confrontation orientation, cf. Hilb (2001); Bleicher (1990); Gomez & Zimmermann (1993). Deal & Kennedy (2000) differentiate between four company culture types: *'all or nothing'* culture (risk orientation), hard-working and pleasant celebration (turbulent, grasping outside orientation), analytical project culture, process culture.

ship teams (cf. Volkens & Bosse, 2017; Meyer, et al., 2011). I highlight that the promotion of strong sub-cultures in subsidiaries is equally important and assists to better adopt local characteristics or specifics of the business models. So said, as the upcoming debate implies, this has to be supplemented with an adequate consideration of integrity among all hierarchy levels to be successful in the long-term.

4.2.3 Integrity management

As shown in the prior debate, nowadays organizations pay ever more emphasis on ethics, integrity and other best practices for good business conduct as a crucial element of corporate governance (cf. Hoekstra, 2016; Fotaki et al., 2019). Since the last financial crisis, regulators have increased their attention towards the impact of those mechanisms within organizations (cf. Soltani & Maupetit, 2015). It is not only expected of managers to act in compliance with existing rules and regulations, but rather to even go beyond that and orientate their behaviors to the generally accepted ethical and moral values agreed upon by the society. Ethical standards are important to close potential legal gaps or existing room for interpretation. A major driver of the company's desired sustainable competitive advantage originates in the managerial potential to integrate the behavioral manifestations of the employee´s engagement and involvement, transparency, economic sustainability with a model of business integrity (cf. Drakulevski & Nakov, 2016). A comprehensive business integrity management affects the strategy, good practices, code of conduct, as well as the general business integrity policy of the company. Integrity is the guiding principle for the collaboration and lays the ethical foundations of management decisions. Strong ethical values are the prerequisite for effective corporate governance (cf. Fotaki et al., 2019). Renz et al. (2015a, p. 1 ff.) explain that organizations have integrity, if they continuously reflect their behavior regarding its ethical consequences and define it as a common management responsibility.[215] I promote the necessity of a group-wide integrity management approach, which provides a comprehensive framework for the employees, that in turn formulates the expectations for the individual staff behavior.[216]

Several authors outline the importance of integrity for the collaboration between the parent's headquarters and the subsidiaries (cf. e.g., Abrashi-Smajli & Baum, 2017; Gurkov, 2015; Renz & Böhrer, 2012, p. 39). In essence, the foundation for an effective integrity management are joint values and a collaboration based on equality, fairness, trust and cooperation.[217] Intercultural challenges need to be proactively addressed and have to be implemented across all hierarchies' integrity supporting processes (e.g. as regular agenda point in management meetings, cf. Renz et al., 2015b, p. 96 ff.).

[215] Oates & Dias (2016) provide evidence that there is a growing concern that moral failure preceded the global financial crisis with waves of ethical scandals overwhelming the global banking industry highlighting a lack of integrity could happen again. Moreover, the latest diesel emission scandal illustrates integrity deficits of the involved managers.

[216] According to Renz et al. (2015b, p. 95 ff.) integrity management consists out of principles, processes, and people: The principles dimension focuses on topics like corruption, bribe payments, gifts and other favors, transparent product information, fair value for money, equality or discrimination. The process dimension focuses e.g. on suppliers, procurement processes, product quality, health and safety at the workplace. The people dimension focuses on core beliefs, values, whistleblowing, loyalty towards the employer and the dealing with misconduct.

[217] For further studies regarding corporate governance and integrity, cf. Said et al. (2016); Hajduk & Schank (2016); Soltani & Maupetit (2015); Arjoon (2015; 2017).

Good leaders recognize that integrity is a clear management responsibility and distinguish integrity management and compliance management from each other, even if there is a strong interlink between them.[218] To reflect the importance of compliance management, this topic is debated at a later stage.[219] For the sake of completeness and clarification, the following Table 3 provides an overview of the differences between compliance and integrity programs:

	Compliance programs	**Integrity programs**
Objective	To comply with external code of conducts, laws and regulations	To achieve moral self-steering of the employees
Steering approach	Avoidance of criminal behavior	Enabling of ethical / moral actions
Human behavioral assumptions	Humans have materialistically self- interest, extrinsic motivation	Social being, self-interest with ideals and values
Measures	Training, restrictions of action scope, supervision, control, sanctions	Training, ideals, personal responsibility, organizational measures, supervision, control, sanctions

Table 3: Differences between compliance and integrity programs.
Source: Compiled by the author, based on Göbel (2010) and Barlow (2014, p. 6 f.).

Multinational groups with integrity have clear principles for their internal and external collaborations and are supported by appropriate processes, which ensure ethical reflection within the processes and integrate integrity as a fixed component in their leadership programs. This can be proactively influenced via the implementation of a **problem-solving culture**, and by employees, which take over **responsibility** and focus on a respectful collaboration that is based on **mutual trust** and fairness. Integer organizations sharpen the awareness for the consequences of **ethical failure** and define integrity as **clear management task** among all hierarchy levels (cf. Renz & Böhrer, 2012, p. 42 f.; Renz et al., 2015a; 2015b). The following paragraphs will debate those sub-elements in detail.

Problem solving culture: Organizations with integrity have a culture, which allows addressing problems in an open way without fear and focus on a solution-oriented environment. This builds the foundation of transparency about difficulties, in order to intervene as fast as possible and identify prompt solutions. Matveev (2017) highlights the necessity of intercultural competence for implementing a problem-solving culture in multicultural teams as a prerequisite to develop coherent and effective culturally diverse teams. However, a problem culture can only be implemented if the employees and all management levels have an honest interest to identify, communicate and solve potential problems without any bias (cf. Renz & Böhrer, 2012, p. 42). Yet, to secure integrity within the subsidiary network, the corporate parent's management body should actively request and promote an open communication of sensitive issues and solution orientation within the entire subsidiary network. At the same time, they have to encourage their local senior managers to promote this within their local teams, as well. Moreover, it should provide the basis for intragroup collaboration and communication. Hence, it is vital to implement standardized communication, reporting processes and escalation procedures for sensitive issues, which cannot be solved on subsidiary levels (cf. Harzing & Pudelko, 2014; Renz &

[218] For further information regarding the current integrity debate, cf. Orlitzky (2016); Heissner (2015); De Bruin (2014).
[219] This argumentation is based on Hein (2016) who provides an overview about the development of the compliance discussion within the last decade. For further information, cf. chapter 4.2.5.

Böhrer, 2012, p. 42). Yet, as outlined earlier, it is difficult to prescribe the implementation of a problem solving culture or integer behaviors solely via written instructions, as they have to grow over time and depend largely on the inter-human relationships of the involved persons and furthermore has to be interpreted differently in regard to diverse local peculiarities.

Accountability culture: An entire part of integer organizations is that all organizational members take responsibility for their actions. Dekker (2018) outlines the need of a just culture, which is based on trust, learning and accountability, which is especially crucial if an incident has occurred. Accountability is a prerequisite for integrity and implies being true to others: this forms the basis for each inter-human business relationship, inside and outside of the organization (cf. Robinson, 2016). It is a basic prerequisite to create a sense of belonging towards the company (cf. Dekker, 2012, p. 83 f.). Especially for the intragroup collaboration across different business units or subsidiaries, the simple definition of tasks, competencies and responsibilities (TCR) is not enough and has to be completed by a group-wide accountability culture. On the one hand, this requires clarifying the accountabilities between the different governing bodies within the group, but on the other hand also the separation of accountabilities between e.g. the members of the subsidiary's management board. As earlier mentioned, principles, such as delegation, empowerment and enrichment, are necessary to create a feeling of accountability.[220] If employees feel accountable, this is what supports entrepreneurial thinking and enhances innovativeness. If subsidiaries are managed by *'internal entrepreneurs*', this will create accountability, increases employee motivation and drive performance (cf. Li & Lee, 2015). The subsidiary's managers entrepreneurial behavior largely depends on the division head (middle managers) (cf. O'Brien et al., 2019a). The entrepreneurial orientation in subsidiaries also depends on structural conditions of decision-making autonomy and the local decision-making structure (cf. Hakala et al., 2016). While it further supports critical thinking, it also implies that submitted orders from the parents get more challenged and do not get executed without any questioning. Even so, internal entrepreneurs manage pro-active crucial decisions regarding the local market, local innovation potential or its communication.[221]

Mutual trust: The foundation for any collaboration between humans is mutual respect. Likewise this applies for the relation between the parent and its subsidiaries. A central element for successful companies is trust (cf. Mollenhauer & Sommerlatte, 2016). Being respectful of cultural differences and avoiding misunderstandings are central in intercultural management of multinational organizations (cf. Ooi, 2014). Mutual understanding and trust emerge from a close intragroup collaboration between home and host country mangers and minimize goal incongruence and agency problems (cf. Kong et al., 2018). Trust means fairness, loyalty towards the company superiors, subordinates and other stakeholders (cf. Cäker & Siverbo, 2014). However, trust is influenced by language and local culture, which implies that it is a critical issue particularly in multinational organizations (cf. Zhang & Harzing, 2016; Tenzer et al., 2013; Andersson et al., 2005; Li, 2005). At its core, multinational groups are multilingual communities in which language is a key ingredient for shaping mutual trust and organizational

[220] For further information, cf. chapter 4.1.
[221] There exists evidence that market launches of new products are best performed by the employees who are close to market, who are committed and feel responsible, and who achieve appreciation of their managers (cf. Amberg & McGaughey, 2017).

change processes, information exchange, competitive activities, global coordination, and intra-corporate value creation (cf. Luo & Shenkar, 2017). To respond to the different local interpretations, it is essential to define clear principles on how to interpret and understand those terms from both, a group-internal, but also group-external perspective in the cooperation with the different stakeholders (e.g. customers, suppliers, authorities etc.). The greater the cultural difference between the parent and its subsidiaries, the greater is the necessity for guidance and clarity about the expectations. I argue that this understanding can influence e.g. the marketing, communication or sales activities on a local level, and the local management should inform the parent proactively about potential local specifics. In essence, keystone of trust is the character of global leaders to influence how employees work together across borders (cf. Morrison & Black, 2014). Even if trust is difficult to grasp and leaders have to face a huge challenge of generating and maintaining trust throughout the organization because of the physical distance, language, and cultural differences and diversity of the subsidiary networks, it is one of the most crucial fundaments for a functioning intragroup collaboration.

Awareness for ethical failure: Organizations, in which managers and employees are aware of the consequences of ethical failure and understand its associated risks, indicate the existence of an integrity culture (cf. Ferrell & Fraedrich, 2016). Consequently, the management bodies have to raise the awareness for the consequences arising out of cultural difference and related ethical failures. The parent should implement applicable rules of conduct and business relationship principles to define behavioral standards for the entire staff (cf. Kolk & Van Tulder, 2005, p. 1).[222] However, such internal standards require local specifications to be accepted and they should be trained with regular awareness trainings and predefined sanction mechanisms for misconduct to help to underpin their relevance (cf. Biegelman, 2008, p. 100/201; Shavell, 2002). Integrity issues should be an inherent part of the intragroup communication. It is essential that the ethical behaviors are regularly reflected in management discussions on both, subsidiary and on parent level, because *'responsible ethical'* behavior requires continuous management attention and demonstrates the supervisory authorities the legal and regulatory required duty of care (cf. Francesco, 2015; Renz & Böhrer, 2012, p. 44; Sethi, 2002). Further, it contributes to mitigate the risk of reputational damages and misconduct and in the long term also leads to a higher creditability among other stakeholders (cf. Alina, 2014).[223]

Integrity is a clear leadership task that cannot be delegated to others (cf. Hinterhuber, 2014; Schwartz & Seitz, 2014). If integrity is defined and integrated as a clear management responsibility, it will ensure that ethical dilemmas get adequately resolved, regularly evaluated and secures that integrity topics are taken seriously. All management hierarchies have to be sensitized for the necessity of a high level of integrity and should regularly reflect the internal ethical behavior, their consequences and define, if needed, potential countermeasures to strengthen the integrity (cf. Renz & Böhrer, 2012, p. 46).

[222] A overview with elements of code of conduct provides Kaptein (2004, p. 13 ff.).
[223] McAlister et al. (2016) and Butt et al. (2016) argue that ethical leadership is a part of good corporate governance and positively related to a firm´s corporate social responsibility, which in turn positively influences the organizational performance.

While Walumbwa et al. (2017) provide empirical evidence that ethical leadership significantly relates to group learning behavior, there is also consensus that integrity cannot be fully delegated from the parent's management body towards the lower hierarchies (Schwartz & Seitz, 2014). Francesco (2015) and Alina (2014) argue that members of management bodies have to act as role models, but also have to delegate certain integrity topics towards lower hierarchies. Nonetheless, I highlight that the senior managers of the subsidiaries should have an obligation to report local specific insights and share their local knowledge to continuously enhance the intragroup integrity management that gets centrally coordinated from the parent.

In addition, an adequate internal and external stakeholder management is of great importance for effective intragroup governance and will be discussed in the next subchapter.

4.2.4 Stakeholder relationship management

Corporate stakeholder responsibility considers stakeholder engagement and its management as a key enabler for achieving sustainable corporate success (cf. Kujala et al., 2017). Multinationals are confronted with ethical dilemmas and have to manage a diverse stakeholder landscape with different and sometimes even contrary interests on a global and local level (cf. Filatotchev & Stahl, 2015). The different stakeholders have either a more positive or more negative, direct or indirect influence towards the corporate group as a whole. At the same time, the organization itself also influences their stakeholders. Embedded in these confused circumstances, it is relevant to have transparency about the individual – sometimes even opposing - goals of the diverse stakeholders and to take into account their particular concerns within the overall business activities, globally and locally (cf. Freeman, 2010, p. 53 f.). Nonetheless, the adequate response of the different legal systems, regulatory approaches or the dissimilar long- and short-time orientation of economies can hereby be a major challenge. Likewise, there are also different power allocations between the different stakeholders that have to be considered. While in the US shareholders have comparatively more influence than in Europe, in Germany the legal employee co-determination plays a much more prominent role than in most other countries (cf. Blair & Roe, 2010; Bottenberg et al., 2017).[224] Yasui (2016) and Frederick (2014) highlight that specifically the bank supervisory authorities are getting increasingly crucial stakeholders for regulated bank entities, as they have the primary mission to protect the investors, which means that they clearly expect their boards to adequately take into account the legitimate interests of stakeholders while pursuing the interests of the bank.

All in all, such diverse interests have to be balanced by the parent's executives in a global perspective and by the subsidiary management bodies in the local host country perspective. In multinational groups particularly bank subsidiaries require a certain degree of independence, because the stakeholder landscape largely differs from the others parts and are imposed towards the activities of comparably strong banking authorities as a dominant external stakeholder. The parent has to coordinate the group as a whole and must set the intragroup framework conditions for the stakeholder management. While it should enable the subsidiaries with e.g. suitable instruments (e.g. appropriate customer

[224] For further studies about the employee participation in Germany, cf. Hopt (2016); Sandrock (2015); Müller-Jentsch (2015); Elson et al. (2015); Bramucci & Zanfei (2015); Jackson & Sorge (2012).

relationship management (CRM) systems), to professionalize their own local stakeholder management, they should also take over accountability to coordinate cross-border global stakeholders and customers across different subsidiaries (cf. Shi & Gao, 2016). As this approach is successfully applied in many multinational groups by their global brand communication or marketing departments, there is currently too little attention to follow this approach also within the stakeholder management.[225] Based on my corporate governance definition, this dissertation applies its broadest perspective for the stakeholder management, including the definition, identification, management and control of the numerous stakeholder groups that affect the entire multinational group system (cf. the framework management) in any possible way. It consists of all hierarchy levels, as well as the strategic, operational and ethical aspects and aims to secure the adequate consideration of the multiple stakeholder interests within the entire decision-making processes. Renz & Böhrer (2012, p. 47) explain that universal stakeholder management includes eight different dimensions, which build the foundation for the further argumentation to reduce the governance inconsistencies between the parent and its subsidiary as the following paragraphs illustrate.[226]

Stakeholder interest analysis: As prerequisite to consider the different stakeholder groups, organizations have to implement a stakeholder landscape, that ensures transparency of the relevant stakeholders, who set the framework conditions, who provide input and output and who are directly or rather indirectly effected of the supply chain. As later discussed within the **risk management** chapter, having lucency about the numerous stakeholder interests is also an important element of an intragroup ERM system (cf. Price, 2016). While it seems obvious to concentrate primarily on external stakeholder groups, the group-internal stakeholder management among the employees, the parent and other affiliated companies is also of central importance for the subsidiaries (cf. Tropschuh & Wadé, 2016; Park & Choi, 2015; Künzel, 2013; Veser, 2004; O'Shannassy, 2003). Park & Choi (2015) outline that the interests of both, the parent and the subsidiary and their involved managers should be explicitly incorporated in the local stakeholder analysis. This can solely be achieved, if the stakeholders and their interests are lucent and are embedded in a proper stakeholder landscape. As this raises transparency and helps to manage the multiple stakeholder interests, it also has to be kept up-to-date to minimize intragroup governance gaps and misalignment. Hayes & Watts (2016, p. 4) conclude that a proper stakeholder interest analysis level is a prerequisite for balancing expectations and helps to better enforce own interests.

Customer centricity processes: For companies, organizational and process frameworks that enable them to reach more customer centricity, become an increasingly important key driver to gain a sustainable competitive advantage and leads to marketing innovativeness, and indirectly to a better finan-

[225] For further information about the design of global brand strategies in multinational companies, cf. Kapferer (2012, p. 405 ff.); Grewal et al. (2013); Khojastehpour & Johns (2015); Verčič et al. (2015).
[226] According to Renz & Böhrer (2012, p. 47) the stakeholder management exists out of the following elements: (1) The existence of a stakeholder interest identification; (2) Transparency about the buying processes; (3) Transparency about the roles of the involved counterparts; (4) The existence of a aligned sales process; (5) Opportunity to measure customer satisfaction and employee satisfaction; (6) Existing employee evaluations and development; (7) Integration of other stakeholder groups and (8) The awareness that stakeholder management is a clear management responsibility.

cial performance (cf. Osakwe, 2019; Bonacchi & Perego, 2015).[227] Although it is a key driver to lead companies, many organizations still struggle and inadequately integrate this within their intragroup business networks (cf. Viljanen et al., 2017). Customer centric organizations constantly strive to serve their customers better with CRM programs to improve their satisfaction and loyalty. A professional knowledge management regarding the product, customer, brand, and competition is mostly important to understand the customers' needs and develop the right products (cf. Bedarkar et al., 2016). Customer centricity is a fast-emerging norm across industries and enhances the competitiveness of firms (cf. Gaurav & Shainesh, 2017). Despite this, many companies tend to ignore also considering wider stakeholder groups, such as customers (cf. Mason & Simmons, 2014). Others may take into account their obvious customers, but neglect that the purchase decision is often made by the customers' environment (cf. Horstmann, 2011).[228] In essence, a customer-centric culture in an organization leads to customer-centric knowledge creation and thus, it improves organizational effectiveness through an increase in customer satisfaction (cf. Bedarkar et al., 2016). Consequently, the parents have to safeguard that their subsidiaries analyze and optimize their local end-to-end customer influencing and buying processes. On the one hand, the parent has to provide guidance with central developed standards for local customer and enabling processes to ensure a group-wide customer centric driven approach, alignment and a common database to perform data analytics about the global customer base (cf. Adeyemi et al., 2014). On the other hand, particularly in regard to the banking business tightened data privacy laws, consumer protection and antitrust regulations have to be taken into account within the intragroup data sharing and data analytics and bear risks if those are not are not adequately managed.

Sales processes: A professional process interaction and good process quality are essential to generate new orders and ensure customer centricity (cf. Chuang & Lin, 2013). On the one hand, multinational groups have to aim for global process standardization, on the other hand, they have to ensure flexibility on subsidiary level to adequately address local market specifics (cf. Colakoglu et al., 2014). Therefore, a dual sales approach, with global account managers for global customers and local account managers with individual market specific sales procedures, fits best (cf. Birkinshaw et al., 2001). Driven by greater market proximity, there have to be processes, which secure that locally gained market knowledge on subsidiary level gets shared with the parent and can be fostered e.g. via cross functions and international diverse team works, regular training activities or customer workshops on a local and global level (cf. Boscari et al., 2016). Even if it is challenging in subsidiary networks, subsidiaries should facilitate regular knowledge transfer to the overseas headquarters to ensure local customer proximity and the appropriate consideration of local needs (cf. Desouza et al., 2008).[229] Hereby, particularly automated information exchange processes, a professional CRM system and close interaction between parents headquarters functions and local subsidiaries (e.g. R&D function and local sales

[227] The necessity of customer centricity is a much-discussed topic among scholars within the last years, cf. e.g., Vandermerwe (2014); Krishna et al. (2014); Capon & Senn (2017); Parniangtong (2017); Fader & Toms (2018); Shainesh (2018).

[228] For example, the local car dealer plays a central role for a customer's car financing decision, because he can significantly influence the customers buying and selection process.

[229] The study of Asakawa & Aoki (2016) found out that granting legitimacy to R&D subsidiaries does not necessarily lead to a reduction in headquarters' control. Furthermore, they provide evidence that R&D subsidiaries' legitimacy does not influence the effect of headquarters' knowledge about them on the level of control.

persons) are fundamental for the innovation capability of the entire group (cf. Colakoglu et al., 2014; Mudambi et al., 2014; Borini et al., 2012). Despite this fact, the global coordination is difficult because of their multiple customer characteristics, and thus set priorities, the striving for a consistent positioning of products and services is of great importance. At its core, aligned sales processes are essential, but despite this, the availability of sales approaches may vary by the different markets due to their infrastructure, regulations or different competitive life cycles (cf. Sexton, 2016). This is, in particular for the financial services subsidiaries, of great importance, as they have to collect sensitive personal customer data within their sales processes (e.g. personal income situation for a car loan approval) and have to cope with varying legal and regulatory requirements in each country (cf. Kiron, 2017; Ahmadalinejad & Hashemi, 2015). However, there is evidence that financial institutes that have proper sales processes and a professional customer lifetime management, have a better bank performance (cf. Ekinci et al., 2014).

Measurement of customer satisfaction: The degree of customer satisfaction is a key driver for the overall financial performance.[230] Customer satisfaction depends on the individual and institutional customer orientation, which is directly linked towards the staff's behavior, the organizational structures and the entire corporate systems and indicates the degree of customer trust. Particularly in the finance and banking industry trust builds the foundation for doing business. Van Esterik-Plasmeijer & Van Raaij (2017) explain that integrity is the most important determinant of bank trust, which is the conclusion of transparency, customer orientation and competence. Trust is a strong predictor of loyalty. Bank loyalty of customers depends on competence, stability, transparency, and value congruence. As the integration of standardization and customization of service offerings is critical for improving service quality, customer satisfaction significantly increases customer loyalty (cf. Kasiri et al., 2017). In multinational groups the customer satisfaction largely depends on the coordination of the parent and its subsidiaries and adds further complexity (cf. Li et al., 2016). It is essential that the corporate parents know the degree of customer satisfaction and have to demand from their subsidiaries local market and customer orientation. Thus, appropriate governance instruments come in the form of regular customer surveys to gather customers' voice in order to fully understand their perceptions, judgments, attitudes, intentions, and behaviors and get their feedback (cf. Mittal, 2017). On the one hand, such customer analysis provides crucial customer insights and builds the foundation to define appropriate target group specific measures. On the other hand, it is the basis to realize a better customization, improvement and finally a sustainable corporate success.

Employee satisfaction: Comprehensive framework conditions, which secure employee's satisfaction are another relevant key driver (cf. Welge & Eulerich, 2014, p. 292 f.). Employee satisfaction improves employee loyalty, builds and contributes towards long-term business success, while it further reduces the overall systematic risk (cf. Lu, 2016; Mollenhauer & Sommerlatte, 2016, p. 96). Managers should emphasize a group-wide identity and search for individuals with multicultural identity (cf. Björkman et al., 2017). In addition, multinational companies should place emphasis on recruiting employees that

[230]. There is broad consensus among scholars that customer-oriented companies perform better, cf. Golovkova et al. (2019); Mithas et al. (2016); Terho et al. (2015); Rodriguez et al. (2015); Saeidi et al. (2015).

speak the companies' functional language and offer language training for the staff. Luo & Shenkar (2017) and Rozkwitalska et al. (2017) make clear that, situated in the multilingual community, those are the key ingredients, which can further shape organizational change processes, information exchange, competitive activities, global coordination, and intra-corporate value creation, and that in the end they will lead towards improved employee satisfaction. If parents know about the local employee satisfaction, it is a crucial control mechanism and instrument for them, but it also helps the subsidiaries' senior managers to reflect their own leadership skills, assure the evaluation of their management skills and provide an indicator about the employee loyalty (cf. Vollmuth & Zwettler, 2015, p. 43).[231] I outline that in multinational groups frustrations can arise due to e.g. differences in the local employee participation and co-determination rights between the host country locations of the subsidiaries. Different compensation schemes and disparities among salaries of the employees in the different subsidiaries are another influencing determinant for the employee satisfaction. The corporate parent should aim at harmonizing such differences via e.g. uniform group-wide standards that are independent of the host country locations and a high degree of transparency for decisions affecting such topics.[232] Fried et al. (2018) found out that if in high performance organizations corporate cultures of the subsidiary and parent are consistent it will lead to a greater employee commitment and job satisfaction and thus performance. As a regular employee survey is a crucial and efficient instrument to measure the employee satisfaction, it can also act as an early alert system for undesirable developments (cf. Dallwitz-Wegner, 2016, p.69 f.).

Personnel development: As the strategic human resources management is another key driver for corporate governance, there are also certain challenges, which have to addressed in multinational groups (cf. Zuckweiler et al., 2016; Kaehler & Grundei, 2019).[233] Particularly, the interest in talent management has proliferated within the last years, driven by the global shortage of leadership talents. Although approaches vary, talent management usually focuses on a pool of employees who rank at the top in terms of performance and competencies, and therefore they are identified as either present or future leaders or key professionals. Group-wide talent programs should include employees regardless of whether they are parent-country nationals, expatriates or local employees working in the subsidiaries (cf. Björkman et al., 2017). The subsidiary's senior staff should discuss personnel development plans in a transparent manner and illustrate individual career opportunities to foster the motivation and engagement of local employees (cf. Arnold, 2015a, p. 2). Cultural differences among the host countries are one major obstacle in multinational groups and might have detrimental effects if they are not managed adequately (cf. e.g., Singh et al., 2019). While e.g. western orientated cultures prefer learning by regular trainings, most Asian employees tend to prefer more training on the job (cf. Hilb, 1984). In multinational groups, particularly the harmonization of the different needs of the corporate

[231] This also demands the openness for change and the earlier debated problem-solving culture from all senior staff. For further information, cf. chapter 4.2.3.
[232] A typical example is Volkswagen, who defined companywide standards for the employee co-determination within their subsidiaries (cf. Whittall et al., 2015).
[233] Typical challenges for multinational companies are e.g. how to manage personnel development across countries? Which regions, country and functions require how much HR resources? How can the strengths and core competences be developed across different countries? The international HR Management Model from Morgan (1986, p. 44) provides guidance and differentiates between the HR management on three levels: local employees, employees of other countries (expatriates) and employees of the headquarters.

parent, the subsidiaries and the individual employees are a field of tension and often challenging to manage (cf. Ueerblick, 2013). As the parent is responsible to define a group-wide HR framework, the local subsidiaries have to implement and adopt it and need to ensure that local talents get identified. Ribeiro & Machado (2017, p. 115) point out that the success of each talent management system depends on each particular situation in the subsidiary, the organizational context, the ability to innovate and on the creativity of the implemented policies. A global, transnational or multidomestic strategy of intragroup talent management will lead to a better group performance (cf. Collings et al., 2018). The parent is responsible for the group-wide strategic HR development, senior staff development and other crucial key governance functions on parent and subsidiary level. Whereby operational human resources management usually gets delegated towards the subsidiaries through the process of hybridization to consider on the one hand an group-wide standard and secure on the other hand their adaptation to the subsidiaries' local context (cf. Yahiaoui, 2015).[234] Thus, the rising local requirements for senior staff of banks makes it difficult for parents to continue with their conventional HR strategies in which senior managers are solely sent as expatriates from the corporate parents partly without in-depth local knowledge and professional experience into the host country (cf. e.g., Varga, 2017; Mora & Sharma, 2016; Capriglione & Casalino, 2014).

Other stakeholder groups: Global companies operate in complex transnational organizational fields with multiple, diverse, and possibly conflicting institutional forces where corporate diplomacy becomes ever more important to support the mission of the multinational group (cf. Marano & Kostova, 2016; Henisz, 2016). As such, corporate diplomats play an important role in sensing risks and opportunities in the external environment, they also help to shape short- and long-term strategic responses across all functions of their organizations. Finally, senior managers across all levels have to enhance their skills as corporate diplomats to enhance their stakeholder management. Some of the stakeholders may have different power and, sometimes, much more influence on the local subsidiaries than is recognized in the overseas headquarters. Multinational groups have to consider those interests within their strategy processes in the subsidiaries. However, to secure a sufficient consideration, the corporate parent and subsidiaries should implement a stakeholder and influencing radar that makes all those external forces apparent (cf. Katz & Grösser, 2013).[235] Parents make huge investments in corporate social responsibility (CSR) to build a global 'social brand' as intragroup insurance against lapses of responsible conduct, taking over their moral responsibility and ensuring that the subsidiaries 'walk the talk' (cf. Asmussen & Fosfuri, 2019). A typical governance instrument for securing the interests of the parent is to appoint host country citizens as members of the subsidiary boards. While local host country managers are often associated with specialized local knowledge, superior responsiveness, and higher legitimacy, they often lack intragroup experiences and personnel networks within the parent organization (cf. Muellner et al., 2017). In addition, local familiarity of host country managers

[234] This promoted global integration versus local responsiveness is primary based on the global standardization / integration versus local adaption / responsiveness framework, originally introduced by Doz & Prahalad (1991) within the international human resources management research.

[235] Terms like corporate social responsibility or corporate citizenship are originally created by global companies to consider such interests in the local markets. For further information, cf. recent studies of Petit (2019); Manasakis et al. (2018); Filatotchev & Stahl (2015); Hah & Freeman (2014); Jackson & Rathert (2015); Yin & Jamali (2016); Aguilera-Caracuel et al. (2015); Aßländer & Curbach (2015); Han (2015).

can also be perceived as risky or harmful by the parent. Others strengthen the local subsidiaries' relationship with its local stakeholders by nominating prominent locals in the boards of directors of their subsidiaries (cf. Kostova et al., 2016).

The management bodies have to institutionalize the awareness for a professional stakeholder management among the local staff. The corporate parent is responsible for providing framework conditions, which allow the subsidiaries to consider the numerous stakeholder interests in the best possible way, and has to define rules of conduct for dealing with competitors and local supervisory authorities (cf. Marano & Kostova, 2016). Moreover, it needs to be defined how different subsidiaries within the same market interact and collaborate together within the same market environment, but also in an intragroup context (e.g. the collaboration of a local car sales subsidiary and local financial services subsidiary of the same OEM). Apart from that, I argue that there is a need for regular monitoring of the different stakeholder interests. The boards should regularly debate about how they can improve their customer centricity, upcoming trends and their consequences on the business model, the customer base and the reactions of the competitors. In addition, sufficient HR processes and an adequate (external) stakeholder management are an ordinary management responsibility across all hierarchy levels. However, as the following chapter will illustrate, an adequate compliance management is of great relevance, too.

4.2.5 Compliance and regulatory management

Compliance management is a prerequisite for regulated entities and some authors even state that compliance is the new corporate governance and is increasingly becoming a major focus. At first, it is essential to clarify the term compliance from an intragroup perspective, but also in regard towards the specific business model of the subsidiaries. Driven by the ever greater pressure of complex legal and regulatory requirements, it is becoming ever more crucial for the management boards to ensure responsible and lawful conduct within their organizations (cf. Gärtner, 2018, p. 1 ff.; Wecker & Galla, 2013, p. 29). At its core, compliance comprises all measures and activities that help to ensure that a company, its boards, managers and employees act systematically in accordance to existing laws and regulations (cf. Jonas, 2016). There is consensus among regulators that compliance is a clear management board responsibility, which cannot be delegated solely to a compliance function (cf. Mills & Haines, 2015, p. 19). The compliance function supports the management body to execute their duty of care obligations and it performs a regular legal risk management to mitigate and to avoid legal risks.
When assessing the direct and indirect consequences of being non-compliant, it will help to understand the importance of compliance. As compliance fosters trust of stakeholders, non-compliance with legal and regulatory requirements may lead to the exclusion of contractors from participating in the contracts, loss of the business license, significant reputational damage and a loss of credibility of the top management. Moreover, there is a personal liability of organ members for refrain or premeditated management actions (cf. Wecker & Galla, 2013, p. 24/35). The IDW PS 980 is a generally acknowledged best practice approach for a compliance management system (cf. Schach & Christoph, 2015, p. 6; Ahn et al., 2014). Ehrler (2013, p. 112 ff.) summarizes that a comprehensive group-wide compli-

ance management system is the basis for long-term success, good reputation and therefore shareholder value. Similar to other governance areas, most multinational groups follow a hybrid approach to compliance management (cf. Mills & Haines, 2015, p. 21 f.). A compliance function is a legal and regulatory prerequisite for regulated entities holding a banking license. Taking those tightened framework conditions into account, the following paragraphs illustrate, that subsidiary governance requires a properly aligned intragroup compliance management among all different hierarchy levels. In particular a **compliance organization** with a **network approach**, but also appropriate **instruments and measures** and a sufficient **regulatory management** are crucial sub-elements to secure oversight and ensuring an aligned compliance management.

Compliance network organization: According to most national laws and regulations, legal entities of a certain size and complexity are required to implement a compliance function (cf. Meissner, 2017). However, to be effective, the responsibility for compliance has to remain within the respective functions and subsidiaries.[236] On the one hand, the subsidiary boards and other local senior staff have a closer proximity towards the local legal and regulatory frameworks and are the official representatives of the company owners (parent) towards the local authorities. On the other hand, this also secures the awareness for compliance topics within the personal areas of responsibilities.

Equally towards the subsidiaries, an obligatory **compliance function** in the corporate parent enables the parent's board to fulfill their duties of care (cf. Ehrler, 2013, p. 177 ff.; Frederick 2014).[237] In bank subsidiaries the responsibilities of the compliance function are more precisely defined than in other industries and have to adopt the group compliance efforts and follow a stand-alone approach (cf. Meissner, 2017; Peemöller, 2014). To respond that, multinational groups also install group compliance committees and consolidating compliance functions on parent level, which support to evaluate group-wide compliance risks, consult the management bodies on complex group-wide compliance issues, raise group-internal transparency and perform quality assurance among the network of the affiliated companies.

To increase intragroup efficiency and cross border collaboration, multinational groups implement a **compliance network** approach among the competent compliance functions (cf. Gärtner, 2018, p. 21 ff.). This helps to foster intra-organizational trust, but also best practice sharing and it helps to set a common compliance standard across all subsidiaries. To avoid any conflicts of interests, I highlight that local compliance functions should have a dual reporting line towards the parent´s compliance function as well as towards the local subsidiary board.

Compliance management system: A comprehensive group-wide compliance management system includes numerous aligned instruments and measures to secure the fulfillment of laws and regulations. An implemented group-wide compliance management system secures a uniform intragroup stand-

[236] This argumentation is based on the Three Lines of Defense Model. For further information, cf. chapter 3.3.2.

[237] A central compliance unit on parent level has to coordinate and consolidate the management of ethical standards, internal directives and guidelines in the group-wide company processes and provides legal advice towards the organization. Meissner (2017) analyzed the senior management accountability and outlines that the accountability of the chief compliance officer and his deputy for compliance failures is not set forth in regulatory law, but the personal responsibility arises out of the principles of civil law, criminal law or employment law. Gärtner (2018, p. 21 ff.) provides an overview about five organizational designs of intragroup compliance organizations.

ard.[238] As such, a group compliance management system sets common standards and secures a reliable setup for the management of compliance, but it also needs time to develop and it can be solely effective if it is continuously further developed and strengthened through an appropriate corporate culture as basic fundament. It is also clear that the sole implementation of compliance management system cannot guarantee that the organization will always stay fully compliant, especially in very sales driven organizations, in which financial and performance related targets often get more favored by the individual compensation schemes than e.g. compliance targets, which are also much more difficult to formulate.

Regulatory and financial services compliance: As a consequence of the last financial crisis, (supervisory) authorities expanded their oversight activities to minimize overall banking risks, increase consumer protection and mitigate the risk of organizational failure (cf. Hungerland, 2014; Mohammed et al., 2016). While those initiatives aim to prevent another financial crisis, they are also associated with huge implementation efforts to keep on track with regulatory changes and their intragroup implications. The numerous regulatory initiatives, such as CRR, CRD 4 or Basel 4, have great impact on the equity funding, liquidity management, risk management or governance structures of bank institutes and require a professional management and organizational embedding in the corporate group structures. According to Santangelo et al. (2018) "*low and high levels of regulatory competitive constraints are associated with greater subsidiary external embeddedness*." Further, rather indirect consequences of the changing regulatory environments, such as e.g. the implications of the increased requirements for investor and customer credit protection, anti-money laundering or data privacy protection, also have to be taken into account.

I underline the necessity to have a dedicated function on parent level, which focuses on group-wide financial services specific compliance and regulatory topics and defines adequate group-wide standards.[239] To avoid a duplication of work, such a function can also be allocated within the compliance departments. Those functions on parent and subsidiary level should be also held responsible to perform regular legislative and regulatory monitoring to be prepared for upcoming compliance and/or regulatory initiatives. In addition, there should also be a regular reporting towards the senior staff to ensure awareness, transparency and oversight.

[238] On the basis of IDW PS 980 and the elements of the BMW Compliance Management System a compliance management system has to consist out of the following core elements (cf. Schach & Christoph, 2015, p. 6, BMW Group, 2017): (1) A group-wide compliance strategy (2) Management of monitoring of relevant legal requirements for compliance (3) Regular assessment of the internal business units and external compliance-relevant developments (4) Management of internal rules and regulations (5) Regular compliance communication towards the employees (6) Compliance trainings. (7) Implementation of compliance processes, tools and IT systems to mitigate compliance risks (cf. Sadiq & Governatori, 2015, p. 265). (8) Compliance case management (9) Regular and adhoc compliance reporting (10) Regular compliance controls and monitoring (11) Implementation of an independent whistleblowing system (cf. Kolk & Pinkse, 2010; Süße, 2014).

[239] Typical financial services related compliance topics in strong regulated financial services entities are: Anti-money laundering (cf. Levin et al., 2016; Nicoletti, 2017); information protection (cf. Desai 2016) or data privacy protection (cf. Sipes et al., 2016).

4.2.6 Operative governance management

Driven by the fact that subsidiary governance becomes increasingly important, there is an increasing necessity for a professional management of operative governance (cf. Moore, 2015). Today aligned headquarter-subsidiary governance structures are fundamental to increase the long-term performance (cf. Farah et al., 2016). Intragroup governance processes and structures aim to define common governance standards by considering host country and local governance specifics (cf. Gugler et al., 2013). In subsidiary networks it is essential to have transparent **decision-making structures**, local **governance instruments**, clearly defined **responsibilities** and deputy regulations, but also **sanction and restriction mechanisms** for non-compliant behavior. Furthermore, particularly in financial services subsidiaries, aligned group-wide **remuneration and incentive schemes as preventive measures** for inappropriate short-term orientation are required, too (cf. Yasui, 2016). Driven from the trend of intragroup IT outsourcing, also a professional management of **IT governance** is getting increasingly important for the operative governance management (cf. the argumentation of Hodosi & Rusu, 2019). Each of those determinates of professional subsidiary governance management are discussed in the following paragraphs.

Decision-making structures: While decentrally organized subsidiaries directly contribute to the competitive advantages of multinational groups, they also highlight the importance of intra-firm collaboration and alignment with clear, standardized decision frameworks. The division of decision-making autonomy is a key element of the management of parent–subsidiary relationships and part of intragroup control (cf. Schaaper & Gao 2018; De Jong et al., 2015). Good leaders help to overcome a misalignment of followers' incentives that inhibits coordination, while adapting the organization to a changing environment (cf. Bolton et al., 2013). To secure intragroup corporate governance, it is a prerequisite to define which decision-making body is responsible for which topics on individual, team, local senior management and on the parent's headquarters level. Even if standardized intragroup organizational and alignment processes for decision-making are necessary, they should not be oversized and should reflect the different sizes and organizational maturity levels of the subsidiaries. It has to be clear which local decision-making sub-committees are required (e.g. HR committee, customer committee, product committees, audit committee, remuneration committee, compliance or risk committee) to support the subsidiary's management body and/or supervisory body, and how they are embedded in the group-wide committee landscape. Despite the decentralized structure, a uniform decision-making with decision-making committees for topics of a group-wide relevance is strived by the parent's headquarters.[240] Standards for a joint committee culture are recommendable and potential conflicting interests of committee members should be transparent and minimized wherever it is possible. Moreover, four eye principles and predefined escalation and mediation procedures ameliorate the intragroup organizational alignment. In addition, the implementation of specialized sub-committees on local, regional and global level safeguards the consideration of stakeholders and expert opinions, and will lead to a sophisticated and democratic approach of decision-making. On the one hand, discussions in committees support the intragroup transparency, improve alignment and secure a better information ex-

[240] Hoffmann (2013, p. 197) outlines that 58 percent of multinationals use institutionalized committees for organizational alignment. 62 percent of those committees are established for advisory reasons.

change among the participants. Committee structures help to overcome geographical distances and contribute to a better management of cultural disparities (cf. Morrison et al., 1991). On the other hand, it also has to be clarified who is finally responsible and accountable for the decisions taken in such committees. Subsequently, the decision-making in subsidiary networks should follow the subsidiarity principle.[241] Even if committee solutions are time consuming and require administrative efforts, they also raise the acceptance of the taken decisions. Thus, the following Figure 15 provides the exemplary overview of a typical intragroup committee landscape in an automotive financial services division with global subsidiary networks:

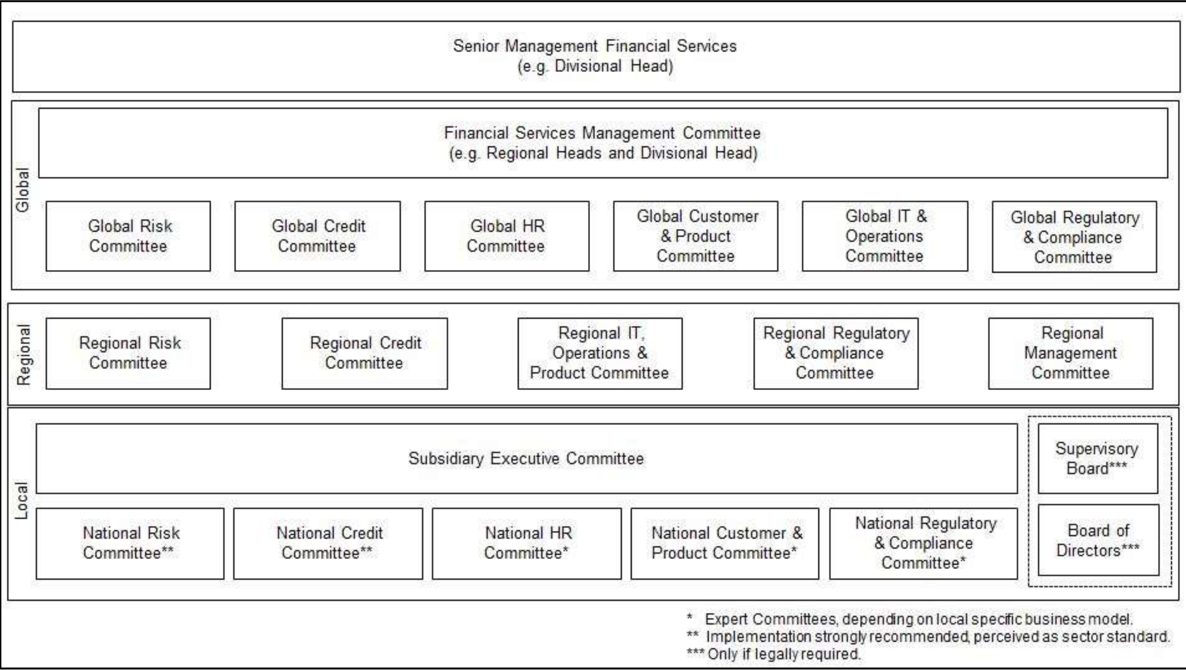

Figure 15: A typical committee structure for intragroup alignment.
Source: Own illustration.

As the above-illustrated committee overview indicates, clear definitions are required regarding the committee topics, its participants, decision-making responsibilities, communication and alignment processes between the committees and follow up procedures for decisions taken. Such a committee landscape requires, that competences and decision rights of the committees are clearly defined (e.g. via a competence matrix).

Governance instruments and internal regulations: In most countries, internal self-statutory regulation landscapes and appropriate, internal governance instruments are a regulatory requirement for regulated financial services entities (cf. Gibson et al., 2013).[242] While it is of great importance that the subsidiaries have transparency about the applicable centrally defined intragroup standards, policies, principles or guidelines, there should be additional subsidiary specific internal rules defined (cf.

[241] The subsidiarity principle means that most of the decision-making should be executed on a subsidiary level and solely topics of a global relevance should be decided and discussed in global committees.
[242] Representing others: EBA guideline for internal governance on EU level; MaRisk and KWG regulations (German Banking Acts) on national level in Germany. For further information, cf. chapter 3.2.2.

Schaaper & Gao, 2018).[243] Mechanisms are required to secure that the different self-statutory regulations of the corporate parent are consistent with those on subsidiary level and regularly get reviewed and updated. A typical group-wide applicable regulation landscape for financial services subsidiaries follows a risk-based approach and predefines relevant governance topics out of the parent perspective which have to be adopted on subsidiary level, but secure a reliable fundament, aiming on business continuity among the entire group:

Risk Management	Finance	Operations	Sales & Marketing	Compliance	Cross functional topics
Strategic Risks	Controlling	Sourcing	New Product Process	Anti-Money Laundering	Human Resources
Residual Value Risk	Accounting / IFRS	Provider Management	Product Management	Data Privacy Protection	Strategy
Collateral	Tax management	Investments	Business Lines	Information Protection	Audit
Liquidity Risk	…	Process Management	Marketing	IT Compliance	Corporate Governance
Operational Risk		Demand Management	Remarketing	Tax Compliance	Customer & Consumer Protection
Credit Risk		Project Mgmt.	Pricing	…	Committee Bylaws
…		Data Processing	Competence Matrix		Business Continuity
		Competence Matrix	…		Conflicts of Interests
		…			Corporate culture
					Decision-making principles
					…

Figure 16: Example for an internal regulations landscape in a financial services division.
Source: Compiled by the author based on BMW AG (2018) and EBA (2017a).

The subsidiary self-statutory regulations have to observe legal and regulatory requirements and the group-wide standards. Such governance instruments are essential, as they provide staff guidance and reduce the probability of non-compliance behavior, but usually they are also the starting point for internal and external audits (cf. Filatotchev & Nakajima, 2010).

IT Security and governance: Despite the fact that IT Security and governance have already been viewed from multiple perspectives, they are getting increasingly important regarding corporate governance (cf. Griffiths et al., 2014). The global IT management and the governance of the related demands, investments and resources is getting increasingly crucial as an integral part of each business model (cf. Selig, 2018). Van Grembergen & De Haes (2016) explain that IT governance has to ensure that "*the definition and implementation of (IT) processes, structures and relational mechanisms in the organization enable the organizational members to exercise their duties*", support their alignment and the creation of business value to achieve the set business targets (cf. Van Grembergen & De Haes, 2016; Ali & Green, 2012). Multinational groups usually aim to centralize and standardize their IT governance and decision-making infrastructures to increase transparency, effectiveness and efficiency

[243] Schach & Christoph (2015, p. 24) provides a comprehensive overview about different internal regulation types: Code of conduct, Guiding principles, responsibilities, instructions, guidelines, competition regulations etc.

(cf. Thompson et al., 2014).[244] Despite the advantages of proper IT governance, it also brings new challenges, such as cloud-based services, boundary-crossing use of data and new system development practices that have to be taken into account. Governing information within - as well as outside - the organization, balancing access and security, and aligning investments with corporate goals, are becoming crucial for today's increasingly digital driven business models of car manufacturers (cf. Borgman et al., 2016). Information technology supports multinationals to balance global integration and local responsiveness, because it is a key enabler to achieve this earlier debated desired dual fit (cf. Chou & Liao, 2015).

Closely linked to this topic is also the information protection of sensitive data (cf. Berry, 2017). If unauthorized persons get access to highly protected and sensitive business information, it will lead to incalculable consequences, if there is an abuse of relevant information. This refers in particular to the automotive and the banking business, in which trust is a fundamental asset of their business models. In this context, data governance is a basic prerequisite as critical control mechanism and consists of processes, which ensure that crucial data assets are formally stored and managed throughout the entire multinational group.[245] It is still largely ignored by many organizations, that there is the need for an intragroup framework for managing data.[246] Thus, the parent should define proper group standards for the securing of information protection, IT and data governance.

Remuneration and incentive schemes: In the past unregulated remuneration practices in banks exposed serious weaknesses, such as short-term thinking to increase own compensation without considering the related risks. There is a great need to avoid misguiding incentive schemes as this could lead to incalculable danger for the complete multinational group (cf. Frederick, 2014). Financial services organizations require compensation schemes that incentivizes a sustainable, long-term company success instead of short-term profit maximization, with a carefully balanced ratio between fixed and variable pay (cf. Sassen & Schnier, 2013; Krahnen & Mayer, 2013; Paetzmann & Schöning, 2014; Yasui, 2016). Hohmann, (2017, p. 4 f.) argues that the overall variable component has to be linked to the employees' and banks' performance and, that they should consider financial and non-financial criteria for a certain timeframe over several years.

I highlight that the variable compensation should be used as a malus and clawback instrument for e.g. a serious loss of the banks or failure of complying with fit and proper standards. In the last years regulators implemented regulation initiatives that require banks or listed companies to publish e.g. a regular remuneration report to ensure transparency (cf. Welge & Eulerich, 2014, p. 113 ff.).[247]

[244] Thompson et al. (2014) outline that the definition of global standards for enterprise systems may reduce total IT costs, but global standards may also limit local responsiveness and innovation. Consequently, subsidiaries in dynamic markets should select and control their own enterprise systems.

[245] Data governance ensures that data can be trusted and people are accountable for any adverse event because of low data quality. It is about putting employees in charge of fixing and preventing issues with data that the whole organization can work more efficient. In multinational companies with different sources of data is crucial to have a holistic intragroup data management framework.

[246] Typical data governance fields in companies are enterprise connectivity, customer management, corporate management and control, fulfillment of legal and regulatory requirements (cf. Otto & Weber, 2011).

[247] Representing others: CRD IV; MaRisk, InstVergV, principles of the Financial Stability Board (FSB). For further information regarding the regulatory and legal compensation requirements of managers, cf. Wagner et al. (2014); Zöbeley (2014); Evteev (2014).

However, as latest incidents illustrate (e.g. Diesel Gate, Libor case, etc.), many companies still struggle to design appropriate targets that hinder inappropriate or even fraudulent behaviors.
Another complexity driver is the necessity to reflect the multiple compensation and benefit practices across countries.[248] Yanadori (2014, p. 195) remembers that most managerial positions on subsidiary level are usually held by host country individuals, parent country individuals or third country individuals and are further influencing the compensation and benefit schemes. Tekieli et al. (2018) analyzed that parent managers recognize a centralized approach as being more effective, while subsidiary managers prefer a local reward management decision-making. Hence, the parent entity should define group-wide compensation standards that allow subsidiaries to supplement these with local host country specific components and meet national regulatory requirements.

In sum, to reflect the increasing relevance of proper governance frameworks, it is a clear responsibility of the local management bodies to make sure that the subsidiary structures are properly embedded into the group landscape. I outline the necessity to define a dedicated function which encourages the management bodies to fulfill their multiple governance obligations.
However, as the next subchapter will illustrate, also an aligned risk management among all hierarchies is another key enabler for subsidiary governance.

4.2.7 Risk management

In multinational groups various risks arise out of their global business activities, which have to be adequately managed. Frederick (2014) and Yasui (2016) highlight the relevance of an aligned risk management in group structures with bank subsidiaries, as the combined risk is more concentrated and may affect the soundness of the whole multinational group.
The risk management should be proactive, sharpen the risk awareness and must follow a comprehensive group-wide ERM approach.[249] Yasui (2016, p. 19) explains, that the second line of defense is a group-wide risk management system. For that reason, an integrated group-wide risk management approach is essential. It is in most countries a legal obligation that compliance, risk management and internal audit functions are conducted by an independent legal entity.
Yasui (2016 p. 19) outlines that many financial groups organize their risk functions in a centralized way.[250] In most cases the parent's board or solely the CFO is responsible for the risk management, but is supported by group-wide functional units.[251] However, as those parent functions cannot work efficiently and effectively without local knowledge, they usually implement dual risk functions on both, the parent and subsidiary level (cf. Yasui, 2016 p. 19). Proper risk governance further reduces a firm's litigation probability and improves the financial and stock price performance of financial institutions (cf.

[248] Cross-national variations to different country specific factors include e.g. labor market, social security (e.g. public health insurance), governmental regulations or cultural differences have a major impact towards the compensation and benefit practices on subsidiary level (cf. Yanadori, 2014, p. 192).
[249] For further information, cf. subchapter 3.3.1.
[250] Among others, the BCBS Principles for Corporate Governance (2015) and the EBA Guideline for Internal Governance (2017a) outline the necessity to install both, a CRO on group level of the consolidating parent and additional risk functions on subsidiary level.
[251] The study of Ittner & Oyon 2014 found evidence that if the CFO has risk ownership on the firms' finance units (i.e. compliance, internal audit, risk management, and treasury functions report to the CFO) it makes significantly greater contributions to a wider range of strategic and operational risks.

Amoozegar et al., 2017). For the reduction of the governance variances, I argue, that especially a common **group-wide risk understanding, consistent strategic risk assessments, common risk culture and properly aligned operative risk management practices** on subsidiary level, are essential. For that reason, each of those sub-elements will be further debated in the next paragraphs.

Risk understanding: There is no doubt that entrepreneurial success and innovations cannot be achieved without consciously taking risks (cf. Kajüter, 2014, p. 1). Managerial risk taking is an important aspect of strategic management and essential to improve competitive advantage and performance (cf. Hoskisson et al., 2017). Despite consensus that risk oversight is a clear governance requirement, it can be confusing, multidimensional and complex and can bring up challenges for the management bodies, e.g. due to various methodologies for approaching risks (cf. Fraser, 2016). Subsequently, it is essential to ensure a common risk understanding and group-wide framework, which defines which risks are allowed to be taken. There is a rising trend that management boards get more involved in the risk oversight, insight and its management, as they held ever more accountable for the business strategy, the success or failure of their organizations (cf. Fraser, 2016). In response, many management bodies consistently implement risk committees to define risks, secure risk oversight and a comprehensive enterprise risk management throughout the organization, thereby obtaining an adequate due diligence. As a risk categorization is useful to secure a consolidated overview about the risks, it also requires joint risk reviews on a regular basis. An end-to-end risk management approach helps to ensure that risk management is designed as a continuous process to adopt new risks within an ever-changing business environment (cf. Hopkin, 2017, p. 60).[252]
The national cultures also largely influence the risk management behavior, which implies the necessity of a common risk understanding in multinational companies (cf. Liu et al., 2015). High performance organizations focus on a continuous risk adaption, which secures continuous further improvement, critical self-reflection and in this way strengthens the group-wide risk understanding.[253] While a group-wide risk strategy provides clarity and guidance for the risk functions and the expectations regarding the appropriate levels of risk taking, it also builds the basis for the development of a locally adopted risk strategy. I underline that a common risk understanding among all hierarchies is a basic precondition for an effective intragroup risk management.

Risk culture: Since the last financial crisis, particularly the risk culture of organizations has come to be regarded as a key issue for both financial organizations and their regulators (cf. Ring et al., 2016). Due to the fact, that risks cannot be avoided, it is crucial to define the awareness of risks as an entire element of the corporate culture (cf. Hopkin, 2014, p. 109 f.). The corporate culture has to support a conscious approach to deal with risks, identify, report and reduce potential weak points and be compliant with existing internal rules. Risk culture defines the way how people handle risks in a specific social context and forms the foundation to enhance risk competence (cf. Streicher et al., 2018).

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[252] The earlier debated enterprise risk management (ERM) is a comparatively new approach of regulators, but proposes the integrated management of all the risks faces an organization (cf. Bromiley et al., 2015). For further information, cf. chapter 3.3.1
[253] In this context is the earlier debated framework management dimension a prerequisite to gain a comprehensive risk understanding. For further information, cf. chapter 4.2.1.

In sum, a strong risk culture is generally valuable to an institution as it strengthens the institution's resilience (cf. Fritz-Morgenthal, 2016). The limitations of risk measurement and the decentralized nature of risk taking imply that setting appropriate incentives for the organizational risk takers and promoting an appropriate risk culture are essential for effective risk management (cf. Stulz, 2016).
As dedicated risk managers can support the risk awareness with a broad understanding of company risks, it remains challenging to boost the same level of risk awareness across all hierarchy levels in large multinational companies. Risk culture always varies on local level, thus, Sheedy & Griffin (2018) recommend to measure and manage risk culture locally. Guidelines and regular trainings help to manage obvious risks, but there are also risks, which cannot be covered by such instruments. The difficulty is that an appropriate risk culture develops over a longer time, largely depends on the performed leadership and cannot be solely implemented by external regulations or written policies. In addition, Liu et al. (2015) remember that different national cultures deal with risks in different ways, and therefore subsidiaries require a local adjusted risk sensibility approach. Thus, the study of Ashraf (2015) found out that the national culture of the parent bank's home country is more important for the risk-taking behavior of a foreign subsidiary than the national culture of its host country. Accordingly, parent companies should define global risk culture statements to provide guidance for subsidiary staff.

Strategic risk management: The strategic risk management has to secure that there is always a risk coverage for the strategy and that the calculated risks are acceptable and controllable within the corporate group (cf. Hopkin, 2014, p. 79).[254] Many corporate groups include strategic risk assessments as fixed element within their strategy processes. On the one hand, a top-down approach enables the group to consolidate and coordinate general and regional risks for the entire group to secure risk oversight, the consideration of the corporate parent's preferences and the timely definition of appropriate risk prevention measures.[255] On the other hand, a dynamic bottom up process is also essential, which helps to identify host country and subsidiary specific problems and helps to evaluate those risks in a fast and efficient way (cf. Samuels, 2014, p. 34). The parent's risk management function has to consolidate the top-down and bottom up reporting and has to inform the parent's management body on a regular basis. Yet, to secure a holistic view, subsidiaries have to be involved in the process, as underestimated subsidiary specific risks may bear incalculable risk potential for the group as a whole.
I argue that only if the risk management process assimilates risk tolerance, risk propensity and risk practices into the managerial mindset of the senior managers of both, the group and subsidiaries, it helps to secure a consistent risk mitigation approach. Managerial guidance on risk oversight improves the financial performance and a group-wide active coordination of risk tolerance orientation, risk propensity and risk practices (cf. Eastburn & Sharland, 2017). Samuels (2014, p. 34 ff.) states that risk evaluation involves the probability of occurrence and its potential consequences, which implies, that the parent has to set the macro framework conditions including a company's risk appetite and other risk limits. However, this is solely useful if there is regular risk evaluation that compares the risk appe-

[254] Strategic risk management has become a subject of increasing interest to practitioners and academics within the last years. Even with this longevity, the meaning of the term remains unclear, with confusion increasing with the advent of enterprise risk management. Bromiley et al. (2014) provide a comprehensive overview about the strategic management perspective on risk.
[255] Therivel & Paridario (2013) introduces a practical orientated framework for a strategic environmental assessment for companies.

tite to the actual risk evaluation and defines countermeasures to close gaps regarding e.g. subsidiary or host country specific risks. Macey & O'Hara (2016) point out that all those strategically important risk prevention measures are obsolete if the involved senior staff of both, the subsidiary and the parent are not *'banking literate,'* and do not possess the specialized knowledge needed to monitor and control risk taking in complex banking institutions.

Operational risk management: Even if the overall risk responsibility cannot be delegated from the management body towards lower hierarchies, the operative risk management tasks have to be performed by delegated risk management functions within the subsidiaries (cf. Kajüter, 2014). Altogether, the operational risk does not have lesser impacts like strategic risks. The operational risk management has to take into account the risk management environment, internal control and the organizational risk culture (cf. Hana, 2016). At the same time, it has to be taken into account that there are many different categorizations for operational risks available, which make a clear guidance of the parent inevitable (cf. Sadgrove, 2016, p. 8 ff.).[256] Another advantage of the locally performed operative risk management is that it strengthens the risk awareness and ensures, that they are prepared to deal with obvious risks. Further, it ensures that the defined risk limits and risk appetite frameworks are met and avoids a bloated and expensive administration in the consolidating parent.
A regular analysis of the operational risks builds the foundation for the further development of risk prevention measures. The definition and implementation of such measures should be delegated to the subsidiaries. Even so, it remains challenging to deal with the multiple local risk regulations and mentalities to manage risks in the daily business (cf. Liu et al., 2015). This implies even more, that there exists a necessity for aligned intragroup procedures, based on supportive group-wide IT systems and standardized core processes.

The parent management body is responsible for developing an intragroup future oriented risk management framework that considers existing planning and management processes, but also the realization of business opportunities (cf. Hopkin, 2014, p. 99). Risk management is an entire part of the general management and it has to be on the executive agenda regularly (cf. Falkner & Hiebl, 2015; Hilb, 2012, p. 158). While this enhances the management attention, it also has to be ensured, that the entire risk management approach and its related risk processes are regularly reviewed critically and adjusted if necessary. The management bodies have to promote an open, constructive and trustful risk culture. The parent's board is responsible to set the right *'tone at the top'* and needs to be recognized as role model (cf. Hopkin, 2014, p. 109 f.).
In sum, senior staff has to understand that risk awareness, tone of the top, training, the independency of risk department and audit responsibilities are major indicators of good risk management (cf. Mtaki & Ganesh, 2016). Risk functions have to report directly to the senior management and participate regularly in board meetings and other relevant sub-committees (e.g. risk committee, audit committee). The corporate parent should implement upstream risk committees to discuss risk related topics, that affect the entire group, on the one hand, but also advise the management body and steer the group-wide

[256] Sadgrove (2016, p. 28 ff.) provides a comprehensive overview about the multiple categorizations of operational risks. Among others, especially the people risks, compliance risks, financial risks, technology risks are relevant within the multinational group context.

risk management activities, on the other hand (cf. Hines & Peters, 2015; Hilb, 2012, p. 151 f.). In addition, the management bodies have to secure that risk management and monitoring have separate reporting lines and predefined escalation procedures.
Finally, as last key area for securing a professional management of corporate governance among financial services subsidiaries, I continue with the role of corporate audit in the last subchapter.

4.2.8 Corporate audit management

As third pillar of the Three Lines of Defense approach, a group-wide internal audit system is a crucial component, which has to secure that intragroup risks and problems are recognized.[257] Internal auditors have to act as an advocate of good corporate governance within the organization, and they are a relevant source to secure ethical behavior, efficiency, and effectiveness in organizations (cf. Raiborn et al., 2017; Ma'Ayan & Carmeli, 2016). Proper internal audit processes are a clear responsibility of each management body. In particular, the size, regulatory status and global structure of the corporate group lead to coordination and communication challenges, while language and cultural barriers play a less relevant role for the effectiveness of group audits (cf. Downey & Bedard, 2019). Similar towards the other internal control functions, Shishkina & Barac (2015) suggest that also the internal audit functions should be equally structured in a geocentric approach.[258] A network approach is favorable, because the local auditors should also have standardized reporting lines to the consolidating corporate audit function on parent level to prevent conflicts of interests on subsidiary level (cf. Yasui, 2016, p. 19). Yasui (2016, p. 19) explains that an integrated audit function at parent level should monitor and consolidate the audit activities of the subsidiaries, as the internal audit effectiveness largely depends on a holistic and consistent intragroup approach (cf. Renz & Böhrer, 2012, p. 63). Moreover, the parents corporate audit function should also support the subsidiaries in case of any difficulties, raise transparency and share best practices. I outline the necessity to secure a clear allocation of the roles and responsibilities and aligned audit plans to avoid work redundancies or even audit gaps. Despite its control function, internal audit should rather be recognized as a supporting instrument for intragroup value creation and not solely as a fulfillment of statutory provision.
I argue that, if a professional intragroup corporate audit organization is implemented, it will support the corporate parent to identify risks and potential misconduct within the group at an early stage, which is essential to intervene before they become serious for the whole group. At the same time, evidence exists that a comprehensive ERM implementation significantly increases the effectiveness and performance of the internal audit (cf. Tsai Chen et al., 2017).
Accordingly, I follow the argumentation of Renz & Böhrer (2012, p. 64) who argue that for ensuring subsidiary governance it is fundamental to ensure a common **audit understanding** as well as clarity about the **audit scope** among the subsidiary network, to reduce risks and minimize the governance gaps.

[257] I do not explicit concentrate on the external audit. As this dissertation concentrates on the intragroup governance management, the primary focus matter of this debate focuses on the intragroup corporate audit.
[258] The combination of local and central audit structures is a common approach in multinational groups with financial services subsidiaries For example, the HSBC Holdings, UBS Group and the three biggest Japanese Banks have independent, centralized global internal audit functions to perform internal audit activities for the entire multinational groups and have additional local audit functions in their major subsidiaries (cf. Yasui, 2016, p. 20).

Audit understanding: As a prerequisite to assure compliant actions, it is important to have an equal understanding of audit and its implications for the organization (cf. Puhani, 2015). According to the Three Lines of Defense Model, the internal audit function is responsible for performing independent audit and advisory services. Independency of the audit function is a prerequisite to secure its effectiveness, and no conflicts of interests should hinder the objectivity of the internal auditors. For that reason, different organizational measures have to be implemented (e.g. regular auditor rotation, organizational indecency and direct reporting lines towards the board) to strengthen the independency and avoidance of influence and among the audit planning, its execution and evaluation (cf. Schmidt, 2016, p. 2). Even so, another prerequisite for audit compliant behavior is that managers and employees know and understand the purpose of internal audits (Renz & Böhrer, 2012, p. 64). It is of great importance that all managers in the corporate parent and the subsidiaries have transparency and a common understanding about the purpose of the audit programs, the design of the audit function and their embeddedness within the organizational structures. Moreover, the additionally performed audits of the parent's corporate audit department has to be based on a partnership of equal terms, trust and fairness.

Audit scope: The management bodies have to secure the supervision of internal control instruments as well as the professionalization, integrity and independency of the audit activity (cf. Schmidt, 2016, p. 2). The internal audit scope should vary and should slightly set different priorities every year, but also to take into account identified weak points from the past. As the parent's management body should be included in the yearly definition of the annual audit focus and audit planning across the subsidiaries, there should also be an obligatory management reporting on a regular basis.[259] The auditors should focus on multiple financial and non-financial KPIs, but also on existing systems and processes and group-internal collaboration between the different interface functions.[260] Further, it is also required to implement processes which define the mode of intragroup collaboration of the internal and external audit and, if implemented, respective audit committees.[261]

After a detailed discussion of the key drivers and associated complexities of the intragroup management of corporate governance, the following chapter discusses the implications, which arise out of the professional management of the earlier described eight subsidiary governance focus topics.

[259] For further information, cf. chapter 4.1.2. (Issue management).

[260] Particular the effectiveness of control mechanisms (e.g. front versus back office, four eye principles, checks and balances), business continuity procedures and process security should play a key role (cf. Günther & Gonschorek, 2008, p. 136 f.).

[261] Since many years there is large debate about its beneficial or not, but many national the regulators defined that external auditor should be changed on a five years' basis to ensure their independency. The empirical proof of mandatory audit firm rotation on audit quality and auditor independence is inconclusive. Whilst there is evidence that rotation may have a positive impact on 'independence in appearance', most research fails to generalize these findings. There is even evidence of potentially adverse effects of rotation. Representing others, cf. Häfele (2015, p. 157); Cameran et al. (2013); Ewelt-Knauer et al. (2013); Daniels & Booker (2011).

4.3 Merits of subsidiary governance management

As debated in chapter 3.1, long-term corporate success can be operationalized via operational efficiency and effectiveness. Taking into account the previously developed integrated definition of corporate governance within this dissertation and the argumentation of Malmi & Brown (2008), who outline the relevance to consider management control rather as a package and to embed it in a much broader, holistic company context than as a loose accumulation of isolated single elements, I debate in this chapter the implications of a professional intragroup governance management.[262]

Even if it is challenging to measure without any weak points, I discussed multiple studies, provide empirical evidence that a professional intragroup corporate governance practice forms the basis for a better overall performance. A professional subsidiary governance management of the earlier defined focus areas contributes to the long-term value creation, as it positively influences the capacity for innovation, supports the competitiveness, sustainability, leadership and organizational performance of the entire group.

Proper subsidiary governance encourages clarifying intragroup expectations and defines the roles and responsibilities within the multinational group. It is also a prerequisite for the parent's ability to fulfill its duty of care obligations. A subsidiary governance concept defines clear financial and operational delegations of authority, intragroup reporting duties and also monitoring mechanisms. Even if subsidiary governance affects many diverse, cross-functional intragroup topics and relationships, it will also help to sharpen a common understanding regarding corporate governance. Subsidiary governance facilitates the minimization of organizational failure, aims to reduce misconduct behaviors and secures compliance. In the following, I will discuss how the identified subsidiary governance dimensions help to improve the earlier identified key determinates, contributing to the overall long-term success of firms: **capacity for innovation, competitiveness, sustainability, leadership and organizational performance** as illustrated in the Figure 17 on the next page.[263]

[262] For further information, cf. chapter 2.4 and 2.3.2.
[263] I have identified those key drivers within his earlier research in chapter 3.1.4.

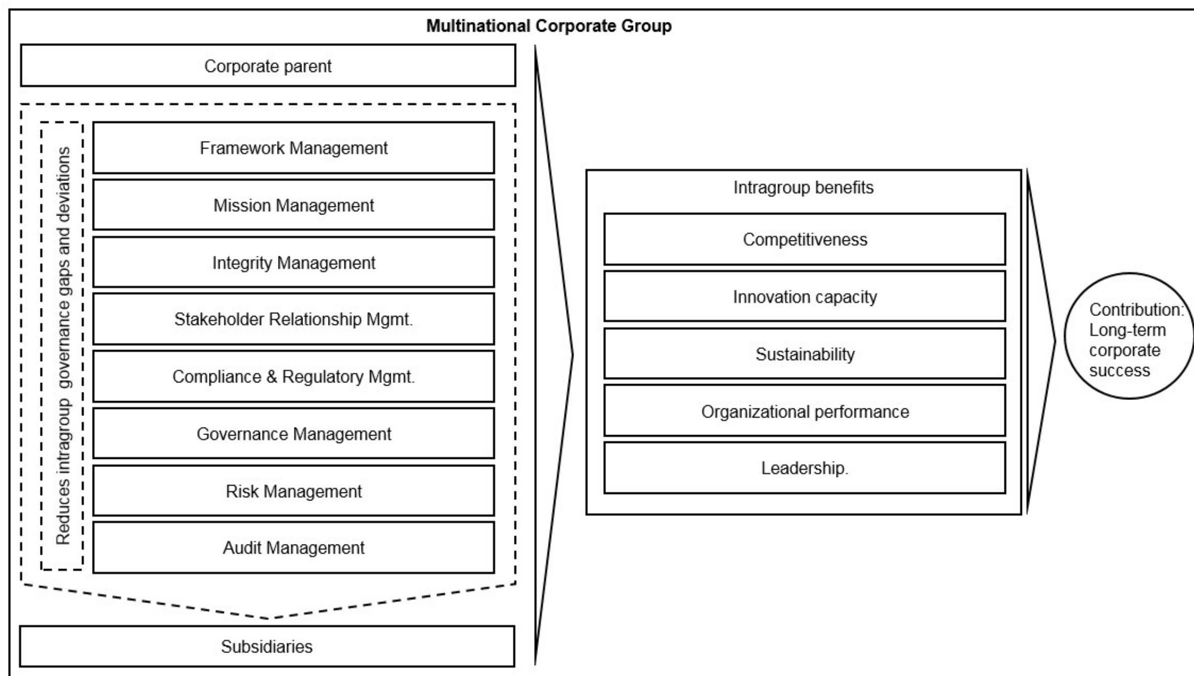

Figure 17: Corporate benefits of a professional subsidiary governance management.
Source: Own illustration.

Improved competitiveness

It is a common responsibility of the parent's management body to secure the competitive positioning in each market, in which the group performs their business activities. In this context, competitiveness can be defined by market share, (product) innovation potential, employee quality, the effectiveness of the general system, structures and processes or earned profits.[264] In essence, all those multiple layers influence the multinational group in different ways on different levels.

To gain a significant market share, it is a basic prerequisite to have an in-depth market understanding of the host country and a close collaboration between the subsidiaries and the corporate parent to secure global integration. Therefore, different elements of the priorly identified subsidiary governance dimensions form the foundation to achieve a sustainable competitive advantage. In the case of subsidiary governance, I argue that competitiveness primarily consists of the identification of competitive drivers, customer orientation and sustainable competitive behavior, combined with a proactive involvement culture as described in the next paragraphs.

Identification of competitive drivers: Local subsidiary managers have to identify and understand the local market specifics and their local competitors to evaluate their market position to be successful in the long-term. Hereby, the systemic understanding (cf. ***framework management***) in combination with the defined characteristics of the ***stakeholder management*** plays a major role.[265] Comprehensive

[264] The following authors use the market share as an indicator for competitiveness: Crescimanno & Galati (2014); Tiffin (2014); Deshmukh (2016). Others indicate that innovation capacity is a driver for competitiveness: Supriono & Topowijono (2016); Hernandez & Vargas-Gonzalez (2015); Zeschky et al. (2014). In addition, several authors found that the employee quality plays a central role: Rao (2016); Cheruiyot & Tarus (2015); Sandhya & Kumar (2014); Šikýř (2013). Again, others argue that the competitiveness depends largely of appropriate corporate systems, structures and processes: Goetsch & Davis (2014); Segatto et al. (2013); Zairi (1997); Knorr (1991). Finally, a group of authors use the earned profits as indicator for the competitiveness: Zulfakarova et al. (2016); Liu & Jiang (2016); Buche (2016).

[265] For further information, cf. chapter 3.2.1 and 4.2.4.

local market knowledge forms the prerequisite to develop a local adjusted subsidiary specific strategy and local implementation approach (cf. ***mission management***).[266]

Customer orientation: Solely those organizations, that focus on a customer centric approach to gain competitive advantages, can improve evaluations of where to expand their efforts and resources to outmaneuver their competitors, improve their organizational performance, profitability and create additional benefits for their customer base (cf. Kurt-Christensen, 2010; Zand et al., 2018). Market orientation forms the foundation to define strategies that improve customer satisfaction, their loyalty and in sum leads tow a higher financial performance (cf. González-Benito et al., 2014). A clear commitment towards market-oriented culture means striving for excellence that, in turn, emphasizes competitiveness and market superiority (cf. Mahmoud et al., 2016). A consequent customer centricity approach during the whole value chain is a central element of competitiveness and depends largely on the intragroup collaboration. In particular the elements of the ***stakeholder relationship management*** (*customer satisfaction, customer centricity processes*) are essential, and the regular evaluation of customer satisfaction is a prerequisite to ensure the customer centric perspective.[267]

Sustainable competitive behavior and proactive involvement culture: A sustainable competitive behavior depends on the organizational culture, legal regulations and the coherence between the strategy and the business model on a local and global level (cf. Rauter et al., 2017). Competitiveness arises from the proactive and long-term oriented market orientation. Even if this is influenced by many direct and indirect determinates, it has to be regularly demanded and fostered by the management bodies. Particularly the elements of the ***framework management*** (*systematic thinking and processes*), ***integrity management*** (*problem-solving culture*) and the ***risk management*** (*continuous strategic risk evaluation* of market and customer related risks) play a decisive role.[268] Additionally, subtopics of the ***compliance and governance management*** are further prerequisites to foster a sustainable competitive behavior.[269]

The above-described implications insinuate that there is at least an argumentative correlation between properly aligned subsidiary governance and the overall competitiveness, which goes far beyond the obvious assumption, that the competitive advantages largely arise solely out of the prevention of compliance breaches and their cost savings by avoidance of high penalty payments. Subsidiary governance has to be recognized as an intrinsic value of each corporate group and should be recognized as a main source for the group-wide competitiveness.

Higher level of innovation

Innovation is a key driver for nearly all types of companies to ensure their survival and long-term success (cf. Möller et al., 2011, p. 174; Möller et al., 2016). Lundvall (2016) defines innovation simply as an outcome of a collision between technological opportunities and user needs. For companies, innovation entails doing something they have never done before and includes e.g. new products or services, new processes, the entry in new markets or the development of a new business idea.[270]

[266] For further information, cf. chapter 4.2.2.
[267] For further information, cf. chapter 4.2.4.
[268] For further information, cf. chapter 4.3.1, 4.3.3 and 4.3.7.
[269] For further information, cf. chapter 4.3.5 and 4.3.6.
[270] Boston-Fleischhauer (2016) explains that there are different types of innovation, which result in different outputs. He differentiates between incremental change and disruptive innovation.

In short, innovations have a positive effect on the long-term company performance and contribute towards a long-term profitable growth (cf. e.g., the studies of Rajapathirana & Hui, 2018; Camisón & Villar-Lópezb, 2014; Huang et al., 2013; Jiménez-Jiménez & Sanz-Valle, 2011; Jansen et al., 2006). Ciabuschi et al. (2014) found evidence that, if subsidiaries are embedded within the multinational group, they will directly affect the innovation related business performance of the group as a whole. Jiménez-Jiménez et al. (2014) add, that especially the defined processes to transfer knowledge from subsidiaries to the headquarters are a central enabler for enhancing the innovation capacity. Even so, Elia et al. (2019) analyzed that subsidiaries are less innovative in networks with partners from other cultures. Altogether, innovation performance in multinational groups is partly a function of the values that is created through intra- and inter-organizational flows of knowledge within and across the host countries (cf. Delgado-Márquez et al., 2017).[271] According to Renz & Böhrer (2012, p. 71 ff.) professionally managed subsidiary governance contributes to a better innovation performance, largely driven as an outcome of the following three debated determinates:

Comprehensive framework understanding: Organizations with transparent *structures and clearly defined roles and responsibilities* (cf. ***mission management***) and a comprehensive system understanding, support the innovation readiness of an organization and its members (cf. Body & Ceri, 2016).[272] System understanding means *structural thinking in dependencies and relationships* (cf. ***framework management***) across all hierarchy levels.[273] In multinational groups, innovation arises in the close collaboration with internal and external actors and is influenced by different cultures (cf. Delgado-Márquez et al., 2017). In other words, I argue that this cultural diversity of the employees and geographical distances are not a barrier, but rather an innovation network in which information is shared to increase innovation potential. Thus, particularly selected elements of the ***framework management*** (*systemic thinking and systemic processes*) and the ***mission management*** (e.g. the clarity about the *core competencies* and the *strategy*) are essential to support innovation and provide a framework to enable staff to recognize which innovation is most beneficial.[274]

Comprehensive customer understanding: Innovative companies aim on customer centricity and have the capability to identify and integrate customer trends in early stages of development (cf. Saldanha et al., 2017). Customers usually provide important insights or impulses for innovation during the purchase process, trainings or service appointments (cf. Cui & Wu, 2017). In multinational groups, it is crucial to define processes to transfer those generated customer ideas and insights towards the relevant intragroup functions. Accordingly, in particular the sub-elements of the ***stakeholder relationship management*** (*customer centricity processes, customer satisfaction*) and aligned *operational and organizational structures (cf.* ***mission management***) between the subsidiaries and the corporate parent are of great importance.[275]

[271] Even so, Ciabuschi et al. (2017) outline to balance carefully the parents headquarter involvement, as there may be also harmful effects of too much headquarters' involvement in subsidiary innovation-related activities.
[272] For further information, cf. chapter 4.2.2. For a sake of completeness, I supplement that there are also authors who argue that the innovation performance not solely depends on the existence of e.g. clear innovation processes. For example, the study results of Fontana & Musa (2017) indicate that predefined innovation processes may not necessarily have a positive relationship with innovation performance.
[273] For further information, cf. chapter 4.2.1.
[274] For further information, cf. chapter 4.2.1 and 4.2.2.
[275] For further information, cf. chapter 4.2.2 and 4.2.4

Sharpen innovation culture: The relationship of organizational **culture** and **innovation** has been subject to extensive research over the last decades, and it seems obvious that a corporate culture can either strengthen or limit the innovation capacity. Kesting et al. (2016) explain that different innovation stages and types raise different demands on leadership. Different leadership styles vary in their fit with different innovation types, stages and national cultures. Therefore, managers have to be aware of their role of sharpening an appropriate working environment, which supports innovation within their particular area of responsibility. To support innovative thinking, companies should reward the willingness to try out new ideas, even if this is also associated with higher risk potential and may be limited by the boundaries of existing structures and processes.[276] Multinational groups, which foster knowledge management practices that generate new knowledge out of their subsidiaries, internal or external social relationships, will encourage an innovation culture (cf. Jiménez-Jiménez et al., 2014).
A good subsidiary governance supports a group-wide innovation culture with multiple elements of e.g. the ***mission management*** and ***framework management,*** but also gets encouraged itself by an existing *problem solving* culture (cf. ***integrity management***) and a clearly defined *risk culture framework (cf.* ***risk management***).[277] In sum, multiple elements of subsidiary governance framework help to implement group-wide innovation networks, idea management systems and processes, and enable the groups to set the right framework conditions to sharpen their innovation culture. Even if this is challenging and needs time to develop, it is a major management task to foster connected working conditions that support innovative thinking and cross-border collaboration.

Sustainability

Global financial institutes and large multinational groups are under close scrutiny and profound pressure to focus on sustainability and accept accountability and responsibility for their various bottom lines of economic, governance, social, ethical and environmental performance (cf. Rezaee, 2017a; Dorobantu et al. 2018). Groups that introduce sustainability programs, constantly increase their investments and deliver annual reports about their initiatives to improve their sustainability efforts, giving the environment and human rights the same priority as profits (cf. Black, 2017; Asmussen & Fosfuri, 2019). Harjoto & Laksmana (2018) analyzed that a better CSR performance leads to a higher firm value because CSR reduces excessive risk taking as well as risk avoidance. However, the challenges of environmental sustainability are not only crucial as a moral imperative, but also as a managerial responsibility to operate profitably (cf. Olson & Wu, 2017). As outlined above, sustainability covers both, an external an internal perspective.[278] In brief, the external perspective comprises environmental and social living conditions and the internal perspective focuses on a long-term survival of the organization. To achieve both objectives, it is obvious that there is an appropriate governance framework and a clear management commitment required. Renz & Böhrer (2012, p. 75 ff.) explain that the financial impact on the group financials is often neglected. The tension and possible link between long-term economic performance and nonfinancial environmental, social, and governance sustainability performance have been extensively and inconclusively debated in recent business research (cf. Rezaee,

[276] This is also a relevant element of the strategic governance responsibility, as described in chapter 4.1.1.
[277] For further information, cf. chapter 4.2.1, 4.2.2, 4.2.3 and 4.2.7.
[278] Several other authors also differentiate between internal and external sustainability components, cf. e.g. Wadin et al. (2017); Kiron et al. (2012); Kolk (2010).

2017b). Even so, Eccles et al. (2014) outline that sustainability companies are more likely to have established processes for stakeholder engagement, are increasingly long-term oriented, and exhibit higher measurement and disclosure of nonfinancial information. Sustainable group companies significantly outperform their competitors, both in terms of stock market and accounting performance and benefit from a better public perception and reputation (cf. Camilleri, 2017; Conrad & Thompson, 2016). A collaborative governance approach provides the greatest impact on the sustainability performance (cf. Galbreath, 2017). Thus, as the following paragraph illustrates, subsidiary governance encourages the sustainability efforts of the multinational group in different ways:

Identification of sustainability drivers: A prerequisite to identify relevant sources for sustainability is a comprehensive context and *system understanding* of the entire multinational group (cf. Rana et al., 2017). In this context, particularly the ***framework and mission management*** play a crucial role, as they are important enablers. S*ubsidiary specific business models* based on *systematic structure and, processes* across the entire group or lucency about *dependencies and relationships* are components of a sustainable management approach.[279] Further, the clear management commitment towards the elements of the ***compliance, governance, risk*** *and* ***stakeholder relationship management*** dimensions are crucial key drivers.[280] In financial services subsidiary networks further targets e.g. a professional *regulatory management* or appropriate *remuneration and incentive schemes* on safeguarding sustainable value creation, appropriate behaviors and a balanced risk taking.[281] Despite the skepticism whether sustainability targets can be appropriately controlled, most corporate parents define intragroup sustainability objectives, develop adequate key performance indicators and define measures and requirements for their subsidiaries and global value chains (cf. Pillai et al., 2017; Crutzen et al., 2017).

Stakeholder support: Companies that improve their sustainability performance and simultaneously perform stakeholder dialogues are most likely to experience a decrease in sustainability-related stakeholder criticism and increase the probability for stakeholder support (cf. Hörisch et al., 2015). The level of support of the different stakeholder groups is an indicator for the sustainability efforts of an organization. Consequently, a proper intragroup and external ***stakeholder relationship management*** is of great importance. For example, this includes appropriate *code of conducts* for the dealing with important stakeholder groups as well as regular *stakeholder interest analysis.*[282]

Internal organizational sustainability: In brief, I argue that group-internal organizational sustainability, largely achieved by good subsidiary governance, is a key prerequisite to reach external sustainability.[283] It means that there are properly designed and intragroup aligned *organizational structures and processes* in place, which ensure business continuity by proper organizational alignment and decision-

[279] According to the study of Park & Choi (2015) are the parent company, government, and NGOs the major factors that influence the local sustainability and CSR behavior of subsidiaries. In a contrary, the roles of internal managers, customers, local community, and media are not considered as significant factors for the sustainability behavior of subsidiaries. For further information, cf. chapter 4.2.1 and 4.2.2.
[280] For further information, cf. chapter 4.2.4-4.2.7. For example, a comprehensive risk management approach also has to take into account environmental related risk factors and appropriate mitigation measures as an integral element of a sustainable management approach (cf. Poddar et al., 2016; Price, 2016; Aziz et al., 2016).
[281] For further information, cf. chapter 4.2.5 and 4.2.7.
[282] For further information, cf. chapter 4.2.4.
[283] This view is supported from the study results of Eccles et al. (2014) who investigated the impact of corporate sustainability on organizational processes and performance. Their results indicate that high sustainability companies significantly outperform their counterparts over the long term, both in terms of stock market and accounting performance.

making frameworks. It also includes timely *succession planning procedures* for key functions and *key persons*. Internal organizational sustainability can also be strengthened by low fluctuation rates of employees, which can be mitigated by e.g. respective *personal development programs* or respective HR recruiting procedures.[284] At the same time, a professional ***governance management*** on subsidiary level contributes to organizational sustainability. Besides, I found that sustainable organizations, due to their promoted *problem-solving culture*, clear *accountability frameworks* and their comprehensive framework and mission understanding can identify problems and chances in earlier stages. In long-term, a consistent and comprehensive ***audit management*** also provides a significant contribution on aiming at overall organizational sustainability throughout the entire corporate group.

Organizational performance: A high performance organization leads to increased efficiency and therefore to lower costs and better implementation processes.[285] As high-quality products improve customer relationships and customer satisfaction, the respective customer and enabling processes have to ensure an effective implementation. Providing the products according to the demands and expectations of the customers helps to increase the profitability and its market share. Whether subsidiary governance measures are effective and endorse a better organizational performance, largely depends on the implementation willingness and transformation competencies towards the local subsidiary structures, systems and processes (cf. e.g., Steijn & Tijdens, 2005; Fui-Hoon et al., 2001).

Implementation willingness: A clear prerequisite to reach operational excellence is the overall willingness and clear commitment of the different management levels to implement strategies, realize plans and set high but reachable targets. High performance organizations realizing the beneficial effects of a proper subsidiary governance, aim on a continuous improvement. Organizing costs in multinational groups are largely driven by distance to headquarters as well as the integration mechanisms, management willingness and the atmosphere that exists in subsidiary–headquarter relationships (cf. Lunnan et al., 2016b). Modern agile organizations do not implement once standardized governance processes and fixed structures without ongoing monitoring, self-reflection and reorganization (cf. Cervone, 2014). The implementation willingness is supported by different sub-elements of the ***framework, mission and stakeholder management.***[286] For example, if the *personal development*, the *subsidiary strategy* and operative planning is integrated in one comprehensive process, it will support the general implementation willingness of the involved stakeholders. Moreover, it is essential that there is a performance orientated, self-reflecting and consensus oriented *corporate culture* available within the entire group.

Implementation competence: Local implementation competencies within the subsidiaries secure the transfer of objectives or tasks into concrete business results. The rising trend of decentralization and more local independence of subsidiaries underpin the importance of local implementation competences (cf. e.g., Narula 2017; Young & Tavares, 2004; Roth & Morrison, 1992; Ghoshal & Bartlett, 1986).

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[284] For further information, cf. chapter 4.3.4.

[285] The term *'high performance organization'* is used from scholars since many years: cf. De Waal (2007); Holbeche (2005); Owen et al. (2001); Wood (1999); Katzenbach & Smith (2015). Other authors apply the term 'high performance work systems': Buchanan & McCalman (2018); Lv & Xu (2018); Karadas & Karatepe (2019); Evans & Davis (2005); Becker et al. (1998).

[286] For further information, cf. chapter 4.2.1, 4.2.2 and 4.2.4.

Despite the fact that information technology is a crucial enabler to create organizational value, multinationals still struggle to ensure in their subsidiaries the needed implementation competence within the continuous field of tension between global integration and local responsiveness. As this favors opacity, it is also a prerequisite to be successful, respond adequately to the local specifics and gain local knowledge and competencies for the group as a whole (cf. Rabbiosi, 2011).
In implementation-oriented organizations, proper *IT governance* frameworks are defined, and employees take on *accountability* and unexpected events can be openly discussed (cf. *problem-solving culture*).[287] Those organizations have a respective *risk culture* and perform a proactive *operative risk management* on subsidiary level, focus on an appropriate *compliance management* and proper *governance management* with integrated *'checks and balances'* mechanisms in the subsidiary processes.[288] It also includes a positive attitude towards the ***audit management*** and it is accepted as a management instrument to identify weaknesses and governance gaps to achieve better results.[289]
Adopted implementation processes: Subsidiaries can solely operate successfully in foreign locations by adjusting the parent's policies and processes towards the multiple local contexts (cf. Ahworegba, 2017).[290] Successful multinational groups manage the host country specifics by aligning their home country behavior, structures and processes and that of the subsidiaries' host country environments. Many strategic initiatives in multinational groups struggle with the implementation because of their organizational complexities, including multiple IT landscapes, large geographical distances and cultural differences between the different business units (cf. Brinkschröder, 2014). A successful strategy implementation requires a consistent planning, monitoring and control processes among the entire group (cf. Cândido & Santos, 2015). However, the implementation of balance scorecards with *subsidiary specific KPIs* or other management control systems also help to increase the organizational performance of the subsidiary network.[291] Other enablers are the elements of the ***governance management***, a group-wide consistent group-wide *compliance management system* or *aligned operational and organizational structures* and processes, e.g. for the measurement of *employee* or *customer satisfaction.*[292]

Leadership

The way subsidiaries and strategic business partners are directed and controlled by the corporate parent provides information about the intragroup leadership culture. The overall strategic management process starts with leadership self-perception of both, the management bodies of the parent and subsidiaries, as the global, regional and local competitiveness largely depends on it (cf. Godiwalla, 2015; 2016). In particular the interaction of leadership, business culture and the organizational design are of great importance (cf. e.g., Argyris, 2010; House et al., 2004; Smith & Peterson, 1988). Godiwalla (2015) explains that strategic global leadership, vision, and culture among the senior managers are critical for enabling the subsidiaries to pursue their vision of improved competitiveness.

[287] For further information, cf. chapter 4.2.6.
[288] For further information, cf. chapter 4.2.5, 4.2.6 and 4.2.7.
[289] For further information, cf. chapter 4.3.8.
[290] For further information, cf. chapter 4.1.2.
[291] This view is supported from the study of Micheli & Mura (2017), which argues that there should be given greater consideration to the utilization of different types of performance indicators when implementing and reformulating corporate strategy.
[292] For further information, cf. chapter 4.3.4, 4.3.5 and 4.3.6.

In that case, sustained growth and improved competitiveness in the global organizations´ multiple country environments become the means for the multinational group's overall strategic enhancement. Subsidiaries have to coordinate the different cultures of the corporate parent, the multinational group as a whole, and the national culture of the host country (cf. Godiwalla, 2015; Arredondo, 1996; Harvey et al., 2010; Shin, et al., 2007). Despite globally aligned leadership programs, the leadership culture is always influenced by host country characteristics, such as culture, economy and industry specifics.[293] There is a need for organizational interventions that aiming for coordinated leadership and organizational development strategies to facilitate effective corporate governance (cf. Aarons et al., 2015). Local subsidiary CEOs are responsible for mobilizing the intragroup entrepreneurship of subsidiary staff to develop relationships to access new knowledge, create ideas, and business opportunities (cf. O'Brien et al., 2019a). Especially in financial services, subsidiaries' leadership plays a dominant role for influencing the corporate culture and risk-taking behavior (cf. Bushman et al., 2016).

The earlier identified dimensions provide the basis for the corporate parent to better assess and improve the leadership of their managers in the subsidiaries. On the one hand, it fosters a comprehensive understanding of the general framework conditions and enables to further develop leadership strengths. On the other hand, it helps to clarify the parent´s expectations, sharpens a common understanding about their governance duties and requires organizational, structural and control measures to support the desired leadership culture.

Comprehensive understanding: A comprehensive understanding of group internal and external determinates is a clear management responsibility and a prerequisite for the subsidiary management bodies to fulfill their governance duties (cf. Molloy & Delany, 1998; Balaji, 2011; Pasaribu et al., 2013; Sandén & Mattsson, 2016). It forms the basis of the division of decision-making autonomy within the headquarters–subsidiary relationships (cf. De Jong et al. 2015). In brief, comprehensive leadership means that the subsidiaries mangers have transparency about their limited internal and external action scope and the predefined intragroup decision-making structures (cf. Kostova et al., 2016). It means to further foster the own corporate culture and promote the *systemic thinking* among the local managers and to secure a regular review of the *stakeholder interests analysis.*[294] From a management liability perspective in particular the ***risk, governance, compliance and regulatory*** as well as ***audit management*** admittedly stays in the foreground, but also having transparency about the business limitations regarding the hold business license or the locally legal and regulatory required board structures.[295] This enables the senior managers to be aware about their duties group-internally but also externally.

Leadership strengths: Another benefit of the earlier introduced governance dimensions is that it provides indicators about leadership strengths and its implementation in lower hierarchies. Leadership strengths have a close relationship with the already mentioned implementation willingness (cf. *paragraph operational performance*). It is a major obstacle for the corporate parent to evaluate the local performed leadership in the subsidiaries from a distance. For that reason, processes are required to

[293] Godiwalla (2015) outlines that the foreign subsidiary leadership culture further depends on the decision-making styles and approaches, the rationale for strategic and operating decision-making and the approaches to develop organizational structure, culture, technologies, information and control systems, policies, norms and practices in the workplace.
[294] For further information, cf. chapter 4.3.1 and 4.3.4.
[295] For further information, cf. chapter 4.2.

ensure that potential leadership weaknesses in subsidiaries become transparent in a systematic manner. Appropriate indicators are e.g. if the elements of the ***framework*** and ***mission management*** are regularly reviewed and discussed, or if the elements of the ***integrity*** and ***compliance dimension*** are involved in the personal evaluation of the employees.[296] Another indicator provides the results of regularly performed *employee satisfaction surveys.*[297] Leadership strength also means that all relevant internal control topics of the ***governance, risk and compliance management*** are ensured and that the *audit-related topics* are regularly on the subsidiary management agenda.[298]

Organization, structure and control: Leadership can only be successful if it is supported by the organizational setup (cf. Mihalache et al., 2014). The manner in which companies are organized provides insights into their management and leadership understanding (cf. Xinsheng, 2004; Ouchi, 1977). Hereby one has to distinguish between processes and structures that are implemented to comply with the parent's governance standards, and those that are implemented by the subsidiary management bodies themselves. In both cases, it has to be ensured that the entire subsidiaries' governance framework gets reviewed and updated regularly to avoid governance disparities. Nevertheless, to reduce complexity and improve intragroup oversight, group-wide standardized core processes and organizational structures for the subsidiaries are inevitable. Earlier described governance processes, such as the *succession planning*, qualification of *key persons*, *customer centric sales and purchase processes*, *compliance, risk evaluation procedures* or predefined *organizational structures* lead to a better intragroup collaboration and greater efficiency and effectiveness, transparency and consistency and provide suitable drawbacks for the local self-perception of leadership.

Altogether, this chapter has debated the multiple beneficial effects of a professional management of corporate governance among subsidiaries. As it defines a clear action framework for the local management bodies and clarifies the expectations of the corporate parent, it also helps to mitigate intragroup risks, secure compliance with laws and regulations, and avoid organizational failure. Beyond this, it enables the parent's management bodies to fulfill their due diligence obligations and it is a prerequisite to coordinate and manage their subsidiary networks with multiple natures of subsidiary characteristics, aiming towards a combined value creation to achieve the overarching group targets.

4.4 Interim conclusions for the intragroup corporate governance management

The previous subchapters illustrated three different dimensions (strategic governance, operational and subsidiary governance) that are necessary to manage intragroup corporate governance. In terms of corporate groups with strong regulated subsidiaries, I identified eight governance key topics in particular (cf. chapter 4.2), that play a decisive role for improving subsidiary governance. Taking their subordinated subtopics into account, the management bodies are enabled to alleviate the principle-agent problem between the corporate parent and their subsidiaries, secure global alignment, and simultaneously also ensure enough flexibility for subsidiary-specific adjustments.

[296] For further information, cf. chapter 4.2.1 - 4.2.5.
[297] For further information, cf. chapter 4.2.4.
[298] For further information, cf. chapter 4.2.5 - 4.3.8.

I state that a group governance framework comprising out of a strong **interaction of strategic, operational and cultural governance elements** in and between both, the parent's headquarters and the subsidiaries has to be implemented, and they have to be managed by different intragroup governance instruments. The roles and responsibilities, the granularity of the operational structures and also processes differentiate between the corporate parent (strategic and operative governance) and the subsidiaries, where the transformation and local adjustment of the group-wide governance standards takes place. However, one of the main obstacles in multinational organizations is the open definition and diverse interpretations of corporate governance in the different legal systems and jurisdictions. Nevertheless, a common interpretation of corporate governance forms the basis for a coordinated intragroup corporate governance management.
While the corporate governance of the entire group is a shared responsibility of the parent's management body, on a local level it is delegated to the management bodies of the subsidiaries. The parent's management body is in charge of monitoring and balancing conformity and performance across the group and has to ensure that there is a continuous further improvement of the initial business model, the core competences of the group and the overall strategic positioning. To respond to the constantly increasing legal and regulatory obligations of both, the parents and local management bodies, I argue that the earlier debated key areas of subsidiary governance in subchapter 4.2 help to facilitate risk management, ensure compliance with applicable legal obligations and mitigate organizational failure.

Altogether, the parent's supervisory body secures control and accountability of the parent's management body, but also provides it with expert advice for the management of the entire group.[299] The parent management body is responsible for setting the strategic direction of the group, has to set the right tone at the top and must define the overall framework conditions for the intragroup corporate governance framework. The management body primarily steers via signs and dashboards and receives regular reports of the subordinated management levels, to have a solid information basis for taking well-informed decisions.
The second management level (divisional head) is responsible for the governance operationalization and adjustment towards the division-specific business model and has to secure the implementation of centrally defined group standards. Hereby, the operational governance dimension has to define and implement respective instruments to manage the intragroup governance among the different subsidiaries and has to enable them to perform their own corporate governance proactively on a local level. The operational governance can be managed among performance metrics, regular reporting of relevant KPIs, governance instruments, such as predefined decision-making structures and processes, definition of local focus topics and their management, reference models for the organizational and operational setup to improve transparency, intragroup alignment and consistency.

[299] The parent's supervisory body is not in the focus of this dissertation. Even so, for securing comprehensibility, I mention it in this context.

However, there has to be a constant alignment between the parent's management body, the divisional heads and the subsidiary boards in terms of the strategy definition, performance and risk-related issues, rewards and resource allocations throughout the corporate group as summarized in the following Graph 18:

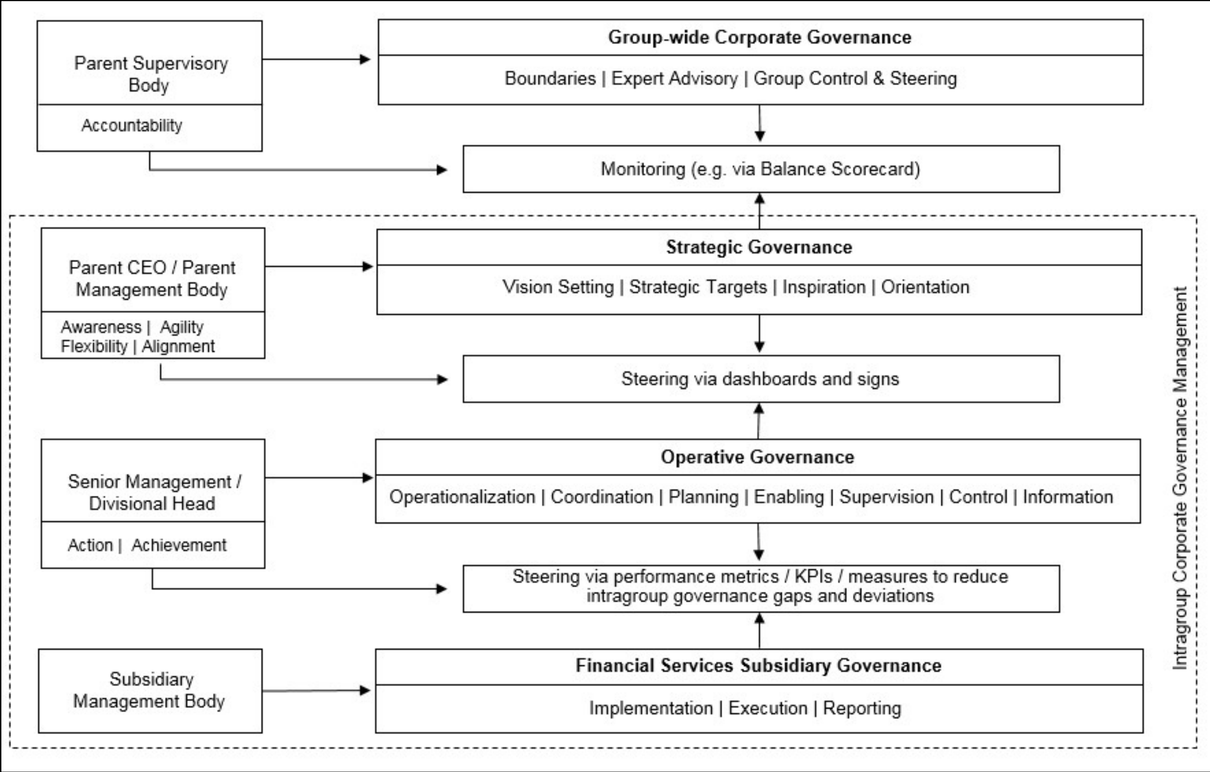

Figure 18: Tripartite structure of the intragroup corporate governance management.
Source: Own illustration.

A steering via professional management of corporate governance among the subsidiaries helps to secure congruence on certain governance related key topics, aiming at the implementation of a certain level of **subsidiary governance** standards within the entire group and is the prerequisite to define appropriate intragroup governance management instruments in the corporate parent for its subsidiaries. The overall objective is to mitigate business model specific risks, organizational failure and to guarantee a common group-wide compliance and governance management philosophy. Proper subsidiary governance has to safeguard the local implementing and embedding of centrally defined measures and strategies of the corporate parent into the host country environment. The exact local implementation always depends on the local market specifics, the culture, laws and regulations in the respective host country.

Even so, the corporate parent has to set the boundaries and define the group-wide focus topics to comply in an international perspective with the general acknowledged corporate governance standards and regulations (i.e. BCBS, 2015). An integrated subsidiary governance framework has to provide guidance for the subsidiaries and their management bodies about their expected responsibilities and accountabilities and forms the foundation for a proactive management and steering within the consolidating parent entity. Concerning the research question of this dissertation, I outline that the

already debated subsidiary governance key topics in the subchapter 4.2 include all necessary elements that have to be evaluated and monitored by the parent among its subsidiaries. Moreover, as the two subchapters 4.1 and 4.2 have illustrated, there are various governance focus areas and multiple instruments which enable the corporate parent to influence the local governance mechanisms, structures and processes within the subsidiaries to secure oversight and consistency among the subsidiary networks.

In essence, the parent manages the intragroup governance via clear and **standardized framework contracts**, including standardized terms and conditions that are applicable for all subsidiaries or standard contracts with the members of the local management body. Furthermore, **performance related compensation** schemes are an often-used instrument, even if it can also favor undesirable developments and increase risk taking if they are not designed carefully. Moreover, clear predefined **subsidiary targets and their steering** are crucial instruments to mitigate governance deviations. Standardized **reporting and alignment procedures** help to secure information exchange and minimize risks and intragroup opacity, despite the fact that this often leads to additional bureaucratically burdens, that make benefits questionable if they are not further processed for e.g. top management reporting.

Parent entities use **guidelines** to detail their expectation on how certain key topics have to be managed and controlled within the subsidiaries to secure their due diligence obligations. They are also the starting point for the corporate audit activities on local level.

Another typical governance instrument is the definition of **intragroup minimum standards** for certain topics or governance mechanisms, which have to be adapted to local specifics in the host country and nature of the subsidiary. As this secures a certain level of common understanding, their benefit can be limited if those minimum standards are too generic and provide room for individual interpretation. Further, parents develop **reference models** e.g. for the organizational operational structures among their subsidiaries to secure standardization to a maximum extent and focus on decision-making systemization (e.g. predefined committee landscapes, bylaws, predefined committee topics, alignment matrixes etc.). While group-wide **decision-making processes** are unavoidable in cross-border, hierarchical organizational structures, they also lead to longer decision-making procedures, may encourage diluted accountabilities for already taken decisions and limit the often promoted agility, flexibility and empowerment approaches of many top managers. In addition, **group-wide leadership and HR development** programs that foster the intragroup framework understanding, exchange and knowledge transfer, create a global community and share a common corporate culture are also crucial. Furthermore, it becomes clear that regular **training and communication** activities are also essential key elements to strengthen the governance awareness, but also to increase the understanding and the effectiveness of the implemented governance instruments. Thus, it seems appropriate on parent level to implement a *'Center of Competence of Corporate Governance'*, which is responsible for the coordination of the multiple governance management instruments.

The following Figure 19 provides a simplified overview of the so far identified, most relevant intragroup governance management instruments and governance focus topics that have to be addressed to mitigate intragroup governance gaps and deviations, and which in term secure the effectiveness of the group-wide governance framework:

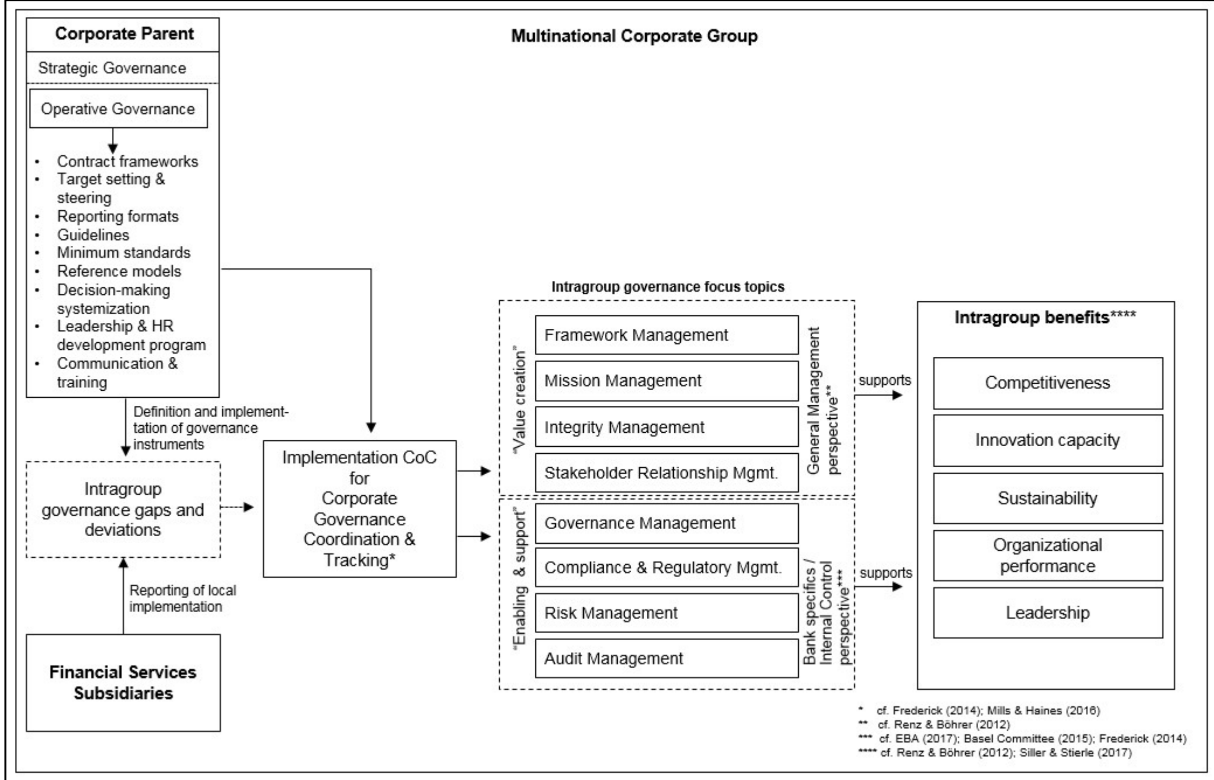

Figure 19: Intragroup corporate governance management construct.
Source: Own illustration.

The first four dimensions (*framework management, mission management, integrity management, stakeholder management*) primarily focus on typical general management competencies and are prerequisites for a proactive general management of a subsidiary in the context of the groups' preferences. The other four dimensions, namely the *compliance, governance, risk and audit management* can be recognized as management supportive internal control functions, which enable the management bodies of the subsidiaries to secure subsidiary governance and fulfill their due diligence obligations. Those functions are a crucial information source for the local decision-making and they are concurrently a steering and monitoring instrument for the consolidating parent. Those governance functions usually have a dual reporting responsibility – for the subsidiary's management body as well as a consolidating function within the parent and/or a respective *center of competence* for corporate governance as suggested from Mills & Haines (2015). Thus, a close collaboration and high level of lucency between the parent and the local subsidiaries can be secured.
The application of those governance management instruments enables the parent to predefine and manage the relevant intragroup governance focus topics among its subsidiaries.

If the parent companies aim to proactively manage their subsidiaries with the already mentioned instruments within those governance focus topics, it contributes in some cases either directly or indirectly to the overall *innovation capability, competitiveness, sustainability* and performed *leadership*. Moreover, it facilitates a better *organizational performance* and compliance with the applicable laws and regulations (cf. subchapter 4.3).

To get an overview on the governance maturity level of the different subsidiaries, a regularly executed **governance self-assessment** with a **standardized questionnaire** provides an appropriate instrument to ensure comparability.[300] This questionnaire should involve questions for each of the eight defined governance clusters and can be executed on a regular basis to assess on the one hand the effectiveness of the centrally defined governance instruments, but also to get feedback on how the various governance focus topics are being locally addressed. While such a governance self-assessment supports management bodies to identify strengths and weaknesses of their organizations, it also educates the senior staff and the other involved functions about the essentials of good governance. It further clarifies the expectations of the parent and helps to mitigate intragroup governance deficits (cf. Gill et al., 2005).

The standardized governance self-assessment forms the foundation to develop suitable recommendations for management actions with individual measures and solutions for each subsidiary. Nevertheless, as illustrated in the following example (Figure 20, next page), the evaluation scheme should have different scales. I suggest applying the underlying principles of the generally accepted ISO standard or the Capability Maturity Model Integration (CMMI, 2010) for the evaluation, which I adjusted regarding the subsidiary governance context.[301]

[300] The effectiveness of governance self-assessments or self-evaluation approaches is highlighted from Renz & Böhrer (2012) and Gill et al. (2005). Other authors suggest to apply self-assessments / efficiency audits for the evaluation of boards: Frederick (2014); Hölscher (2013); Fischhuber & Preen (2012); Schmidt & Brauer (2006); Audit Commission (2009); Strieder (2007); Sick (2003).

[301] The ISO 9001 builds the foundation for the process orientated quality management system and is one of the key drivers of modern integrated management control systems (cf. Wagner & Käfer, 2017). This is further supported with the publication of the new ISO 9001 (in the year 2015), which lays the foundation for management control systems. The new ISO 9001 is created as high-level management system and typical focus topics are e.g. strategy integration, leadership, risk-based management approaches, process orientation (cf. Wagner & Käfer, 2017; Gietl & Lobinger, 2016).

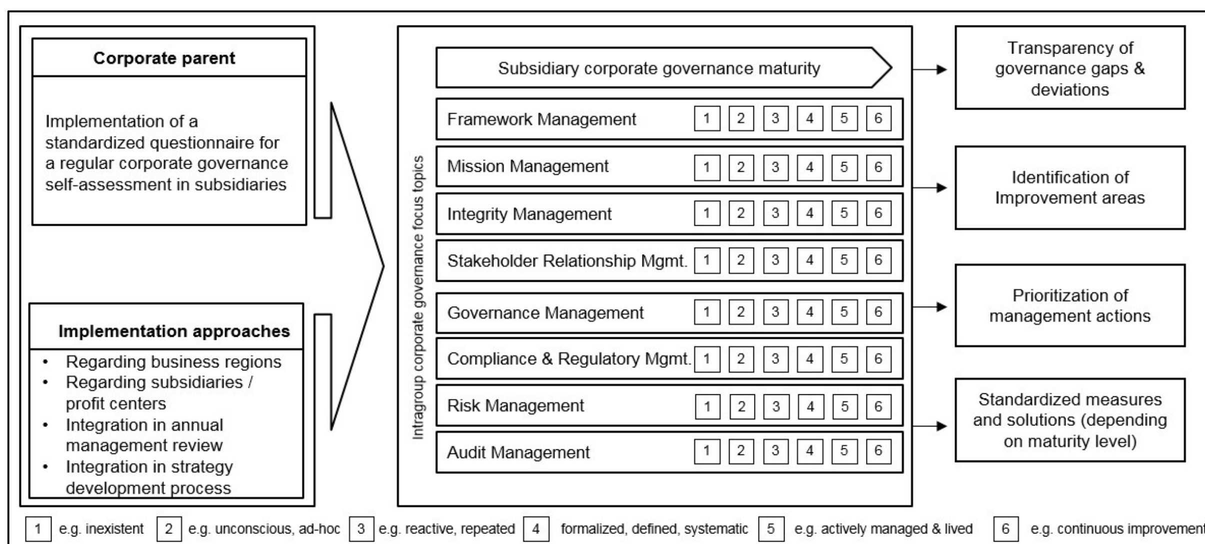

Figure 20: Measurement of the corporate governance maturity in subsidiaries.
Source: Own illustration.

Governance organization: As suggested from Frederick (2014) and Mills & Haines (2015, p. 22), mixed multinationals with financial services subsidiaries should implement a '*Center of Competence for Corporate Governance*' (CoC CG) on headquarters level. Such a CoC GC has to support the divisional head to execute his governance function and secures the appropriate consideration of financial services specifics. It should also assist within the definition of intragroup governance standards and respective management instruments.[302] The CoC should also be able to perform a regular governance tracking and management reporting to the top management (cf. Frederick, 2014). Likewise, '*governance officers'* in the subsidiaries should be tasked to overtake the local coordination of governance topics, act as counterpart of the local governance and internal control functions (risk, compliance, internal audit) to support the local management body.[303]

The identified tripartite approach for managing corporate governance in a multinational corporate group and the identified dimensions for improving subsidiary governance in chapter 4 provide a solid foundation for the execution of expert interviews.

[302] A CoC has to ensure the coordination and professionalization of the intragroup corporate governance management. It is supposed to facilitate best practice sharing among subsidiaries to increase group-wide efficiency, effectiveness, lucency and alignment. The CoC ought to be organized in a modular organizational structure to ensure an effective steering, coordination and interaction between the corporate parent and the local financial services subsidiaries (cf. Wecker & Galla, 2013, p. 36).

[303] The approach with governance officers on subsidiary level follows the steering logic of the introduced *'Three Lines of Defense Model'* (cf. subchapter 3.3.2). As earlier described are compliance officers a legal requirement in many jurisdictions for regulated bank entities. For that reason and the overlap between many compliance and governance topics, most multinational groups nominate the compliance function in the subsidiaries equally towards the corporate governance delegates.

5. Research methodology

For the purpose of this dissertation I follow a qualitative research proceeding. On the one hand, a qualitative research method fits best for the initial purpose of this dissertation, and on the other hand, there is much need for more qualitative research in the research area of corporate governance management. I argue that this facilitates a better understanding of corporate governance mechanisms and enables to overcome existing shortcomings in practice and science, which may arise out of the unilateral application of quantitative approaches in the past.

In particular, the study results of McNulty et al. (2013), Zattoni et al. (2013) and Mat Yasin, et al. (2014) illustrate that there is a great need for qualitative research to improve the understanding of corporate governance topics, processes and mechanisms. McNulty et al. (2013) explain "…*that there is much scope and need for more qualitative studies of significant rigor and relevance which explore the array of interactions and processes involved in corporate governance, across different levels of analysis and contexts."* Furthermore, they argue that there have been many initiatives within the last decades that aimed to improve corporate governance and that *"… qualitative research can assist policy-makers and practitioners to develop more efficient governance mechanisms, by shedding light on the efficacy of policy prescription. Qualitative research provides a basis for rethinking and challenging some of the dominant assumptions and meanings about how governance actors and organizations actually function."* Zattoni et al. (2013) also highlight the necessity to use more qualitative methods to generate new theoretical insights about corporate governance practices and mechanisms that are both rigorous and relevant to address current shortcomings in this complex inter-disciplinary field of research. The corporate governance literature review of Mat Yasin et al. (2014) also comes to the same result and supports this view. As the quantitative literature on corporate governance is diverse and extensive, the qualitative research in this area is rather limited and partly even nonexistent (Mat Yasin et al., 2014). For the purpose of this dissertation, it seems the best choice to get access to the needed information to develop a corporate governance model for financial services subsidiaries, is a naturalistic approach with open orientated methods and a more holistic, inductive way of proceeding.[304] To gain a better understanding of the intragroup governance mechanisms, taking into account the social dimension of corporate governance and the identification of appropriate governance management instruments, I argue that a qualitative way of proceeding fits best to overcome the recent shortcomings within the current corporate governance debate.

In a first step, I validate the identified focus topics for corporate governance management of multinational corporate groups with open guided expert interviews among subject matter experts in chapter 6.1, including the debated tripartite corporate governance management approach in chapter 4 and also taking into account the defined key topics for improving subsidiary governance. After this, I develop a first draft of a holistic intragroup corporate governance management model in subchapter 6.1.3, which in the next step will be verified by additional expert interviews in chapter 6.2. I predefined that if

[304] In the inductive research approach concludes from the specific (e.g. single expert interviews) to the general (theory). Contrary deductive approach concludes from a general theory towards the specific case (cf. Mayer, 2013, p. 19).

there is a high degree of consensuses by the interviewed experts for the defined topics of the management model, the overall model design as well as the suggested measurement and evaluation method, there will be no need for additional feedback loops. As the results of the second interview round will illustrate, there was a broad consensus reached among the interviewed experts that implies a substantial likelihood that the gathering of new additional information with further expert interviews is questionable.[305] Consequently in subchapter 6.3, I devise an ultimate model that combines both, the theoretical findings and practical perspective within one comprehensive model. However, to ensure the quality and appropriateness of the entire management model, I complete my empirical research proceeding in subchapter 6.3.5 with a group of discussants consisting of several of the interviewed experts, to discuss the outcome together and reach consensus about the model.

Apart from that, this research process forms the foundation to summarize success factors and challenges that arise from the complexities of managing corporate governance of diverse subsidiary landscapes in subchapter 6.4. This research approach encourages me to gather a comprehensive view, which is based on both, the theoretical and practical perspective of corporate governance management, to address the above discussed deficits in the recent corporate governance research. In line with my short explanation in subchapter 1.2, the Figure 21 on the next page provides a detailed overview of the applied research concept of the dissertation.

[305] Niederberger & Renn (2018, p. 13) outline that additional feedback loops are solely needed if there is a substantial likelihood to get additional information or that the interviewed experts will change their opinions. Häder & Häder (2013, p. 16) also outline that there is no standard for the number of feedback loops.

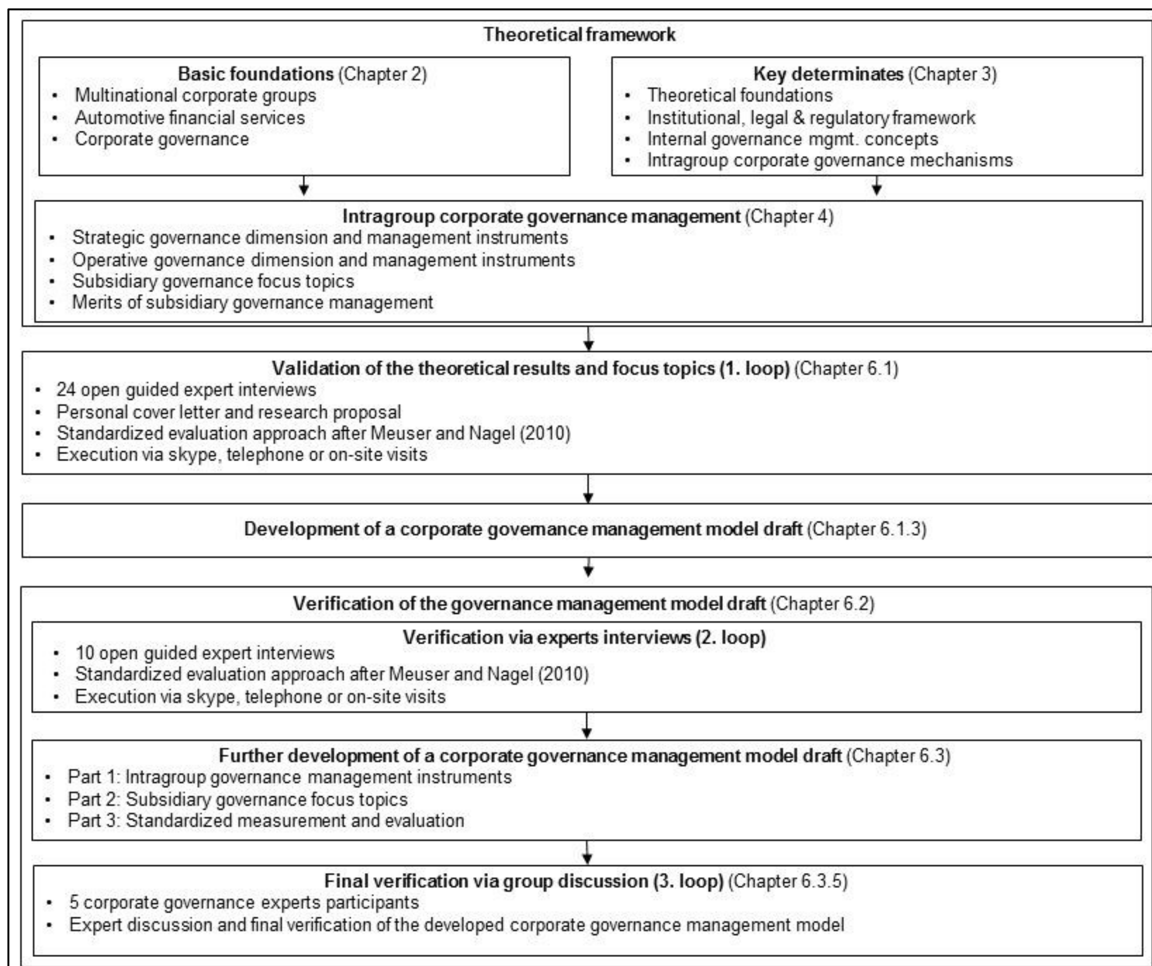

Figure 21: Research concept of the dissertation.
Source: Own illustration.

My overall research approach is inspired by the Delphi proceeding, which is a systematic structured, qualitative multi-stage survey process, originally developed as interactive forecasting method that relies on the opinions of selected experts, answering questions in two or more rounds, in which the results are systematically and continuously channeled back to increase the quality of the output. Moreover, I found that there is only a small number of scholars in the broad field of corporate governance research that currently applies a modified Delphi approach (cf. e.g., Elson et al. 2017; Greene et al., 2017; Çipi et al., 2014; Crittenden & Crittenden, 2012; Al Omari et al., 2012; Serretta et al., 2009; De Haes & Van Grembergen, 2008; Bekker & Steyn, 2007; Aabo et al., 2005).

Delphi Methodology: This proceeding is widely used in qualitative empirical social research, particularly in the field of organizational and management research. Even if I do not apply exact the same proceeding, my applied research procedure with several rounds of expert interviews follows the same idea like the generally accepted Delphi method.[306] The Delphi method was introduced in the 1950s and 1960s as a dialog orientated method and was originally used for military purposes, but is today a popular technique within the business administration context and the field of social sciences to support

[306] For further information regarding the Delphi method, cf. Niederberger & Renn (2018); Dalkey (2017); Linstone & Turoff (2015); Dalkey & Helmer (1963).

decision-making based on subject matter expert opinions (cf. e.g., Niederberger & Renn, 2018; Mullan et al. 2017; Robertson et al., 2017; Latif et al., 2016; Häder, 2014; Kauko & Palmroos, 2014; Cuhls, 2012; Ammon, 2009; Landeta, 2006; Benarie, 1988).
However, until now there is not a uniform definition available for the Delphi approach. While Dalkey & Helmer (1963, p. 458) found the Delphi method assists "…*to obtain the most reliable consensus of opinion of a group of experts … by a series of intensive questionnaires interspersed with controlled feedback*", Linestone & Turoff (1975, p. 3) describe Delphi as "…*a method for structuring a group communication process so that the process is effective in allowing a group of individuals, as a whole, to deal with a complex problem."* Others, such as Häder & Händer (1995, p. 12), define it as strong structured group communication process, in which subject matter experts evaluate different complex situations in which either no or solely partly or unsecure knowledge exists. Niederberger & Renn (2018) describes the Delphi method rather as an iterative process in which expert opinions regarding a specific problem are consolidated, aiming on consensus and dissent opinions to consider them within the problem solving approach and its justification. Altogether, this approach helps to calibrate plural opinions of different experts and it is currently the most popular concept to reach consensuses among experts (cf. Latif et al., 2016). The validity of the Delphi method is generally given via the 'T*heory of mistakes*', which means that the aggregated answers of the interviewed sample size represent an answer which outclass the majority of the individual experts.
Even if Häder (2014) illustrates that there are different variations available of the Delphi method, it is also possible to postulate a general processing (cf. Ammon, 2009; Cuhls & Blind, 1999; Renn & Webler, 1998).[307] Niederberger & Renn (2018, p. 8 ff.) describes the general proceeding based on five steps. At the beginning there has to be developed a standardized questionnaire, which forms the foundation for the first survey or interviews among subject matter experts. In a next step, the evaluation of the interviews takes place as a basis for the second round of the survey or expert interviews. As a preparation for the second feedback loop, it is necessary that the involved experts get access to the results of first round before the second feedback loop gets conducted. Then, depending on those results, there can be multiple repeat loops with further interview rounds, conducted or not conducted. However, as several experiments illustrated, most changes of personal judgement take place between the first and the second feedback loop, and additional feedback rounds provide no or solely a few modifications in the most cases (cf. Cf. Kaynak et al., 1994; Murry & Hammons, 1995, p. 429, Lanford, 1972, Häder et al., 1995).
As the anonymity of the subject matter experts is a main characteristic of this methodic design and a major driver for its legitimacy, there are also critics that recognize this as a detriment of the approach. For example, Goodman (1987, p. 730) argues that, if there are anonymous situations, the experts cannot be made responsible for their opinions that perhaps are not properly reconsidered and unthought-through. However, I hold against and outline that anonymity leads to avoidance of opinion leadership and protects the experts with extraordinary opinions against a loss of prestige. In addition, if experts are asked to give reasons for their opinions, it is an appropriate quality assurance measure to avoid any superficial estimations (cf. Häder & Häder, 2013, p. 17).

[307] Existing variations are e.g. the Decision Delphi, Policy Delphi, Broadband Delphi, Real time Delhi, Combinated social media big data analysis and Delphi method or the Hybrid Delphi approach. For further information, cf. Niederberger & Renn (2018, p. 18 ff.).

Even so, a typical weak point of the Delphi method is that the interviewed experts usually do not change their opinions within the different feedback loops, regardless of their anonymity, which often limits the benefit of additional feedback loops. Besides, it is to criticize that this way of proceeding is time consuming and resource intensive. Informative Delphi studies are often solely possible if they are conducted over several years, which also was the initial starting point to develop the group Delphi approaches (cf. Niederberger & Renn, 2018, p. 25). At the same time, I argue that it is still an unsolved problem that the certain blurriness of the target setting within the Delphi method is sometimes criticized rather as an emergency instrument that results in undifferentiated outcomes. Further, the implied simplicity of the methodical approach often leads to unprofessional allocation. In spite of this, I feel confident that the underlying assumption of the Delphi method is beneficial for the completion of this research project.

The following subchapter 5.1 describes in detail the conducted way of proceeding with the expert interviews, before the next step subchapter 5.2 explains the used evaluation method for the executed expert interviews in detail.

5.1 Expert interview as qualitative research method

The expert interview is one of the most frequent used research methods in the empirical social research (cf. Meuser & Nagel, 2010, p. 465; Liebold & Trinczek, 2009, p. 1). Particularly in the industry-related social research, educational, politic and the organizational fields of research, it is a commonly used research method. Despite this, in most of the empirical research textbooks the expert interview is not at all or only shortly mentioned as independent research method (cf. e.g. Diekmann, 2008).[308] At its core, the expert interview is a less structured research method, which is predominately applied for explorative research. Hence, there still exist contrary opinions that argue for a genuine in the qualitative paradigm form of the expert interview (cf. Meuser & Nagel, 1991; 1994; 1997; 2010). The underrepresented methodical reflection can be explained by the lower acceptance of the advantages of this specific interview type and the traditional thinking that expert interviews have only an explorative character. In a contrary, Decke (1995) argues that codified principles of the expert interview are not possible, and therefore no methodical generalization is possible either. He also criticizes that the expert definition varies and always depends on the particular research context (cf. Decke 1995, p. 7). The expert interview is a social susceptible research method, which depends a lot on the interview provision and which is characterized by a low level of standardization and high execution flexibility. Consequently Trinczek (1995, p. 59) concludes that the gained results are incomparable and implies the necessity to focus on a high level of transparency and a clear, predefined and traceable evaluation method.[309]

[308] An exception is Mayer (2013); von Aleman (2013); Meuser & Nagel (2010). Apart from that is the expert interview in most survey textbooks not explicit mentioned (cf. e.g. Erbslöh, 1972; Froschauer & Lueger, 2003; Holm, 1975; Möhring & Schlütz 2013; Kromrey 2013).

[309] For that reason, I provide in the next chapter 5.2 a detailed description of the used evaluation method of the interviews.

Meuser & Nagel (2010) distinguish between two different types of knowledge, which can be asked in expert interviews. While the organizational knowledge concerns information expressed by the subject matter expert about his or her own actions and corresponding rules and dictum, the context knowledge encompasses information about conditions, which appear in the context of other actions. For this dissertation, it is crucial to consider both types of knowledge to identify additional elements, instruments, key drivers and challenges influencing the corporate governance management of financial services subsidiaries. According to Meuser & Nagel (2010), the open guided interview is an appropriate tool to reconstruct general patterns or conclusions based on expert knowledge. As open interviews give the chance to subject matter experts to extent answers through explanation and exemplification in narrative passages, whereby additional information can be gathered.

Nevertheless, it is necessary to keep guidance through the interview in order to clarify and distinguish from narrative interviews. Simultaneously, I argue that if a predefined interview guideline is not used, the participants may tend to recognize the interviewer as incompetent and unprepared, and it would make a later evaluation and comparison of the results much more difficult. That is why a guideline for the interview was developed with topic orientated guiding questions instead of a standardized scheme in order to ensure comparability.[310]

The **interview guideline** helps to focus on specific topics without losing flexibility and gaining additional information through narrative passages (cf. Meuser & Nagel, 2010, p. 472 ff.). The interview guideline is structured in three parts (cf. appendix 1).[311] Part A contains questions about general information and professional background of the interviewee, to secure that the interview partner can be classified as *'subject matter expert'* for corporate governance in a multinational intragroup context. Part B encompasses the essential questions linked to the corporate governance management of financial services subsidiaries and the identified subsidiary governance key areas in chapter 4. In part C, closing questions are formulated in order to gain additional information that goes beyond the exanimated criteria. In sum, the complete interview guideline is based on the already discussed topics and knowledge that was gained within the literature review among the prior topics of this dissertation. For the creditability of the entire research project and a successful execution of the interviews, it is of great importance that the interviewer also is recognized as a supposed '*quasi expert*' by the interviewed subject matter experts to whom it is possible to speak at eye level (cf. Niederberger & Renn, 2018, p. 9; Pfadenhauer, 2005). The willingness of mangers to share their knowledge is much higher if they recognize their counterpart as competent discussion partner (cf. Trinczek, 1995, p. 65).

According to Hitzler et al. (1994) an expert is a person who has an *'institutional competence for the construction of realities',* while expert knowledge is defined as the chance to manage within a specific organizational context the action conditions of others in a relevant way (cf. Meuser & Nagel, 2010, p. 466 f.; Liebold & Trinczek, 2009, p. 3; Bogner & Menz, 2002, p. 46; Liebold & Trinczek, 2002, p. 36).

[310] In this context, I deviate from the classical proceeding of the Delphi method, which usually applies a standardized questionnaire to make statistical evaluations (cf. Niederberger & Renn, 2018; Häder & Häder, 2013). Even so, Niederberger & Renn (2018, p. 9) outline that there are also topics where open guided questions are more beneficial and possible to apply.

[311] Mayer (2013, p. 43 ff.) recommends to structure the interview guideline into different topic areas.

Based on the formulated expert characteristics of Meuser & Nagel (2010), I define a subject matter expert as a person, who assures that she or he can provide advanced corporate governance knowledge for the corporate governance management of financial services companies in multinational automotive groups. For that, I outline that there are cases in which it is difficult to assess if a person is an expert or rather not, and it is still a matter of debate among scholars. That is why I tried to overcome this challenge by focusing within the selection process of appropriate interview candidates, particularly on their profession, current job position or professional working experience as a relevant indicator for their expert knowledge (cf. Niederberger & Renn, 2018, p. 8 f.). Further, as illustrated in the interview guideline (cf. appendix 1; part A), I started each interview with questions to clarify the personal suitability of the interviewee.

Thus, at first, the developed interview guideline was presented to two corporate governance managers within a the financial services organization of an car manufacturer and the mentoring professor at the University of Augsburg who is specialized in the development of management models in order to secure the comprehensibility and the practicability of the questions. Based on this pre-check, I adjusted some questions of the interview guideline. The final interview guideline of the first interview round is attached in appendix 1.

Hereafter, I started to identify suitable subject matter experts for the interviews. In sum, 113 subject matter experts from OEMs, automotive financial services, finance captives, automotive leasing providers, consultancies, audit firms and independent research institutes as a suitable sample size could be identified for the interviews.

Taking into account the recommendations of Filatotchev & Wright (2017) to respond the intra-disciplinary character of corporate governance in this dissertation and to consider the multiple perspectives on intragroup corporate governance management, I focused on a broad sample. All interviewed subject matter experts have an outstanding management and partly board experience among different cultures, countries and legal systems and own different professional backgrounds.[312] As the sample size consists out of experts from different hierarchy levels within multinational groups, I also included other subject matter experts with relevant experiences in the automotive financial services business.[313] Moreover, I interviewed one additional subject matter expert, who was recommended by another interview partner.

Most of the experts were identified online within two professional business networks, online presences of automotive multinational companies, consultancies, audit firms and selected industry specific magazines and conferences. To increase the return rate of the interview inquiries, I contacted each expert

[312] The interviewed experts gained professional experiences in Germany, France, United Kingdom, USA, China, Brazil, Russia, Canada and Australia. The interview partners are subject matter experts in multiple areas: Automotive and bank experts, consultants, auditors, layers, organizational experts, HR / leadership experts, professors.

[313] The sample size consists out of e.g. a Group CEO of a car manufacturer, CEO of Financial Services of an automotive multinational group, managing directors / finance directors of financial services subsidiaries, managing partners, senior consultants, head of compliance, head of risk management, supervisory board members, head of organizational development, external auditors, project managers of governance projects in financial services organizations of multinational automotive groups.

with a personal e-mail and a personalized cover letter, including information about the research project and the earlier debated governance dimensions, as well as a short profile of my personal background (cf. appendix 2). Another beneficial effect of handing over some relevant information in advance, was that the interview partners were enabled to get themselves better prepared for the interviews and increased the likelihood to receive a higher quality of the provided statements. All interviews were executed only in German or English language.

Validation phase

For the validation of the identified focus topics for a proper intragroup management of corporate governance among financial services subsidiaries, I conducted the first interview round either via phone or personal on-site visits. Ten interviews were executed via telephone conferences and fourteen expert interviews took place in personal meetings in Munich, Stuttgart and Frankfurt. All interviews occurred between 5th of July and 20th of December 2016 and each interview lasted between 1 and 2.25 hours.

At this point, I outline that there are different recommendations regarding a representative size of the sampling. Whereas Woudenberg (1991) states that a sample size of three experts is too less, Parenté & Anderson-Parenté (1987) argue that there have to be at least ten experts in the panel. Equally, Cochran (1983) found that larger panels reduce the mistakes within a Delphi study. In a contrary, Delbecq et al. (1975) outline 30 participants as the maximum, while Brooks (1979) makes clear that 25 experts are more than enough. Embedded in this context, Duffield (1993, p. 236) made experiments to identify the perfect sample size and found out that usually 16 experts are enough as larger panels do not lead to different outcomes. I allocated a total sample size of 24 carefully selected experts within the first round of the interviews as appropriate. The background of the interviewed experts is provided in appendix 3. The following Table 4 provides an overview of the composition of the sample size:

Sample size information	**Number**
Contacted experts	113
Received responds	38
Interviews with experts of automotive financial services organizations on parent level	19
Interviews with experts of automotive financial services organizations on subsidiary level	5
Interviews with experts of audit firms and corporate governance consultancies	5
Interviews with other corporate governance experts (professors, scholars etc.)	4
Sample size (total number of executed interviews)	**24**

Table 4: Validation: Sample size of the executed expert interviews.
Source: Own Illustration.

For the preparation of each interview, I conducted an internet research about the profile of the subject matter expert in business networks and then analyzed the internet presentations of the institution they are working for. As twenty-two interview partners agreed to record the interviews to ensure a detailed paraphrasing afterwards, two interview partners did not allow recording their statements. In those particular cases, I produced handwritten notes. As already mentioned, all interviews were executed on an anonymous basis to secure that all interview partners were able to share freely their personal thoughts, expressions and experiences without any fears.

Verification phase

The purpose of this second interview session is to reduce the variance of the possible responses and the collective certainty of judgement. Thus, for the verification of the developed management model, as an outcome of the first interview round, I came back to the participants and contacted those again, who provided the most valuable input within the first interview session. In sum, I contacted fifteen of the twenty-four interviewed experts again with a new personalized email containing the draft of the respective management model (appendix 4). Although I contacted fifteen selected experts, only ten of them agreed to verify the model and its different subsidiary clusters in a second feedback loop (appendix 5).[314] I outlined to the participants that they should use the consolidated results of the first interviews, namely the model draft, as a corrective for their judgement formation (cf. Niederberger & Renn, 2018, p. 11 f.).

I applied again an open interview guideline for the general structuring of the interviews, which can be found in appendix 6. The interviews took place in German and English language and were executed either via skype or in a personal meeting on site in Munich. Each of the interviews lasted between 20 and 50 minutes and were recorded for later use within the evaluation. The following Table 5 summarizes the composition of the second sample size:

Sample size information	**Number**
Contacted experts	15
Received responds	10
Interviews with experts of automotive financial services organizations on parent level	6
Interviews with experts of automotive financial services organizations on subsidiary level	4
Interviews with experts of audit firms and corporate governance consultancies	0
Interviews with other corporate governance experts (professors, scholars etc.)	0
Sample size (total number of executed interviews)	**10**

Table 5: Verification: Sample size of the executed expert interviews.
Source: Own illustration.

Group discussion

Taking into account the initial idea of the Delphi method and suggested procedure by Niederberger & Renn (2018) and Häder & Häder (2013), I organized a group discussion among several the interview partners to discuss the overall result in an open round to increase again the level of contentious and the level of quality assurance. In sum, I was able to perform a group discussion among five of the experts that participated in the second feedback loop to discuss the final developed management model and to increase again the overall outcome. I organized this meeting in Munich, it lasted in total about one hour and I was allowed to record the conversation for a later transcription and evaluation of the results.

After a detailed debate about the way of proceeding with the open guided expert interviews among the subject matter experts, I will in the following complete chapter 5 with a detailed description of the used evaluation method as an important quality measure within the qualitative research.

[314] This smaller sample size goes in line with the raised concerns of Häder & Häder (2013, p. 19) who outline that it is often a problem to motive the participants over a long period of time and to participate in several interview loops.

5.2 Evaluation method

Until today none of the popular evaluation approaches of the qualitative research has developed towards an expert interview specific method nor exists an independent evaluation method specifically for expert interviews (cf. Bogner et al., 2014, p. 71). Principally, it is possible to use every evaluation methodology (e.g. more code driven approaches or sequence analytical approaches or even a combination of both).[315] Thus, to ensure that the later discussed quality criteria - objectivity, validity and reliability - will be fulfilled in the best possible way, I applied the generally accepted structured research approach of Meuser & Nagel (2010, p. 476).[316]

In comparison to other evaluation methods, such as Mühlfeld et al. (1981), the recommended methodology by Meuser & Nagel (2010) is a more elaborate procedure. At first, they paraphrase the interviews and then make a single thematic mapping, which means that the comparison of the different statements and the theoretical interlinks take place at a later point of time (cf. Meyer, 2013, p. 51). This procedure acts as quality assurance and reflects the general demands towards qualitative evaluation methods (cf. Meuser & Nagel, 1991, p. 453). At its core, this evaluation methodology focuses on thematic units of the interviews rather than on sequential statements of the interviewee, which means that the statements given throughout the interviews were allocated based on their specific thematic fitting and in this case based on the examined focus areas by the evaluators. Except for two interviews, all of the interviews were recorded in order to make a proper analysis and evaluation of the statements.

There was no specialized software used for the evaluation of the interviews. I raise the concern, that if the evaluation takes place with the help of a special software, the underlying methodical assumptions could be unreflecting and could ignore the overall context of the made statement (cf. Kelle, 2000; Kopp & Menez, 2005). I found that there is the risk, that it is impossible to secure that the intention of the software won't become more enforced than my own intention within the evaluation of the interviews. Thus, I made the complete evaluation stand-alone, as shown in the attached documentation.

The evaluation of the expert interview encompassed the following systematic approach, which had to be applied step-by-step in order to get proper findings. Firstly, all interviews and their relevant contents have been **transcribed**, even if Meuser & Nagel (2010, p. 476) outline that this is not necessary for expert interviews to transcribe the audio recording completely as it is usual in biographical interviews. Hereby, all statements have been exactly reproduced word by word. In the next step, all statements of the interviewees were **paraphrased** sequentially and fitted to their appearance in the time flow of the interview. Then, the paraphrased and sequentially allocated passages were **coded** and reflected in a thematic allocation (topic clusters) of the statements to the examined criteria from the prior analysis of this dissertation. Hereby, the dissolution of the sequential paraphrases and single statements were necessary, because it not the interviewee should stand in the focus but the thematic content of the analysis. Thus, the **thematic comparison** was executed and the statements of the different interview

[315] Typical examples for code driven approaches are e.g. the Grounded Theory (cf. Strauss & Corbin 1994; 1998) or the qualitative content analysis (cf. Mayring, 2010).

[316] Validity and reliability are the general accepted quality criteria for the evaluation of research methods, cf. Mayer (2013, p. 55); Himme (2007); Brühl & Buch (2006).

partners were merged. At this point the evaluation beyond the single text units started. Thus, the perspective of the single interview was released and similar thematic passages of different interviews were bundled.
The outcome of the first interview round is depicted in the subchapter 6.1.1, and those of the second interview loop in subchapter 6.2.1. However, the systematic approach of the interviews' analysis goes further in order to develop a comprehensive intragroup management model with suitable instruments and recommendations for actions out of the experiences of the interviewees and the findings of the theoretical literature review in the prior chapters.
Hence, in subchapter 6.1.2 (first interview round) and later on in the subchapter 6.2.2 (second interview round) the analysis approach is continued with the fourth step. This encompasses the **sociological conceptualization** in which similarities and differences of the expert's statements in regard to theoretical findings of the earlier chapters, mainly chapter 3 and 4, are conceptualized. For all focus areas, the specialty will be condensed, made explicit and compared to the theoretical background. This abstraction level is the empirical generalization, in which general statements can be concluded among the gathered knowledge, and it describes the interlink towards the theoretical discussion. I highlight that the generalization of the results is always limited by the empirical data of the used sample size (cf. Meuser & Nagel, 2010, p. 476).
The fifth step describes the **theoretic generalization**, in which the different categories are ordered among their theoretical internal connection. The conclusions drawn out of a theoretical informed perspective are based on the empirical generalized knowledge of the expert interviews. The core results of this final step are bundled within the model draft in subchapter 6.1.3 and the final model in the subchapters 6.3.1 to 6.3.3. Beyond that, I outline that with this approach it is also possible to identify respective success factors and challenges and for the effective management of subsidiary governance, which are summarized in subchapter 6.4. Hereafter, subchapter 6.5 provides a short tabular overview with the gained key findings..

Quality criteria for the qualitative research

The identification of effective quality assurance measures is a major topic of the methodical discussion among scholars (cf. e.g., Roller & Lavrakas, 2015; Reynolds et al., 2011; Morrow, 2005; Golafshani, 2003; Barbour, 1998). Altogether, quality measures define objectives, but they are also applied to assess research methods. The initial idea is based in the classical test theory of the psychology and represents the quantitative research (cf. Lamnek, 1995, p. 152). Hereby, in particular the generally accepted quality measures of objectivity, validity and reliability of the scientific research production stay in the foreground (cf. Friedrichs, 1985, p. 100 ff.). While validity aims on the question whether the object that had to be measured is also measured in reality, the reliability aims on the stability and accuracy of the results if they will be repeated under the same circumstances (cf. Mayer, 2013, p. 56).
In contrast to the quantitative research, general accepted quality assurance measures in the qualitative research are not defined yet. The simple adoption of the traditional quality measures, which is applied for the quantitative research, does not fit to the qualitative research, because of its specific characteristics with their epistemological foundations, ethical and research related aspects (cf. Przyborski & Wohlrab-Sahr, 2014, p. 21; Mayring, 1999, p. 113). Despite this, there is an adoption of

those proven quality criteria like e.g. reliability checks of the qualitative content analysis in case of the inter-coder reliability testing (cf. Mayring, 1993; 2005; Mayer, 2013, p. 56). Regardless, there are still researchers who principally reject the definition of quality criteria for qualitative research. I summarize that the recent discussion about the multiple approaches to secure quality assurance represents the challenges of such research studies to become accepted within the research community. Some researchers outline the necessity to define *'appropriate methodical quality criteria'* (cf. Flick, 1987, p. 247 ff.). In the context of the numerous existing qualitative research methods and the often intra-disciplinary research topics, several topic specific criteria catalogues have been introduced, with numerous weighed criteria depending on their application (e.g. basic research, applied research, evaluation research etc.). Keeping this in mind, I apply the following three quality measures suggested by Scheiber (2016):

Transparency: To respond to the fact that the qualitative research involves many different research decisions and applications of methods, it is crucial to document and explain the whole research process in a transparent manner (cf. chapter 5). This includes the research question, the justification for the selected research method and their adoption towards the concrete implementation with its sample size and the sampling strategy. In addition, this comprises a comprehensible approach for the data evaluation and their conclusions (cf. Mayer, 2013, p. 56; Flick, 1999, p. 243). I argue that a high level of transparency contributes to assure the above debated quality targets of validity and reliability.

Inter-subjectivity: The research evaluation and its drawn conclusions have to be plausible illustrated and alternative conclusions, opinions and perspectives have to be highlighted (cf. subchapter 6.1.1 and 6.2.1). Hereby, it is important to reflect the different relationships between the groups and individual perspectives of the researcher. Legewie (1987) defines this as *'reflective subjectivity'*. Flick (1999, p. 239) recommends as another quality measure to include selective quotations of suitable interview passages (cf. chapter 6.1 and 6.2)

Research scope: It is important to highlight to what extent a generalization is possible, due to the low degree of standardization and comparatively low sample sizes. Instead of representative criteria, it is essential to pronounce the *'theoretical relevance and claims'* and the scope of application (cf. chapter 7). The validity of the qualitative research relies in its reformulation with an interpretative-communicative character (cf. Lamnek, 1995, p. 171).

Filatotchev & Wright (2017) make clear that *"good qualitative corporate governance studies convey a richness and depth of data from different sources."* Qualitative researchers have to secure that they engage with the various relevant stakeholders and not just presenting one perspective. Filatotchev & Wright (2017) further outline that qualitative research needs to provide access to documentary evidence (such as e.g. a broad paper and media coverage) to complement the interview data as it is also found in this dissertation.

I outline that all the debated quality measures of this paragraph form the foundation to assure that the qualitative research made within this research project and the drawn conclusions are as objective as possible (cf. Silverman, 2013, p. 65). Nevertheless, I highlight that it is impossible to guarantee a clear interpretation, because every statement can be interpreted differently (cf. Spöhring, 1995, p. 159).

I recorded every interview (excluding two) for the purpose of objectivity, because this should ensure afterwards a detailed transcription and analysis to identify similarities and differences (cf. Meuser & Nagel, 1991, p. 452). I underline that e.g. breaks, variety of voices or other para-linguistic elements have not been considered within the interpretation nor the analysis, because for this research project primary the content of the conversation is of great importance.

I executed the comparatively extensive evaluation method from Meuser & Nagel (1991, p. 465), because it forces me to continuously reflect and control the meaning of the statements via the different categorization steps which can be characterized with recursiveness (cf. Meuser & Nagel, 1997, p. 489).

I feel confident that this supports the criteria of objectivity, validity and reliability in the best possible way and objects the earlier debated critics that the execution of expert interviews does not comply with the general quality standards for empirical social research (cf. Mummendey & Grau, 2008).

6. Results

In this chapter 6, I start with presenting results of the validation phase, including the feedback of the first interview round and thereupon developed first model draft (subchapter 6.1.3). I hereafter provide the outcomes of the second interview round in subchapter 6.2, where the priorly introduced model draft gets verified and further improved to a final management model in subchapter 6.3. Then again, a group examination is presented, before intragroup success factors and challenges are discussed in subchapter 6.4 and the general key findings get mapped in a tabular summary in subchapter 6.5.

6.1 Validation of the subsidiary governance dimensions

This subchapter covers the main findings of the executed expert interviews and compares them with the results of the prior literature analysis in a second step (subchapter 6.1.2). On that basis, I design a draft for a corporate governance management model of financial services subsidiaries in a corporate group context in subchapter 6.1.3.

6.1.1 Results of the expert interviews

In a first step, I will summarize the answers of the subject matter experts within 17 thematic clusters including in sum 144 sub-clusters. While 15 of the thematic clusters can be assigned directly to the asked questions, two thematic clusters (cluster 1 and 4) are added based on the provided information by the experts. This follows the general recommendation of Meuser & Nagel (1991; 2010) who outline that the thematic mapping should be executed uncoupled from the specifically asked questions and solely based on the provided information of the interview partners, to ensure an unprejudiced view and to avoid any premature conclusions within the complexity reduction procedure in the interview evaluation (cf. Mayer, 2013, p. 56). In contrast to other methods (e.g. Mühlfeld et al., 1981) the linkage between the theoretical and practical perspectives will be executed in a later stage (cf. subchapter 6.1.2). For the purpose of transparency, the following paragraphs provide a consolidated view on the provided answers of the different experts. The protocols of each expert interview and the documentation of the evaluation proceeding are found on the separate CD ROM that has been presented together with the dissertation.

Thematic cluster 1: Reasons for the increased public awareness of corporate governance (new cluster, derived from answers of questions in part A and question 7.3)

All interview partners confirmed that subsidiary governance is becoming increasingly important. The experts felt confident that it is primarily a consequence of the last financial crisis and several fraud scandals. Simultaneously, this is promoted by increased media awareness and, consequently, todays national authorities and regulators raise more attention on those issues compared to the past. Other national authorities also started to adopt this expanded state supervision approach because of the relevance for the macroeconomic environment.

Another often mentioned key driver are **high fines for governance and compliance breaches**. Expert 6 explained that "…*especially the USA provide with their system of class actions an effective tool*

to complain against multinationals." Some national courts even decided to impose high fines against multinationals for compliance breaches in other countries.
The experts (e.g. expert 5, 7, 19 and 20) stated that the **management liability discussion** is another driver for increased attention for governance topics. Expert 19 clarified that today, local incidents cause a worldwide impact very fast, which is a serious issue for global companies. The liability issues for managers and members of the supervisory bodies are becoming increasingly strict. The interviewed lawyers and external auditors (e.g. expert 10 and 11) pointed out that there were court decisions, which illustrated that appropriate and professional governance management concepts reduced the management liability.
Another key driver is that the trend to greater **corporate social responsibility** make ethical behavior of companies more critical. Few of the experts (e.g. expert 8, 9, 17 and 18) agreed that the public pressure for a better corporate governance behavior of managers continuously increases. For example, expert 8 stated "…*the public pressure to better corporate governance behavior of managers is the key driver."*
Expert 7 explained that this is a **consequence of the globalization**. The globalization effect is a clear driver of corporate governance. Today everything is transparent and in case of compliance breaches, there is a massive reputational damage potential due to a fast and global presence in the media. Additionally, expert 14 stated that the global competition is intensifying and as a result, the awareness for the advantages of proper governance structures is rising, too. Expert 23 made clear that documentation and its professional management increases the competitiveness, organizational efficiency and speeds up decision-making processes.
The experts 6, 7 and 23 identified **whistleblowing** as another key driver. Whistleblowing provides an easy opportunity to make questionable corporate behavior topics public. Thirty years ago, it was not possible to publish online e.g. written documents, which are now accessible from all over the world. Expert 6 analyzed "…*nowadays it is less controllable and companies increase their awareness for such topics*." Expert 20 summarized that the consequence of whistleblowing in turn is increased political pressure, combined with greater public and media awareness.

Thematic cluster 2: Reasons for the increasing relevance of intragroup subsidiary governance (cf. part A / question 2.1)

Several experts discussed the increasing relevance of subsidiary governance and listed numerous reasons why multinational companies are increasingly concentrating on this comparatively new topic. One major reason for the increasing relevance are the **global value chains**, which made it essential to setup foreign subsidiaries to reach their increasing global customer base. Some experts explained that the relevance of subsidiary governance in the automotive industry is the logical consequence of the **organizational maturity level** of the business models. In the last years, many financial services divisions had a significant market growth with customers, business volumes and new setups of financial services subsidiaries. Expert 7 explained that "*at first many automotive financial services subsidiaries focused on gaining new business and the support of vehicle sales via financing and leasing products. In a second step, the financial services organizations started to develop and professionalize their governance structures as a consequence of their large business volumes to safeguard appropri-*

ate structures to secure compliance, strong governance, profit margins, sustainability and risk reduction."

Furthermore, **legal and regulatory requirements** increased at the same point in time. Expert 15 mentioned that the level of tolerance from regulators for corporate governance failures reduced dramatically and subsidiary governance has become increasingly relevant for bank entities to mitigate e.g. outstanding fines of authorities. Expert 21 stated that "…s*upervisory authorities look in detail at the legal entity structures of the subsidiaries within the multinational context and the various external regulations in the different host countries."* Expert 21 highlighted that "…*there is a clear statement of the EBA (European Banking Authority) that multinationals require an enforcement liability from the corporate parent towards the subsidiary structures"* and expert 18 confirmed that *"…in the case of OEMs and financial services subsidiaries there can be a situation that the subsidiary is stronger regulated than its corporate parent due to the legal and regulatory requirements for financial services companies."*

In addition, some experts mentioned that subsidiary governance is a **prerequisite for a consistent group-wide corporate governance framework**. Expert 1 clarified that this *"…defines the crash barriers from the headquarters for the decentralized subsidiaries."* Expert 10 and 16 made clear that "…*subsidiary governance builds the foundation for corporate governance of the parent company and the corporate group as a whole*." Expert 19 and 21 supplemented that subsidiary governance is the prerequisite to ensure standardization and transparency among structures, processes, roles, responsibilities and therefore accountabilities. Expert 19 defined this as the basis for the successful management of complex decentralized organizational structures. Among others, expert 21 outlined that *"…it is often very challenging to combine the group internal and locally external requirements."*

Furthermore, some of the subject matter experts debated again the **management liability and reputational issues** as a key driver. They also outlined that this is obligatory for the fulfillment of the legal requested duty of care. Expert 13 declared, *"…the headquarters and their managers cannot exculpate their self via ignorance of governance or compliance gaps…"* in their subsidiaries.

Thematic cluster 3: Subsidiary governance focus topics and mechanisms in financial services entities (cf. part A / question 2.2)

The majority of the experts stated that the subsidiary governance topics depend on the company's individual definition of corporate governance. Expert 15 made clear that "…*there is no commonly agreed definition available and corporate governance reaches from compliance, cultural, risk towards organizational related issues."* According to expert 1, 10 and 19, it is fundamental that there is a common intragroup understanding of corporate governance. Expert 12 explained in brief that *"…in the limelight are all topics where there is a liability of the parent or in the final consequence even a personal liability of the executive board members*." In general, the experts agreed that governance defines the process of how decisions are taken on the different hierarchy levels, embedded in the context of the multinational structures and the legal and regulatory environments in the different jurisdictions. Expert 20 felt confident that *"…subsidiary governance starts with a clear target definition of the top management towards us local executives in the subsidiaries."* This said, there are certain key topics **of internal subsidiary governance** which were particularly highlighted by the interview partners.

Expert 1, 4 and 5 explained that **operative governance management** is a major element. This includes e.g. to establish company-wide governance minimum standards via the definition of decision-making structures and company internal committees, competence schemes, alignment procedures, corporate rules, manuals, guidelines or other instructions as suitable instruments to manage governance.

In sum, governance was primarily recognized as a legally driven issue. The large majority of the subject matter experts confirmed a rising awareness and a trend towards an **integrated governance and compliance approach** to increase their effectiveness.

The interview partners outlined **risk management** as one of the main elements (e.g. expert 4, 6, 7, 9, 12 and 14). In comparison to the other business units of a car manufacturer, the financial services business has a higher risk potential for the whole company and requires greater emphasis on risk management. A **group risk management system** defines appropriate processes to ensure compliance and is controlled by an appropriate **internal control system** (ICS).

It was also apparent that several of the experts (e.g. expert 4, 5 and 13) described the relevance of a proper **corporate culture** and common values as a fundament for a comprehensive governance approach. Expert 21 highlighted that the corporate culture forms the foundation. Others argued that this is also reflected in the COSO framework and is an essential part of each **compliance management system**, especially in multinational organizations, which have to deal with multiple sub-cultures.

The experts mentioned **corporate culture** in combination with leadership. A strong **leadership** was recognized as a major element of corporate governance (cf. e.g. expert 1, 3, 4, 9, 21, 22). The experts explained the necessity of a value-oriented leadership concept, because it incorporates issues like openness, integrity, transparency or trust. Expert 14 outlined that "… *for me the most important focus topic of corporate governance is integrity, because this is the basis for everything."* Expert 10 pointed out that corporate culture and leadership are also elements of the COSO framework.

Internal audit was also a key topic for subsidiary governance for many of the interviewed experts (e.g. expert 9, 12, 14 and 19) and was often linked to the **Three Lines of Defense Model**. There was a broad consensus that internal audits have an important and independent governance control function as they evaluate the structures and processes from a comprehensive framework perspective.

Expert 13 also highlighted intragroup consensuses among **accounting topics** as prerequisite to secure intragroup transparency. Furthermore, few experts (e.g. expert 4, 6 and 13) particularly recognized the **remuneration** and compensation schemes as further relevant key topics.

From an external governance perspective, the experts (e.g. expert 6, 9, 12, 14 and 19) outlined the external audit function. **External auditors** are defined as an independent external control function and have to secure public faith into the published information. In line with some other experts, especially expert 6, outlined that the external auditor activity increased due to stricter legal and regulatory requirements and greater control activities of the national authorities.

Thematic cluster 4: Institutional company supervision (new cluster, derived from answers of questions in part B / question 3.1; 3.2 and 3.3)

The role of **supervisory and institutional control organs** like the supervisory board or board of directors was also a matter of debate. Hereby, particularly the scope, its collection and relevance within a multinational group context have been discussed. Expert 6 realized that "… *in the last years the due diligence obligations for the management members have been always defined in more detail*." Expert 13 made clear that "*the focus topics of the supervision for banks are in Germany clearly defined by the BaFin,"* independent of whether those entities are part of a multinational group or not.

Three of the experts pointed out the **differences between the one tier and two tier systems** and outlined the challenges to manage different board systems within a multinational group context. Expert 16 and 23 explained that the German supervisory board concept completely differs from the Anglo-Saxon markets (like in US, UK, Canada, India or South Africa) with its board of directors. While the directors in the board of directors´ concept are personally liable for the operational business, in Germany there exists a clear separation of duties for "supervision and control" (supervisory board) and the "management of the operative business" (executive board). Two lawyers (expert 12 and 13) described the role from a German legal perspective, where the *'Vorstand'* has a clear duty of care for the entire company. Paragraph § 130 AktG defines that the *'Vorstand'* is responsible for adequate structures and processes to ensure supervision among the entire organization, including the subsidiaries.

Some other experts (e.g. expert 6 and 8) stated that particularly the **collaboration between the executive board and the supervisory board** is of great importance. Expert 8 analyzed that in the supervisory board concept there is a shift away from the pure control function towards an advisory function for the management board. He also explained that the member selection, individual fit and personnel composition of the supervisory board as well as the enforcement rights of the different supervisory organs need to be clearly defined in group structures. Expert 13 cited that the interaction between the different institutional (subsidiary) supervisory bodies within the hierarchical intragroup context, the responsibilities for the agenda setting as well as the involvement of external independent directors have to be clarified.

Thematic cluster 5: Strategic governance dimension: The role of the parent's management body and its governance tasks and responsibilities (cf. part B / question 3.1; 3.2 and 3.3)

All interview partners highlighted the special **role of the parent's management body** (e.g. Board of Management) for the intragroup governance. Nearly all experts agreed that they are also responsible for the subsidiaries in their role as the **legal representatives** of the corporate group. For example, expert 19 analyzed that "…*in a final consequence the parent's executive board is also liable for compliance or governance breaches*." The parent's management body has a general **guideline setting competence** for the entire corporate group. He sets the general group-wide framework conditions and determines how the company should act in the respective markets and towards its internal and external stakeholders. The experts outlined that the parent´s management body has to ensure organizational frameworks compliance and corporate governance practice. Expert 7 and 11 made clear that the parent's executive board has a joint responsibility for corporate governance, which cannot be delegated like individual tasks.

There was a broad consensus among the interviewed experts that the executive is responsible to **define and provide a governance framework** for the group as major element of their strategic guideline competence. Expert 4 specified that *"… the parent's executive board sets the crash barriers via the group strategy formulation and the complex issues of corporate and leadership culture*." The parent's management body has to ensure appropriate governance structures and processes to secure accountabilities and transparent decision-making. Moreover, e.g. subject matter expert 10 supplemented that "… *the parent's executive board is also responsible for the implementation, continuous further development and monitoring of the whole governance system*." This also includes appropriate **organizational governance structures** and the consequent implementation of the Three Lines of Defense approach (cf. e.g. expert 7 and 14).

The definition of the **overall strategic direction** is further recognized as another important task. To set the company-wide vision, strategy and interlinks to define clear targets for the business units and its subsidiaries, its monitoring and target achievement are typical responsibilities of the parent's management body. It was noticeable that some of the experts (e.g. expert 2, 3, 13, 17 and 20) explicitly mentioned a consistent **target management process** across all hierarchy levels as a major governance instrument of the parent's executive management body. They explain that the balance scorecard (BSC) is an often-applied intragroup instrument to manage and steer the strategy implementation. Expert 3 and 4 agreed that the BSC helps to break down the strategic targets in respect of the different hierarchy levels and to operationalize the high-level group objectives into hard fact based and measurable targets for each business segment, subsidiary, department and finally for each employee, too.

All interviewed experts mentioned the **power of leadership** as another powerful governance instrument of the parent's management body. The top management is responsible for the guidance as exhaustive part of their leadership role. They have to define understandable business strategies, which provide direction, accountability, and avoid any uncertainty for the employees. Expert 10 further outlined that they have to implement a code of conduct or code of ethics to support the integrity. This increases the identification with the company as well as the corporate values and provides behavioral and ethical guidance about what is expected. Those issues are a fundamental part of good leadership. Expert 15 completed that the executive board has to act reliably and accountably. The management body has to reflect and communicate this towards the employees, suppliers, the customers and the public in their daily business. Hereby, the experts also talked about integrity as key driver for leading people of different cultures and in different locations (e.g. expert 2, 14 and 22).

Some experts (e.g. expert 7 and 22) outlined the importance and the effectiveness of the **board communication**, which is strongly linked to their role model function. Some experts even outlined that the manner of communication is the most important governance instrument of the parent's management board (e.g. expert 22). Expert 4 confirmed that *"… the "tone at the top" is the most important instrument of the parent's executive board and it has to be clear, trustworthy and credible."* Few experts debated the earlier mentioned code of conduct and company internal regulations as typical communication instruments. Expert 6 highlighted the relevance of regular intragroup management conferences as appropriate communication and discussion platform.

Their role for the **corporate culture** is closely linked to the leadership role and board communication. Twenty-one of the interviewed experts underlined that the parent's management body is responsible for defining the pillars for the group-wide corporate culture. Expert 17 analyzed that "… *the corporate culture minimizes potential governance gaps via integrity and their behavior in terms of missing guidelines and instructions which cannot be defined for each case*." According to expert 19 it is crucial that the executive management board creates the target picture and develops a cultural self-conception for the group in collaboration with the employees. They are responsible for aligning the corporate culture and organizational structures, so that it is possible to perform business in a compliant way.

Some experts (e.g. expert 6 and 7) pointed out that the parent's management body has to develop and define the **appropriate internal control and oversight instruments** for the entire group. Hereby, expert 2 and 4 mentioned in particular the implementation of clear reporting lines and regular management reporting. Expert 4 explained, that the parent's management body mostly relies on (external) reporting lines which provide proactive information as a foundation of their decisions. Expert 12 and 20 analyzed that a close collaboration with the internal control functions is needed. Moreover, the internal control system plays a crucial role to execute their governance role. Those elements particularly play a decisive role in the context of complex organizational structures, to ensure oversight, a certain level of alignment, and control. Expert 4 elucidated that "*… the typical governance instruments for the executive management board are internal and external audits*."

Among others, expert 12 and 14 stated that they are responsible for a **comprehensive group-wide risk management framework** in all its complexities and interrelations. It has to respond to the identified risks in an adequate manner, under the consideration of the applicable legislation and appropriate governance structures. Expert 10 supplemented, that it is also important for the parent's executive management board to have transparency of potential risks in the different subsidiaries. Further, there are different regulatory requirements for the risk management in financial services companies, which need to be considered. The experts mentioned that the executive management body is responsible for defining the balance between risk appetite and risk minimization to clarify their expectations for the group.

Expert 19 remarked that the definition of the **compensation framework** is also a typical responsibility of the parent's management body. Expert 5 agreed that "… *the remuneration and compensation system of a company is another relevant governance instrument*." The individual compensation should consist of a fixed and variable component that reflects the level of achievement of the set targets and performed training activities (cf. expert 5). From a parent perspective, particularly the remuneration of the management bodies on subsidiary level (usually the MDs and FDs), of risk takers and other governance related key functions, have to remain in the foreground.

Some experts (e.g. expert 2 and 5) indicated that the parent's management body has to define **procedures for governance or compliance breaches**. They have to define, communicate and enforce sanctions in case of misconduct.

"The HR recruitment and development are also crucial governance instruments," agreed both, expert 6 and 24. Thus, the parent's management body has to develop **principles for the staffing** of key management positions. The HR recruitment and their adequate deployment in accordance with their qualifications, personal skills and their supervision are essential.

Among others, especially expert 1, 2, 14 and 19 mentioned that the parent's management body has an obligation to **represent the corporate group and its interests in the public** as well as towards externals. Expert 10 remembered that they are also held responsible for the corporate social responsibility and corporate sustainability activities within the group.
Some experts (e.g. expert 5, 7, 8 and 9) in this context differentiated **between internal and external governance responsibilities** of the parent's management body. According to expert 5 "…*the external governance* [e.g. annual financial reporting, published corporate governance reports, remuneration reports or the supervisory boards etc.] *is not that effective as a strong internal governance.*" The statement of expert 8 generally confirmed this.

Thematic cluster 6: Operative governance dimension: The role of the divisional head and its tasks and responsibilities (cf. part B / question 4.1 and 4.2)

Seventeen of the interviewed subject matter experts agreed, that the divisional head plays a key role for the intragroup corporate governance management of financial services subsidiaries. He is in charge of defining the governance scope and the intragroup corporate governance approach in close collaboration with the parent's management body. Expert 1 stated that the divisional head acts as transformer or multiplier of governance topics from the parent's management body that are introduced into the financial services organization. Expert 3 explained that those top managers advise the parent's management body and play a decisive, supportive role for the effectiveness of the intragroup corporate governance. According to eight experts (e.g. expert 2 and 20) the major role of the divisional head is to coordinate and interact between the overarching group strategy, the parent's headquarters functions and the foreign subsidiaries. Fourteen experts explained that his role is to act as the linking function, which has to operationalize the governance framework regarding the specific business model of the division to minimize the governance deviation between the central and decentral organizational units. According to four experts, the operational responsibility lies with him. He has to transform the group targets into the business model and define, prioritize and monitor measures for the division, to make sure that they are achieved in the desired way. Among others, expert 19 described that the divisional head typically defines the governance standards which require a worldwide coordination and common understanding to assure a certain level of standardization, alignment and efficiency, but also enough freedom and flexibility for the subsidiaries to adjust them to their needs. While expert 9 summarized that it is essential to have the "*…most professional, best qualified and motivated mangers in those key positions,"* subject matter expert 5 underlined, that *"… the divisional head is in a corporate governance context also responsible to request the mandate, relevant resources and adequate instruments from the parent's management body to ensure intragroup governance in his division*." He has to design and adjust governance structures, processes, framework, control mechanisms and instrumentals internal audit (in a positive manner) to secure clear roles, responsibility and accountability among the subsidiary network. Expert 3 compared the role of the divisional head with a membrane. He stated that *"…he [divisional head] needs to be permeable for information top down and bottom up, provides information and transparency about relevant issues within the organization, where topics come up, where management and steering is required, simply where more governance is needed to reach the agreed targets and avoid organizational failure."* Expert 7 explained that *"in the context of*

our multinational organization there is a central overall responsibility of the parent's management body which cannot get delegated by law. But we have the organizational responsibility delegated towards the head of financial services who has an organizational responsibility for all decentralized financial services subsidiaries."

Expert 10 and 11 made clear, that the divisional head has to secure that the nominated candidates for management bodies on subsidiary level and key governance functions have the required skillset, professional qualifications and personal fit for the desired position. Five of the interviewed experts (e.g. expert 10 and 11) explained that **comprehensive monitoring and reporting** are also a governance task of the divisional head (e.g. to the parent's management body, the supervisory board, board of directors, national regulators or supervisory authorities). Expert 6 made clear that he also has enforcement rights towards the subsidiaries with e.g. approval competencies for certain business decisions that go far beyond the daily business (e.g. investment decisions, liquidation of a branch or other legal entity etc.). Four experts confirmed that it is common practice in intragroup constructs that the divisional head is a member of supervisory boards or the board of directors in the subsidiaries. Expert 6 declared that "*he can execute the required control and monitoring in a corporate governance context in this role as a representative of the company owner*."

It was obvious that the experts outlined, that the divisional head plays, especially in the financial services division, a key role for the governance management. Expert 6 explained that the divisional head of an automotive financial services division has to manage and steer a network of subsidiaries around the world and the employees are not based in one location. Expert 17 and 19 supplemented that the financial services business is **strongly influenced and regulated by national regulators and banking supervisory authorities**. Consequently, there is a much higher necessity for regular reviews about the appropriateness of the governance structures. Expert 12 noticed, that the divisional head has the same personal liability as the parent's management body and is accountable the business activities in his area of responsibility, which he got formally ascribed from the parent's management body. Expert 24 agreed that "*…he [divisional head] is responsible for the corporate governance organization in his division!"*

Numerous experts (e.g. expert 3, 6, 8 and 12) outlined that the divisional head plays another compulsory role within the **decision-making** procedures on a **group-wide** and **subsidiary level**. Intragroup expert committees have an important advisory function for the divisional head and are a central governance instrument. Expert 8 pointed out that *"…such committees help to bundle competencies and increase transparency and foster decision-making."*

Thematic cluster 7: Subsidiary governance dimension: The role of the management body on subsidiary level (usually MDs and FDs) (cf. part B / question 5.1)

The management bodies of the subsidiaries have an **interlinkage and coordination function** between the parent's headquarters and the subsidiaries. All experts agreed that they play a key governance role. Expert 14 made clear that *"…whether a company has a good corporate governance is decided in the subsidiaries."* Expert 1 supplemented that *"…it depends much on the individual manager how governance is executed within a subsidiary" and* expert 4 clarified that "*…governance without the local management commitment will never work."* Four experts (expert 12, 14, 19 and 20) remarked

that the members of the subsidiaries' management body are the local representative of the parent's management body. Expert 13 analyzed that "…*the local management has the same tasks and responsibilities in terms of governance than the executive board on a global level."* They are *"…the binding element to close the cultural, geographical, legal and regulatory gap between the headquarters and local subsidiary*" (cf. expert 17). They have to deal with different national cultures and leadership styles, which are essential to be locally successful. Expert 8, 20 and 21 added that the they have a supervision and steering function for the subsidiary and get supported by different headquarters functions.

All the interviewed experts outlined that they are the **legal representatives** of the subsidiary and require a certain level of independency, which means that the parent cannot predefine all issues. This is a major obstacle and has a huge impact towards the group-wide corporate governance management. Expert 9 and 23 highlighted, that in some countries (e.g. USA the MDs and FDs are) they are personally liable for the fulfillment of regulatory requirements, but if they can prove that they could not fulfill certain legal or regulatory obligations because of missing resources from its parent, they can exculpate their selves to a certain degree.

Expert 7 felt confident that *"the local MD is the key person for the relationship between the overseas headquarters and local subsidiary. He needs outstanding knowledge of how the multinational structures and governance mechanisms work and requires a good realistic evaluation where his scope of action has its limits."*

Nearly all interviewed subject matter experts summarized that the local leadership teams are held responsible for the **implementation of legal and regulatory requirements** and their consideration in the host country. Expert 18 outlined the necessity for local management teams to not implement a culture of ignorance for governance and compliance breaches. There is an increased awareness of the supervisory authorities in financial services entities for their governance structures. According to the executive board experiences of expert 18, it is important that they get the impression that they have the general framework understanding during their audits or evaluation meetings with the local managements of the subsidiaries. He pointed out that *"they focus on an adequate, good, comprehensive, satisfactory level of control, systems and measures to secure compliance and governance of the company*." He explained that *"…the MD and FD of the subsidiaries have to ensure the compliance in a broadness and solely in a certain level of deepness."* Three experts mentioned that many countries introduced "*fit and proper"* tests for senior staff, which are executed from the national banking authorities. Those developments become increasingly important and have to be considered in the succession planning and nomination of board members in subsidiaries.

Seventeen of the experts mentioned that the local management teams are held responsible for the **implementation of intragroup standards**, which are predefined from their parent to ensure a certain level of lucency and alignment among all subsidiaries. Expert 5 and 24 stated "… *that they are responsible for critically evaluating which topics or centrally defined requirements from the parent's headquarters are possible to implement and which regulations require a further local detailing or adjustment*."

Additionally, they are in charge of the **strategy implementation** in a local context. According to expert 12 and several other interviewed experts, the local leadership teams are responsible for transferring

the overarching group strategy into concrete business actions on subsidiary level. Expert 12 noticed that *"…the local management has to interpret and transform the generic, high level strategic direction into the context of the local legal and regulatory and business context."*

It was conspicuous, that some of the subject matter experts depicted the relevance of **a proper stakeholder management** in the host country as another crucial management task. Expert 20 explained the importance that the local boards understand the local market conditions and different interrelationships between the subsidiaries in the market (e.g. automotive sales company versus car dealers and financial services company) and the subsidiary role within the OEM network. Expert 20 goes beyond that and highlighted the relevance (particularly as a foreign company) to have transparency and a good relationship to the external stakeholders e.g. to the local regulators and supervisory authorities in the host country, auditors, other banks and competitors. He argues that it is *"…a kind of an early protection system, because as local MD or FD it is very important to get access to relevant market insights to evaluate the local market and notice potential issues, which may become critical in near future as early as possible."*

The subsidiary's management body plays a central role for the **local leadership understanding and corporate culture**. They have to interpret the role model function on a local level. Many experts (e.g. expert 13 and 17) circumstantiated in this context again the importance of integrity. Expert 12 characterized that "*those local MDs and FDs have to act proactively as independent entrepreneurs and have to search for new business opportunities, but on the other side they must also follow respective governance standards […] and take over their responsibility."* Expert 18 clarified concerning his CEO experience that *"for me this the whole topic of leadership and corporate culture a very important key drivers to manage corporate governance."*

Quite a few experts (e.g. expert 4, 14 and 19) outlined that divergent **intercultural differences** need to be aligned and to be managed on a professional level from the local management body. Intercultural differences between national cultures must be transparent, because they largely influence the management of corporate governance topics and the collaboration in the day-to-day business. There is a different understanding and awareness for governance among jurisdictions and different legal systems. According to the experiences of expert 4 "…*there is often a completely different sensibility, understanding and awareness for governance and compliance in e.g. Germany, China or Brazil and this needs to be considered."* Different existing governance standards also lead to different levels of attention among local managers and supervisory authorities. In sum, nine experts agreed that the local management has to transform the topics from the parent's headquarters into the local intercultural context towards their employees.

Thematic cluster 8: Intragroup management approaches for subsidiary governance (cf. part B / question 5.2)

All experts agreed that the **development of a group-wide target picture** is an essential precondition **for corporate governance**. The intention is to reach a group-wide consensus about definition, purpose and objective of intragroup corporate governance standards and focus topics. Afterwards it should be analyzed which level of detail is appropriate to ensure both a group-wide standard and enough flexibility to address local specifics. Expert 2 and 3 explained that it is obligatory to have an

entirely standardized governance framework with respective decision-making mechanisms for the subsidiaries. Expert 24 declared that the corporate parent usually sets up framework provisions, which describe in detail the responsibilities of the corporate parent and its daughter companies. In case of financial services subsidiaries there are certain variations due to the importance of particular topics. Such agreements clearly define which topics are either in a central versus decentral responsibility.

It is a noticeable finding that the experts agreed that corporate governance on a subsidiary level is also always a **clear joint responsibility of the parent's board**. The group CEO and its other board members have to cascade it down towards the divisional head of financial services and from there towards the members of the management bodies on subsidiary level. Few subject matter experts (e.g. expert 3, 9, 17 and 18) stated that the subsidiaries' management body is held responsible for the governance implementation in a local context.

Yet, the experts also agreed that there are many **multiple influencing factors** which have to be considered within the definition of the right corporate governance management approach. Expert 10 indicated that there is no 'one size fits all' approach. The level of steering and its need for management coming from the parent's headquarters varies among industries, companies and the individual business model. Apart from that, it always depends on the organizational and legal construct of the multinational group and the current stage of the corporate life cycle. Expert 21 explained that "…*most multinationals follow a decentralized approach to secure local flexibility in order to react faster and better towards local regulatory requirements. Moreover, further relevant influencing factors are e.g. the business model, complexity of the products, regulation, the business license, general company setup and the reporting requirements*." Similarly, expert 22 confirmed that the vast majority of the multinational groups in the automotive industry are decentrally organized. Expert 12 summarized that a *"…centralized approach leads to greater inflexibility, but therefore to a common implementation. Following a central approach in a decentral organization can lead to challenges regarding the level of standardization and the implementation of governance*." In essence, it will be challenging or even impossible to define general accepted standards, which fit to the heterogeneous market environments. According to expert 4 "…*there is a permanent stress ratio between centralization and decentralization."* Expert 13 and 22 argued that it further depends on the corporate culture, because there are firms that are successful with both approaches.

Several subject matter experts also outlined the necessity to **clarify the parent's governance role** for the subsidiary network. All experts agreed that the headquarters usually establish a generic group-wide standard to set the general intragroup framework conditions. The parent's headquarters has to secure that subsidiaries all follow the same structural and procedural approach. Aligned governance structures increase transparency, an effective subsidiary management and provide crucial guidance for the staff. A number of experts pointed out that the subsidiaries on the one hand are legal independent entities, but out of a home country perspective, the parent also has a clear duty of care obligation. Even so, expert 7 remarked that *"…from a legal point of view the parent's headquarters has only a limited enforcement option towards the subsidiaries via terms and conditions, corporate rules or guidelines."* Expert 4 recommended that the parent's headquarters is responsible for legal and regulatory issues with a group-wide applicability, strategic relevance or a high reputational relevance for the entire multinational group.

Some experts also advised to follow a rather **central governance management approach** for all relevant topics from a parent perspective (e.g. like grading, risk management, CEO responsibilities). Those topics should be identified and managed centrally and group-wide standards should be defined. They also agreed that exceptions have to be possible if there are local legal restrictions. Few experts (e.g. expert 9, 18 and 23) raised concerns about a complete centralization, because local subsidiaries would not feel responsible for such topics. The experts clarified that it would not be possible to handle all local market specifics of each host country by one central parent unit, and they suggested to take a more **decentralized approach**. For that reason, a slight majority of the experts (e.g. expert 1, 2, 12, 13,14, 18, 20 and 23) preferred a decentralized approach and recommended to implement a principle based approach with pre-defined minimum requirements from the parent's headquarters to secure a certain level of comparability, also in a decentral approach. According to the long executive experience of expert 22, he underlined that particularly *„… in decentral structures it is crucial that the managers know that they are held responsible for the local business, but also under the consideration of the defined boundaries of corporate governance."*

A vast majority (e.g. expert 2, 3, 18, 19, 20 and 21) recommended a **subsidiarity principle based governance management approach**, in which the parent solely sets the general framework conditions with minimum standards for relevant governance topics. Comprehensive framework provisions describe in detail the responsibilities and action scope of the subsidiaries. Expert 2, 3 and 18 explained that a multinational group has to follow a balanced approach according to the subsidiarity principle. In certain topics, more guidance of the parent may be required, while concerning other topics less is needed. Expert 7 and 9 experienced that most multinational groups define the governance question for each topic individually. Expert 3 outlined that "…*the parent's headquarters can only instruct the subsidiaries to regulate certain topics which are core topics out of the parent's perspective, but the implementation has to be executed from the local subsidiary in accordance with the local business environment, local law and regulations."* In sum, particularly experts 5, 6, 7 and 9 postulated that it is not possible to state which approach is more effective and recommend to answer this for each governance topic separately.

Furthermore, six of the interviewed experts (e.g. expert 9) agreed that the **Three Lines of Defense Model** is an often-applied approach for the management and steering of multinational organizations. Four experts (e.g. 6 and 14) outlined that this model is commonly implemented in subsidiary structures, as it defines the various independent supervisory and control tasks, combines them with the subsidiarity principles and ensures the individual responsibility. The experts (e.g. expert 7, 13, 16) also mentioned the necessity to consider the **specifics of the financial services business** in the multinational context. Expert 21 analyzed that "*there is a kind of dualism."* For regulatory topics, it makes sense to follow a mixed approach, which means that the local specifics get coordinated by the subsidiary, but is supported from a parent's governance function. In this context some experts (e.g. expert 7, 18 and 24) supplemented to also take into account the strong role of the national regulators.

Few experts (e.g. expert 6, 9, 16 and 22) described the necessity to define consistent intragroup **governance reporting and control mechanisms**. Governance targets should be defined and monitored by a consolidating, but also independent control function (e.g. internal audit), which is in a dual reporting line to the parent's management body, but also towards the management body on local level.

Again, at least five experts (e.g. expert 10) declared the obligation to **consider intercultural differences**, language barriers and possible different corporate governance systems within the decision of a rather central or decentral management approach.

Thematic cluster 9: Key drivers (success factors) for professional intragroup subsidiary governance (cf. part B / question 5.3)

Eight subject matter experts (e.g. expert 2, 3, 8, 15 and 19) agreed that **intragroup transparency and communication** are the two key elements for effective intragroup corporate governance management. Expert 1 explained that "*it is most important to share the company specific definition of corporate governance, because this defines the expectations of the overseas headquarters to their subsidiaries."* Expert 8 supplemented that this ensures that "*roles and responsibilities are clearly defined and accountability is internally but also externally transparent."*

Almost all interviewed subject matter experts (e.g. expert 4, 7 and 21) agreed that **a common understanding of the group-wide corporate governance framework** is another crucial success factor. Expert 7 stated that consistency is fundamental for governance mechanisms to be effective, because *"…if only one element is missing, the whole governance framework will not be effective*." Expert 4 highlighted the importance to *"…ensure a regular exchange of managers within the entire corporate group to foster and support the network thinking and framework understanding."*

This corresponds to the clear recommendation of nine subject matter experts (e.g. expert 7, 14 and 17) to agree on holistic **group-wide standards** for key areas. Expert 14 and 19 said that the definition and implementation of pre-defined intragroup minimum standards have to be principle based and should follow the subsidiarity principle. The experts outlined the necessity for **flexibility to incorporate local specifics**. Expert 6 emphasized to favor a balanced approach with a glocal approach. The foreign subsidiaries have to identify and implement the local requirements. Particularly subject matter expert 11 outlined the necessity of a **sufficient intragroup resource allocation**. Compliance and governance are mandatory for all companies, but there are required time and financial resources to ensure its professional management. According to expert 5 it is of course a prominent concern that *"…the local MDs and FDs have enough resources available to fulfill their duties, legal and regulatory requirements*." In turn, to fulfill their legal duty of care, the local management also has the obligation to request enough resources to ensure compliance.

Especially the interviewed top managers found that **documentation** and **archiving** become increasingly important regarding management liability. A vast majority (e.g. expert 3; 21) also described the key role of a clear **process orientation of intragroup core processes**. Expert 2 outlined that "…*well defined and lived processes are a key in organizations with decentralized structures, because it defines who communicates what with whom and in which way*."

Additionally, the experts (e.g. expert 1, 2, 3, 5 and 7) recommended to allocate approaches on how to deal with the **complexity of internal governance targets and it's monitoring**. All governance components have to be connected and they need to supplement each other. Corporate governance is no standalone KPI. Some experts even stated that it is impossible to quantify the benefits in meaningful key performance indicators, because it relies more on the mindset and the willingness of the people. Eight of the interviewed top managers explained, that the fulfillment of corporate governance require-

ments has to be clearly delegated from the parent in appropriate terms and conditions contracts. It has to be documented that every MD and FD has a legal obligation for corporate governance in his or her organization. Moreover, the experts stated that there should also be governance, culture and compliance targets included in the balance scorecard to counterbalance profitability targets - and highlight the relevance of such topics – also towards external authorities. Four top managers recommended that every manager should have integrity topics as part of his personal targets.
The subject matter experts (e.g. expert 4, 10, 12, 14 and 18) agreed to the **key role of corporate culture to bridge governance gaps**. There is a high correspondence that the business culture is an important factor for corporate governance. The experts explain that culture is heterogeneous, complex and flexible. It is essential that there is a clear communication by the top management about the desired core values and elements of company culture. Expert 4 made a clear statement that *"…corporate culture has to act as a net for governance gaps and must be based on trust. Finally governance depends on inter-human relationship […] the most important factor is the willingness of the local management."* While few experts (e.g. expert 19) agreed with this statement, three subject matter experts (expert 10, 17 and 18) outlined the necessity to supplement it with the right leadership style.
Subject matter expert 13 cited that governance begins with the **staffing of key (management) functions** and expert 9 felt confident that *"HR topics are a key driver for governance"*. Expert 13 outlined the great importance of the recruitment, nomination and succession planning of management positions. Particularly expert 13 said that, *"integrity is a key requirement within the management selection for governance related key functions in our company."* Further, **continuous training and education** played an important role for the interviewed experts. One expert stated that *"competence is the key for everything!",* and several other experts also confirmed this.
The interviewed managers recognized the **opportunity of whistleblowing** as a crucial success factor. One of the top managers (expert 23) of an OEM added that *"this is a very important instrument for the self-evaluation and self-regulation of each organization in terms of governance and compliance. There are mechanisms needed for people to raise their concerns when they see that something is not working right, particularly in very hierarchical structures like in many OEMs."*
The experts explained that there are consistent **predefined actions needed for governance or compliance breaches**. Several top managers (e.g. expert 18) outlined the importance to communicate that there is no tolerance accepted for any compliance breaches.
Further, some experts described the necessity for a professional **management of the subsidiary control organs** (e.g. supervisory board/ board of directors) and the benefits of **integrating new technologies**, such as big data. Subject matter expert 9 explained that many companies search for ways of using new technologies to strengthen their internal governance management.

Thematic cluster 10: Benefits of subsidiary governance (cf. part B / question 5.4)

Expert 6, 7, 12 and 13 outlined that increased **transparency** is the most important superordinate benefit. Expert 12 clarified that this is the overachieving goal of all measures, because it forms the foundation for all decisions, which have to be taken in the organization. Expert 6 differentiated between shareholders and stakeholders and pointed out "…*that governance helps to implement structures*

which ensure that company internal processes become more transparent and traceable for externals." Additionally, he said that *"…without internal transparency it is impossible to ensure sustainable business success."* Besides, expert 12 stated that this is the foundation for all decisions to be taken, improves the risk management and is directly linked to a firms' competitiveness.

All interviewed experts approved that the obligatory **fulfillment of legal and regulatory requirements** can also be seen as benefit. A few experts (e.g. expert 9, 13, 14, 15, 17, 20, 21 and 23) explained that this, particularly in the financial services industry, plays an important role. Expert 9 recognized that "…*it can be seen as part of the risk management, and the benefits are avoided legal proceedings, penalties or fines, reputational damages or the retention of the banking license*." Expert 19 supplemented that "*corporate governance and compliance topics are not negotiable for the subsidiaries."*

A number of interviewed experts (e.g. expert 6, 11, 24) remembered that it is a legal obligation for listed entities to declare e.g. in Germany their conformity with the corporate governance principles with a *'comply or explain'* approach. Expert 11 felt confident that "*…listed companies with a high public awareness have a great self-interest to communicate that they fulfill all the external requirements and that they have to implement functions, processes, standards and structures*."

Several experts (e.g. expert 5, 13, 16 21 and 23) underlined that it further helps to mitigate **management liability**. Expert 13 made clear that *"… an investment in governance structures is the fulfillment of the personal duty of care…"* of each executive. The implementation of a preventive compliance management system can reduce its personal liability. Subject matter expert 5 said that they perform regular governance risk assessments, in which they primarily focus on legal and regulatory topics with a high financial or reputational damage probability. Expert 23 even defined corporate governance as the "*personal life insurance of each top manager",* and that he therefore has a great self-interest to have effective governance structures in place.

There was a broad approval among the interviewed experts (e.g. expert 5, 14, 16 and 23) that proper **governance standards minimize (reputational) risks**. Expert 14 clarified that "*…the reputational risk is getting more and more important for companies."* Expert 23 summarized that "*corporate governance practice is the cost for good reputation*." The reputational consequences of governance breaches are incalculable risks. Besides, the interviewed top managers (e.g. expert 17, 18 and 23) agreed that the public awareness and public pressure on politicians to impose legal infringements for breaches in firms is currently on a high level. Expert 17 confirmed that *"…there is no doubt that some countries use it as an enforcement instrument to support their economy politics*" and foreign companies have to be aware about this (e.g. in China). Expert 17 pronounced that *"…in many countries there is a higher awareness of local banking supervisory authorities on the foreign companies and a much stricter zero tolerance approach compared to their local companies*."

A few experts (e.g. expert 1, 4, 7, 8, 12 and 13) further agreed that proper governance structures result in a better **organizational performance**. Some of the experts analyzed that a higher level of standardization increases the companywide organizational performance with clearly defined processes, roles, responsibilities and decision-making procedures. According to expert 2 "…*a high degree of standardization (processes) forms the foundation for regular improvement loops*." However, expert 1 criticized that *"…organizations become more bureaucratic and slower with governance"*, even if he

feels convinced that the positive effects weight much stronger. Expert 7 made clear that "*…clear structures and processes are the key for every organization… this helps to speed up processes and alignment and increases therefore efficiency."*

Altogether, all those statements were closely linked to the general perception of the interviewed subject matter experts that carefully designed governance **supports the competitiveness** of a firm (e.g. expert 3, 5, 6, 8, 9, 12 and 13). Corporate governance ensures a higher productivity and effectiveness if it is stringently executed with clear and rigorous practices (cf. e.g. expert 8 and 9). Expert 23 cited that "…*corporate governance reduces fraud, corruption, errors, liability to the individuals of the company, compliance cases, and avoids costs*." Particularly expert 9 summarized, that corporate governance is an important enabler for gaining competitive advantages, because of **"…***transparent processes, clear reporting lines and efficient decision-making… good governance mechanisms act in this context as an early warning indicator...."* Expert 10 analyzed that "…a *proper governance structure enables an organization to publish faster e.g. financial figures which leads towards a faster reaction time in case of any misdirection." However,* expert 4 raised concerns and explained that corporate governance is also a limiting factor, because the flexibility and agility within a market would be stronger if there would were only few centrally defined corporate standards and regulations.

Furthermore, most of the experts (e.g. expert 3, 5, 8, 9, 12 and 13) feel confident that there are positive **effects on a firm's innovation capacity**, even if they also accept that it is difficult to prove based on facts, that the reason for the innovation capabilities or competitiveness of a firm largely depends on their governance structures. Despite this, subject matter expert 9 explained that, "*if governance gets connected with the organizational structures – there is a significant impact on innovation."*

Additionally, the experts' confirmed positive effects on the **sustainability** (e.g. expert 4, 6, 7, 8, 12 and 13)**.** Expert 6 outlined that effective governance and compliance structures are the fundament of a sustainable business development. Expert 7 supplemented that governance structures are fundamental to avoid compliance and governance breaches or scandals. Subject matter expert 4 linked sustainability with organizational performance.

The vast majority of the interviewed experts confirmed that corporate governance has positive **effects on leadership and corporate culture** (e.g. expert 4, 8, 12, 13, 15, 19, 22 and 24). Subject matter expert 22 underlined the necessity for a value driven leadership approach. Three experts (expert 19, 22 and 24) clarified that governance and compliance topics have to be non-negotiable core values of every corporate culture. Following the corporate governance principles has to be a fundamental part of the intragroup business culture.

Experts, such as expert 6 or expert 10, draw further conclusions and found that corporate governance leads to more **confidence of the investors** and other stakeholders. Expert 10 analyzed that "…*governance indicates security and continuity, which is also important for e.g. customers or suppliers. It indicates that they follow and fulfill certain business standards which they expect from their business partners."*

Expert 20 outlined that governance **reduces audit findings** of all, the internal audit, external audit but also of the supervisory authorities, and he concluded that it could otherwise result in high fines or, in a worst-case scenario, in the withdrawal of the business or banking license. Expert 23 also remembered

that *"…without proper governance you do not even get a business license if you cannot demonstrate the respective management capabilities."*

In sum, six of the interviewed experts confirmed that it is difficult to quantify the benefits of corporate governance. No one of the interviewed experts rejected that there are positive effects on the company, but accepted that they are difficult to quantify.

Thematic cluster 11: Limitations for a centralized management approach for intragroup governance (cf. part B / question 5.5)

It was noticeable that there is a certain **uncertainty about the parent's enforcement rights** towards the subsidiaries. Expert 12 said *"this is very difficult and a much discussed issue. This has to answer every organization for their selves." S*everal subject matter experts (e.g. expert 3, 5 and 10) defined that the limitations for centralization are given by the topics. Expert 7 confessed that there is no general statement possible. According to the opinion of experts 17, 19 and 23 it is a grey area for many organizations. Subsidiaries have a clear dependency on the corporate parent and have to follow its requirements. Expert 2 said that "*in Germany the corporate parent always has a certain residual risk for their subsidiaries, if the profits and loses get transferred towards the corporate parents balance sheets. In this case the parent is always responsible for taking over some monitoring and steering activities…*"

In contrast to this expert 17 remembered that there is de facto no legal enforcement option for the corporate parent. At first, subsidiaries are locally registered independent companies in the respective host country. The local members of the management body (e.g. MD and FD) are the legal representatives and local national authorities will make them liable for breaches. Expert 11 and 19 suggested to solve this challenge via the deepness of the predefined intragroup requirements. The parent should predefine comparable high-level standards and everything, which is going beyond this refers to the local responsibility. He explained that many parent entities formally formulate only "*strong recommendations*" to the local management bodies of the subsidiaries, who have to take the formal decision on an apparent independent basis. Expert 24 declared that *"if we talk about the banking business, it is clearly defined that there is no opportunity to intervene [from the headquarters] into the core competences of the business [e.g. operative business] of the subsidiary…"*

A large majority of the interviewed subject matter experts (e.g. expert 1, 2, 5, 6, 9, 11, 15, 20, 21 and 22) explained that the limitations are given by the specific **legal and regulatory requirements** in each country. Representing others, expert 1 clarified that *"…local market specifics of each country and each legal entity structure in the host countries cannot be managed out of an overseas headquarters."* Subject matter expert 5 stated that "…*the local MDs and FDs are responsible for ensuring the overall legal and financial compliance, but the parent's headquarters obligation is to free up the required resources."* Expert 4 outlined that there has to be a clear statement from the parent that the fulfillment of local legislation is the highest priority. Expert 6 stated that any group-internal regulations, that restrict the action scope of the subsidiary boards are invalid. It is not allowed to limit the local management sovereignty via intragroup instructions.

Expert 8 responded that this depends on whether the group is organized either as finance or as management holding construct. In contrast, subject matter expert 6 felt confident that *"…the limits are pre-*

defined. They are there where the parent's headquarters tries to establish internal rules which do not comply with local regulations."

Some experts (e.g. expert 10, 14 and 23) further listed **organizational limitations**. For example, subject matter expert 10 outlined *"…there is a great need that there are predefined organizational structures and key processes from the overseas headquarters."* A single organizational blueprint for all the subsidiaries ensures that all subsidiaries act in the same way with the same systematic organizational processual thinking. Expert 10 further suggested to implement a '*comply or explain'* approach. Expert 14 also underlined that "*the overseas headquarters have a guideline setting competence for methods, processes and structures. In the end "short and sweet" is important. It is the typical target picture of think global but act local."*

Few experts (e.g. expert 16 and 18) recommended not to underestimate **the impact of informal limitation mechanisms, such as the corporate culture**. Expert 16 made clear that "…*every local MD and FD knows that the parent's executive management board and the divisional head in the parent's headquarters are responsible for their next career steps*." This stand-alone fact already ensures that the local senior staff usually follows the instructions of their corporate parent. Reflecting his CEO history in various countries, expert 13 explained that "…*if the local negotiation techniques, national cultures etc. are completely different than in the country of the overseas headquarters, usually also the values vary and can lead to major challenges. For example, while corruption is part of the daily business in some countries, in others cultures there is a zero tolerance for such behavior."*

Thematic cluster 12: Intragroup sanction mechanisms (cf. part B / question 5.6)

Expert 3 made clear that the overachieving objective has to be to **avoid escalations** where it is possible. It is better to define concrete **measures for governance standards** in advance than to sanction them afterwards.

According to expert 12 it is a prerequisite for the **enforcement rights** (of the parent's headquarters towards the subsidiaries) to have respective group-internal regulations that are also transferred to framework contracts. He outlined that it is necessary to define which failures have to be sanctioned in which way. Expert 19 emphasized that, if the local MD does not implement the parent's standards, he can be immediately replaced from the parent as the official company owner.

Besides, three of the interviewed experts (expert 12, 14 and 15) mentioned that it is crucial to discuss and **communicate the sanctions and possible consequences** for governance breaches in an open and transparent way (e.g. via a rule book). Expert 12 explained, "…*the general prerequisite for sanctions is the existence of respective company rules which need to be transferred into personal contracts."* Additionally, eight of the subject matter experts (e.g. expert 2 and 12) highlighted that it has to be obligatory to enforce communicated sanction mechanisms if people will not follow the rules.

Nevertheless, the interviewed managers (e.g. expert 2 and 6) ranked independent **investigations of governance and compliance breaches** as equally important. Herby, the experts (e.g. expert 3, 4 and 22) outlined the role of internal audit within the (governance / fraud) investigations. Expert 22 recommended promoting internal audit not solely as control function, but rather as internal consultants. Six subject matter experts confirmed good experiences with task force approaches to independently sup-

port local fraud investigations. Again, some experts (e.g. 22 and 23) mentioned the relevance of internal whistleblowing hotlines for employees to report proactively (anonymous) infringements.

Others (e.g. expert 4) took into consideration that the **handling of governance breaches also depends on the existing corporate culture**. Seven experts (e.g. expert 9, 13 and 22) underlined the importance of **defining individual consequences**. If there are no consequences for breaches of corporate rules, they are superfluous. Thus, the experts (e.g. expert 1, 4, 6, 7, 9, 13 and 22) listed various operational sanction mechanisms like a strong say, official warnings, job rotations, recall of managers, fewer investment budgets, stricter reporting lines, compulsory retirement or even firing as possible options.

Moreover, there was a consensus among seven of the interview partners (e.g. expert 4, 5, 8, 9, 11 and 19) that the **linkage to the individual remuneration** is an often-used sanction mechanism. Six of the experts (e.g. expert 5, 8, 11 and 19) even felt confident that connecting it to **the individual pay** of the subsidiary board members, is the most effective instrument.

Thematic cluster 13: Feedback & recommendations regarding the identified key areas of corporate governance management (cf. part B / question 5.7)

The vast majority of the experts (e.g. expert 1, 2, 6, 7, 8, 10, 14, 16, 17, 18, 19, 20, 23 and 24) felt confident that the eight identified focus areas and the suggested evaluation approach consider all relevant intragroup governance management related topics from a parent´s perspective. Expert 1 analyzed that "…*those dimensions support the governance structures and the awareness for relevant focus topics in the financial services subsidiaries*." One of the interviewed top managers (expert 18) even stated that "…*this would be a supportive instrument for me as CEO to execute my governance function. The dimensions reflect my daily tasks and responsibilities*." Expert 6 was convinced that "…*the concept including the eight clusters helps to operationalize the abstract term corporate governance […] and further highlights the benefits of corporate governance in an appropriate way, which is extremely important for the communication."* Expert 23 summed up that the defined focus topics can be applied as "*management cockpit, which is very beneficial […] it is a very practical tool which really provides value for top managers as it highlights the focus topics."*

Expert 14 explained that the underlying approach follows the logic of the second line of defense and the consolidating function (e.g. a CoC) ensures an integrated corporate governance approach on parent level. While the subsidiaries are held responsible for the governance implementation, the consolidating parent CoC is in charge to enable, support and steer the different topic areas within the subsidiaries, and the internal audit has to act as independent control function if the governance standards are properly implemented on subsidiary level.

Expert 16 raised the general concern, if there is such a great intragroup governance divergence as I have indicated. He raised the question whether the eight dimensions are not too complex to manage for the target group 'executive management board'. He recommends consolidating the subtopics on a higher level. Four others, particularly expert 23, contradicted and confirmed the existence of the identified intragroup governance differences between the parent and foreign subsidiaries.

Most of the experts analyzed the eight governance key areas in detail and provided **additional topic specific feedback**. For example, expert 6 outlined that the *compliance and regulatory management*

dimension should also include the communication with supervisory authorities. Apart from expert 4, especially expert 20, who referred to his own CFO experience, answered that *"…the mission management and framework management are very central topics."* Expert 21 outlined *"…for me many topics in the clusters are typical CEO topics which we often discuss within our executive board meetings."* Expert 23 explained that there are only *"core competencies"* mentioned, but in essence it is required to have both, "*core competences and capabilities*". One of the top managers (expert 20) highlighted that stakeholder management is a key element for strong regulated subsidiaries. Expert 6 explained in respect to his management experience that it is very important that the local MD and FD pursue a good relationship to the local authorities and should be included in this key topic. Expert 20 emphasized that the local succession planning has to take place in the context of the organizational maturity level of the subsidiary. He explained that in regulated companies the local regulator also plays a key role for the nomination of executives, because they have to check and approve the qualification of the candidates via "*fit and proper tests"*.

Some experts (e.g. expert 6) identified **supplementary topics** that were not adequately considered at this point in time. Expert 6 outlined that the external auditor could be additionally included in the dimensions, as some experts (e.g. expert 12) define the external auditors as the "fourth line of defense". Interview partner 13 stated that the reputational management and the consequences of governance failures are not included yet. Expert 11 declared that the term "internal control system" is not explicitly mentioned in the dimensions. Expert 23 recommended to include robust documentation as a further very important cross-functional aspect. Expert 3 suggested to involve "*…the measurement of business success."* Furthermore, expert 11 missed the topics of joint methodologies for e.g. calculating risks, while expert 19 criticized the missing target management system. Apart from that, expert 21 suggested considering the reporting towards the national supervisory bodies, while expert 23 also strongly supported implementing the earlier mentioned whistleblowing system.

Few experts made comments regarding the **methodology and illustration** of the different clusters. For instance, expert 3 stated that the different clusters are high level and require concrete questions for the superior topics. Expert 11 and 12 recommended to implement a hierarchical logic to operationalize it easier. Also, expert 11 suggested to integrate a clear reporting line from the subsidiary to the division head in a loop structure. In addition, expert 10 recommended to make clear that the audit management affects all other identified dimensions. Expert 22 analyzed that "…*corporate culture forms the foundation or has to be ranked above or, as foundation, below of all eight dimensions.***"**

Apart from that, some experts made **suggestions for the further proceeding.** Expert 7 highlighted the complexity of corporate governance and pronounced that it "…*is a very cross functional topic and involves many different issues. In regard to this context it will be important - if possible – to make a clear demarcation line…"* towards other topics to create a common understanding. Expert 10 said that at first every organization has to clarify the relevant company-individual focus topics, as a basic fundament. Expert 9 added that the eight dimensions are not free of overlaps. Expert 9 pointed out that the dimension of *"integrity management"* for many companies is equal to compliance. Expert 22 outlined that his company *"…changed corporate governance to the name integrity management."* Furthermore, the interviewed top managers (e.g. expert 23) outlined the importance of the softer topics

(e.g. leadership, culture etc.) and recommended to highlight them more. Another expert outlined that the intragroup relationships always have to be clear in the management model.

Others also made statements regarding the **implementation**. Expert 6 outlined that it is always difficult to link a theoretic concept with the practice. Despite this, he found that it is helpful to highlight the different focus topics and will support a holistic fact driven evaluation of subsidiaries. Expert 3 and 8 recommended to prioritize the topics via a step-by-step implementation. Moreover, both experts 5 and 9 outlined the necessity of regular spot checks (on-site subsidiary visits), which follow a risk-based approach to ensure the effectiveness of the defined dimensions. Expert 4 highlighted the importance of regular meetings and close intragroup collaboration.

The interview partners also made **other useful remarks**. Expert 22 stated that it is crucial to find the right transformer to minimize the intragroup governance discrepancies. He argued that it is important to weight the different dimensions in each subsidiary differently according to the maturity level and local market conditions.

Thematic cluster 14: Evaluation approaches for subsidiary governance (cf. part B / question 5.8)

There was a broad consensus among the experts (e.g. expert 4, 5, 6, 8, 9, 10, 12, 13, 16, 17, 18, 20, 21, 23 and 23) that a self-assessment approach is the right way to identify governance gaps and improvement areas. Expert 5 outlined that "*…if the management has to evaluate their organization, this increases their awareness for governance topics and also secures an appropriate documentation for the supervisory authorities or external auditors."* Expert 13 found that an integrated approach of the defined focus areas and the assessment will "*…provide a valuable and sustainable contribution to minimize the governance gap and to enable the subsidiaries to fulfill their governance duties."* Expert 10 added that it is "*…a perfect starting point for the dialogue with the subsidiaries*." Despite this, expert 14 referred to the earlier debate and clarified that the evaluation of corporate governance practices is a major challenge, especially if it comes to leadership or cultural aspects. Thus, he suggested to define only few governance focus areas. Expert 23 recommended not to define abstract KPIs and said *"…I recommend to focus more on how those topics are managed than on the objective itself."*

Yet, according to the experts, there are various **determinates that influence the assessment quality**. Expert 6 stated that a self-assessment approach already presupposes "*…a certain degree of professionalization of the subsidiary management boards*." Expert 8 found that a self-assessment approach is suitable for mature markets, but for immature markets it could be challenging, also due to intercultural differences in multinational organizations. He outlined that such a management tool should be used as an intragroup exchange platform. Expert 13 suggested defining "*…the interdisciplinary topics in close collaboration with the respective group functions and internal and external specialists to make sure that all the defined topics are interpreted in the right direction."*

The experts with a consulting or audit background (e.g. expert 4, 5, 8, 12, 13, 14, 16, 17 and 18) confirmed that **a self-assessment or maturity level approach** is a commonly used procedure. Expert 8 mentioned that there are good experiences with self-assessment approaches e.g. within the implementation of compliance management systems. While expert 5 explained that a maturity model approach reflects that corporate governance management is a never-ending topic, expert 7 outlined the

necessity that the management model has to be agile. To be effective, expert 14 outlined that the evaluation approach has to avoid any kind of finger pointing or blaming of the subsidiaries.

Based on the experiences of expert 2 and 24, the subsidiaries MDs and FDs should be the **addressors** of the questionnaire and not the respective topic owner, to avoid conflicts of interests. Expert 17 explained that it makes sense that the local MD and FD perform such an organizational self-assessment as a starting point for the regular management review.

Nevertheless, few experts (e.g. expert 1 and 21) raised concerns that a maturity model with a **predefined scaling system** could be too difficult and end up in discussions between the subsidiaries and the corporate parent. Others argued that discussions are unavoidable and support to identify potential governance divergences and improvement areas. In accordance with expert 12, expert 9 outlined that it is necessary to define the parents' expectations and which level should be reached in which of the defined dimensions in advance, *"…because every improvement will cost money."* As it is necessary to secure a high level of compliance in some focus topics, there are others that allow to accept a lower degree of fulfillment. Expert 21 highlighted the fact, that it will be not possible to **define a hard KPI for each (soft) topic**. Yet, some experts (e.g. expert 3 and 4) pointed out the necessity of an **independent control function**, which acts as a corrective for the reported measures of the subsidies. Expert 4 suggested the internal audit function as corrector. Expert 8 analyzed that *"…a division-specific management committee could act as a control organ to control the predefined rules for the self-evaluation. Furthermore, it gets an official and binding character for the participants."* Simultaneously he explained, together with expert 22 and 23, that this depends on the intragroup leadership and corporate culture. They outlined the necessity for consensus orientation and an open, discussion driven committee culture, which also allows to communicate identified governance deficits without any doubt.

In particular, expert 9 regarded the different possibilities to **illustrate the results** (e.g. with spider graphs) of a maturity level approach as an additional advantage of this methodology.

Thematic cluster 15: Corporate governance organization (cf. part B / question 6.1)

Most of the experts (e.g. expert 3, 6, 7 and 8) outlined that a general statement for the organizational setup of the intragroup corporate governance management is not possible. They highlighted that there are **numerous influencing factors that have to be taken into account.** All interviewed experts agreed that strong governance structures and processes are an essential prerequisite (e.g. due to the comprehensive customer data), because "…*otherwise it will end up in massive compliance breaches with much impact towards the automotive brand and image"* (cf. e.g. expert 3). Expert 3 summarized that one option to reflect the financial services specifics is to install a separate member in the parent's management body for the financial services business only or to integrate a separate financial services holding into the multinational group, which can act as liability buffer for the corporate parent. Moreover, expert 3 cited that some supervisory body members should have a finance and banking background to act as a supervision mechanism and executive advisors on parent level. Expert 2 and 7 underlined, that "…*the organizational structure has to be aligned with the multinational organization"*, but there should be a consolidating corporate governance function in the parent and in each subsidiary. Expert 7 emphasized that *"…the organizational structure has to clarify which roles and responsibilities the parent has, and which ones the local decision makers have."* Expert 8 agreed, but declared

that the prerequisite for such functions (e.g. chief governance officer, CoC, local governance managers) is always the acceptance within the company. Altogether, expert 3, 4 and 23 emphasized the importance of organizational lucency, including clear roles and responsibilities and a close alignment between the consolidating governance functions on parent level and local subsidiaries.

One expert outlined the **necessity of a chief governance officer in the management body of the corporate parent.** Expert 9 explained that there are multinational companies (e.g. Volkswagen, Lufthansa) which have implemented a chief governance officer on executive management board level. He described that usually they are responsible for coordinating the ICS, compliance and risk management system, and are in charge of developing a group-wide governance concept and monitoring its intragroup implementation. The majority of the interviewed experts (e.g. expert 6, 8, 12, 16 and 18) raised concerns and argued, that the disadvantage of such a setup is e.g. that it implies a strong control focused top management. One of the interviewed lawyers (expert 16) pointed out that the German AktG (stock corporation law) defines a clear collective responsibility of the executive board for corporate governance. In sum, most of the experts (e.g. expert 1, 2, 3, 5, 6, 9, 10, 14, 16, 19, 20, 21 and 24) preferred a central coordination function, which works on governance topics and raises its awareness. Expert 16 explained that it is preferable to have an independent staff function that reports directly to the parent management body. One of the interviewed CEOs (expert 22) stated that they installed a corporate integrity officer who reports directly to him as group CEO, but without any own board membership, because "*he is responsible to raise the awareness for corporate governance and acts as clearing function.*"

Yet, fifteen of the experts (e.g. 1, 2, 3, 6, 9, 14, 16, 19, 20, 22, 23 and 24) explicitly supported the implementation of a **CoC for Corporate Governance within the financial services division**. According to expert 14, companies try to bundle and coordinate the various governance topics in a separate staff function from a single source. Expert 1, 2 and 23 recommend an own CoC for the automotive financial business division to better coordinate and handle the external governance regulations for banks in many jurisdictions. Expert 3 clarified that "*the division head and his staff function (e.g. CoC) have a very important function and have to steer and to coordinate the governance management with the different headquarters functions and subsidiaries.*" Three interviewed external auditors explained that the parent´s management body is accountable but should formally delegate the management of selected governance topics to the governance functions, which develop intragroup standards. They supported the implementation of a staff function to support the parent´s management body or the division head to perform their governance role. Expert 23 stated that *"…this helps to make sure that the directors know for what they are responsible for!"* This staff function should be in the direct reporting line of one member of the parent´s management body. Expert 9 analyzed that a CoC should *"…perform regular spot checks and execute the operative governance management in a group-wide context."* Expert 1 also agreed and added, that *"a CoC has to define standards and suitable methods for how a corporate governance framework needs to be defined, so the subsidiaries get enabled to design their individual governance framework."* Expert 7 found that, to be seriously recognized, such a function must be "…*located high in the organizational chart to reflect the importance."* Equally, he recommended designing a CoC regarding the different business models of the financial services subsidiaries (e.g. banks, leasing companies, insurance broker etc.) and not regarding business regions.

It was also noticeable that fourteen of the experts (e.g. expert: 1, 2, 5, 10, 12, 18, 19, 20, 21 and 24) outlined the necessity of **a local corporate governance officer** in each legal entity. Expert 1 underlined that it must be clearly defined by whom they are directed and controlled, either by the local management, by a CoC of the headquarters or by the division head of financial services. Further, it has to be clarified who is the disciplinary superior for the local governance officers (e.g. expert 5 clearly recommended the CoC on parent level). According to expert 5, there "*can be conflicts of interests if it is the local management*." Seven experts (expert 1, 2, 5, 18, 19, 20, 21 and 22) added that regulated entities need a compliance officer (legal requirement) in each subsidiary and concluded, that they could take over the position of a local corporate governance delegate.

Apart from this, a few interviewed managers (e.g. expert 9) pointed out that their multinationals have implemented **corporate governance committees**. Expert 9 explained that the committee members are representatives of the parent's management board, compliance, ICS, controlling, operations, risk, governance, IT and HR departments to guarantee a regular cross functional alignment and to secure a comprehensive and group-wide governance approach.

Even so, several experts (e.g. expert 9, 12, 14 and 18) raised **concerns regarding a separate corporate governance function**. In line with e.g. expert 20 and 21, expert 18 stated clearly *"…a chief compliance or governance officer on board level is in my perspective overrated."* Expert 14 argued that the problem of an officially named corporate governance function would be that no one else would feel responsible for it. Expert 16 and 20 supported this argumentation and explained, that this is a clear joint responsibility of each intragroup management body. Expert 14 explained that the mandatory compliance functions in each financial services entity usually also consider governance, legal and risk components. Expert 12 felt confident that it is better to focus on clear accountabilities than to implement new structures.

In the end, the interview partners (e.g. expert 4, 8, 14, 18, 22 and 23) agreed that **especially the corporate culture is a key component** for the decision of the right organizational setup. Expert 22 judged that*"…the governance and compliance organization also reflect the existing corporate culture"* and expert 8 analyzed that *"a governance organization relies much on their people […] and those structures are living from their acceptance and trust is the basic foundation."*

Thematic cluster 16: Governance communication (cf. part B / question 6.2)

Expert 13 made clear to distinguish between the internal and external corporate governance communication. Few experts (e.g. expert 13, 14 and 19) focused on the **importance of tone from the top communication**. Expert 22 summed up that "…*the right tone at the right time is important"*. Expert 21 highlighted that "…*governance communication as a clear board task and is possible to delegate only to a certain extent."* The executive board is responsible to transfer team spirit into the multinational group and to create a common understanding. The right tone from the top provides orientation, and the regular commitment reflects its importance. Expert 12 pointed out that governance communication is directly linked to liability topics and management / control issues.

Others (e.g. expert 7, 9, 10, 15 and 17) highlighted the meaningfulness **of target group specific governance communication**. Expert 24 explained that the local MDs and FDs require a comprehensive onboarding, which has to cover all relevant governance topics.

According to the experiences of expert 10, *"…good communication means complete, regular target orientated communication."* Expert 7 and 9 felt confident that it should follow a clear top-down cascade. Expert 24 supports the view that the local management bodies should be the parent´s first addressors for governance communication. Expert 7 further highlighted divisional-specific governance communication to be effective.

A few experts (e.g. expert 1 and 2) also identified **success factors for the corporate governance communication** in multinational structures. Expert 10 explained that specific governance communication has to secure a minimum extent of lucency about the reasons why a company and its management body acts in a certain way. Governance communication has to sharpen its awareness and expert 9 analyzed that governance communication has to be "…*consistent and should secure that it does not contradict each other within the different hierarchy levels, subsidiaries and different host countries*." Among others, expert 22 felt confident that *"…it is required to use many different channels for an effective communication*." Expert 2 advised *"…to pay attention to the wording, because several terms in large organizations are already pre-allocated or already used in another local context in the subsidiary."* Expert 6 outlined that "…*governance communication should be serious and on an equal footing between the headquarters and foreign subsidiaries*." In addition, expert 3 outlined that the collaboration with each other in a team ensures commitment, engagement and raises the acceptance. He suggested involving *"…local market experts…"* within the definition of new governance instruments or standards to consider the subsidiary perspective and to increase the quality and acceptance of governance management in that way. Expert 4 and 5 clarified that a group-wide communication approach for certain topics is obligatory via e.g. binding corporate rules or principles and a group-wide validity. Further, expert 16 said that "…*continuous exchange between the headquarters and the subsidiaries is the prerequisite to realize as early as possible when there are certain negative developments and weak points…"* and expert 3 even concluded that *"…good governance communication must be bidirectional."*

Seven experts (expert 1, 3, 4, 8, 13, 18 and 22) provided information about **appropriate instruments and infrastructure for the governance communication**. The experts (expert 5, 10, 14 and 17) agreed that e.g. the code of conduct and a mission statement are crucial communication instruments. Expert 1 recommended to *"…provide information via different channels: Electronically, personal, push and pull information."* Expert 3 added the direct as well as indirect communication like e.g. strategy related information, target achievement, hard and soft communication and regular newsletters as other communication instruments. Expert 1 ranked guidelines, instructions, corporate rules or process descriptions as essential intragroup communication instruments. He explained that internal regulation landscapes are a legal and regulatory requirement for each regulated entity (e.g. MaRisk regulations). Some experts (e.g. expert 1, 3 and 4) pointed out, that regular intragroup conferences also help to share experiences and to create an intragroup governance network. Expert 8 summarized that it is crucial to have formal and informal formats, such as regular committee meetings, but also more informal private sessions between the CEO and e.g. the chairman of the supervisory body, local MDs and FDs "…*to inform each other and to build a personal relationship of trust and respect."*

Thematic cluster 17: Success factors and challenges for the intragroup implementation of corporate governance (cf. part B / question 6.3)

The experts outlined different success factors and challenges particularly related to the implementation of corporate governance. Most of the experts (e.g. expert 1, 2, 4) first highlighted the willingness and **commitment of the management** as critical success factor. Expert 2 summarized that it is essential to communicate the commitment from the parent's management body. Expert 5 and 17 underlined the relevance that the corporate core values and the strategy from the parent's headquarters are transparent, comprehensible and understandable for each employee. Different elements of the core beliefs, group vision and strategy have to ensure that the employees feel proud to be part of the organization. Expert 4 cited that an *"…appropriate business culture can bridge potential governance gaps..."* Expert 22 underlined that "…*employee satisfaction a key topic as this builds the foundation for all and is closely linked to leadership."* Expert 20 mentioned in particular the "…*key role of qualification of the respective FD who is usually in charge to implement the operative corporate governance in the subsidiaries."*

Concerning the expert experiences (e.g. expert 5, 9, 10 and 12) the broader **implementation context** is another success factor. Expert 9 and 10 made clear that the reason why governance structures get implemented makes a great difference for its acceptance (for example either as consequence of a compliance breach or to increase efficiency and the speed up alignment processes). Expert 5 explained that *"…there are usually at least three different governance systems in a company: risk management system, internal control system and compliance management system. All those pillars together hopefully ensure good governance practices"* and he outlined the importance to secure an integrated implementation approach.

Further, the experts emphasized not to underestimate the **impact of external regulation and business model specifics** within the implementation. The regulators play an important non-negligible role that has to be taken into account. It is crucial to realize that governance is a system, which has to be regularly adjusted and monitored, and which is always under development. Today, governance is much more pro-actively driven than in the past, and the identification of early warning indicators are essential. That is why national regulators also changed their supervisory approaches from primarily past oriented towards a more forward-looking approach (cf. UK, Netherlands). In particular, the automotive mangers (e.g. expert 4, 13 and 23) explained that the automotive financial services business is more extensively regulated than the rest of the company, because they have to deal and protect various personal customer data.

Among others, expert 8 summarized the **importance of a carefully balanced and mixed implementation approach.** Expert 9 outlined to focus on dual approach, because *"…the connectivity of the central and local governance setup is a fundamental success factor."* Expert 2 also strongly recommended *"…to define standards solely in close collaboration with "local market experts."*

Others outlined to ensure **clarity about the framework conditions.** Nearly all experts agreed that the intragroup crash barriers need to be balanced and carefully defined. Expert 1 made clear that "…*the parent company should only define group-wide standards and intervene where it is needed, but not beyond*. *They must be compliant with the local legal and regulatory requirements in the host country."*

In line with many others, expert 8 underlined *"…the need to define clear local decision-making responsibilities between the subsidiaries and the headquarters."*
Particularly the managers (e.g. expert 4 and 5) recommended to also concentrating on a **proper stakeholder management**. A governance consultant (expert 4) explained that it is a critical factor to safeguard the strategically involvement of all relevant key stakeholders as early as possible. This is required from a legal and commercial law perspective, but also in regard to the intragroup rules. Expert 4 added that *"…personal interrelations and sensibilities can be a major barrier for the implementation."* Hereby, expert 14 explicitly mentioned the middle management as critical factor.
Additionally, a few experts (e.g. expert 12, 14, 15) shared their experiences from **governance implementation projects**. According to expert 14, a proper pre-analysis is essential to cover the various subsidiary specific requirements and to decide in which way to implement governance management. Expert 12 said that it is essential to prioritize and to follow a systematic, group-wide approach. He recommended to start with pilot projects and to define a general high-level approach, which gives the possibility to adjust it towards the particular subsidiary context. According to expert 15, the biggest challenge is the requirement definition due to its multidimensional character and different interpretations among the various jurisdictions. This heterogeneity of different topics with different inter-relations makes a content-based discussion very time consuming and complex.
Expert 18 mentioned the management of **shared service centers** as another critical success factor. According to his executive experience, the operational business is often outsourced to shared service centers. He described that in that case the locally regulated (bank) subsidiaries always have the challenge to demonstrate to local supervisory authorities, that those shared service centers fulfill their legal and regulatory requirements, even if they are located in another country.
As another critical factor, expert 8 highlighted that "…*it is important to clarify the relationship between the groups' supervisory body and local supervisory body of the subsidiaries*."

All provided answers referring to the closing questions in part C of the questionnaire guideline (question 7.1-7.4) could be integrated in the above mentioned 17 thematic clusters.

This chapter provided an overview of the provided statements of the first interview session, with in total 24 corporate governance experts. This forms the foundation for the sociological conceptualization as the next step of the applied research approach, in the following subchapter 6.1.2.[317]

[317] This refers to the applied interview evaluation method of Meuser & Nagel (2010). For further information, cf. chapter 5.2.

6.1.2 Discussion of the results

The previous chapter 6.1.1 provided a consolidated view on the results of the executed twenty-four expert interviews. In the following chapter 6.1.2, I will discuss the outcome of the empirical research and the prior theoretical results of my literature analysis. This substantive content-related discussion provides a solid foundation to develop a first draft of the intragroup corporate governance management model in a next step.

There was a broad willingness of the experts to participate on the expert interviews and to share their personal views and market insights. The chosen open guided interview approach ensured much flexibility for the interview partners to explain their individual thoughts and share their experiences. In essence, this procedure was a perfect foundation to validate the prior results, while also gaining valuable additional feedback regarding the interaction of intragroup corporate governance mechanisms. I attribute the broad heterogeneity of the provided answers to the diverse backgrounds of the experts and to the open asked questions with the possibility for individual interpretation. Furthermore, this reflects the cross-functional character of corporate governance.

Thematic cluster 1: When taking into account the mentioned reasons for the **increasing relevance of corporate governance**, the experts mostly confirmed the already debated phenomena. Despite this, it is noticeable that most of the mentioned reasons are predominately driven by external market pressure (e.g. stronger regulation, high penalties in case of compliance breaches, increased management liability, reputational risks) and not by company internal drivers (e.g. higher profits, improved efficiency or positive effects on the capacity for innovation). Most companies recognize corporate governance at first rather as a kind of risk insurance than an enabler to e.g. increase their organizational efficiency. It is conspicuous that corporate governance still is primarily recognized as a legal obligation instead of a crucial driver to support the long-term corporate success.

Thematic cluster 2: The experts highlighted the special role of the financial services business within the structures of a typical car manufacturer. Many experts confirmed that, compared to other divisions of an OEM, particularly the external bank regulation strongly affects the automotive financial services organizations. Some experts outlined that the financial services subsidiaries have to fulfil even stricter legal and regulatory requirements for certain topics than their corporate parents, which can lead to additional challenges for a group-wide corporate governance management approach. This also reinforces my prior analysis, particularly in chapter 2.2, 3.2 and 3.4. The experts confirmed that the importance of intragroup corporate governance management among financial services subsidiaries is constantly increasing. It became clear that research about the intragroup management of (bank) subsidiary is much needed, but currently only limited available.
In sum, there was a broad consensus on the **increasing relevance of subsidiary governance** as a prerequisite for the fulfillment of the legal and regulatory corporate governance obligations on parent level. As major drivers, I have identified the internationalization and global value chains, stricter legal and regulatory requirements and the direct interlink towards the increased management liability and associated reputational risks, if companies do not comply with legal and regulatory requirements. At

the same time, it is seen as the prerequisite for an intragroup corporate governance framework. The results of the empirical research support the prior debate about the literature research, although I was surprised, that not one expert mentioned e.g. sustainability reasons, increasing profits in the context of subsidiary governance and its implied effects towards a better share price development. Even if organizational efficiency is an often-discussed topic among scholars, it was not a large issue of debate in the expert interviews (cf. chapter 3.1 and 4.4).

Thematic cluster 3: It was obvious that the experts mentioned as typical **subsidiary governance focus topics** those, which are usually included in the existing national corporate governance codes and regulations. In an **intragroup perspective**, the experts highlighted the internal control functions. Apart from that, accounting topics and the remuneration were also mentioned as focus topics in financial services subsidiaries. Moreover, they underlined the important role of the corporate culture and leadership as the underlying foundation. Some experts further talked about appropriate intragroup governance processes (e.g. organizational alignment, committee management, management of corporate rules and internal regulations etc.) as a crucial element to define the relationship between the corporate parent and the subsidiaries. Especially the internal audit function was again highlighted as crucial instrument to evaluate the intragroup structures and processes in an independent way.[318]
From an **external perspective,** the experts basically debated the external audit and e.g. the regular external reporting. The activities of the external auditor were described as an important control instance for the corporate parent within their subsidiary monitoring. Even if the prior debate also briefly debated the relevance of external audit activity, I did not include it explicitly in the identified key governance areas, as they are already described in chapter 4.2. Despite this, I recognized consensus between the prior literature research and the mentioned focus topics of the experts, even if I did not focus in detail on the financial reporting and accounting issues as it was stated by particularly one expert.

Thematic cluster 4: At the same time, only selected experts mentioned the **institutional supervisory organs** as additional focus topic. Compared to the scientific corporate governance discussions, in which numerous studies investigate the various roles of the management and their control organs, this topic was of comparatively little importance for the interviewed experts. Only a small group (mainly the interviewed top managers and external auditors) outlined the necessity to clarify the role and competencies of the respective institutional organs (e.g. board of directors). They highlighted, on subsidiary level especially, the need to clarify the parent's expectations regarding the overall management supervision and control and within the intragroup strategy process. Further, the role of independent directors and the nomination procedures of new members for the local management bodies was a matter of debate. In sum, the provided answers of the experts reflect to a large extent the prior debate of chapter 3.4.
Nevertheless, primarily the interviewed top manager outlined the importance to distinguish between the tier systems. While the experts avoided to make clear statements whether the one- or two-tier system is more preferable and effective, they outlined that both systems have different consequences

[318] For further information, cf. chapter 4.2.8.

regarding the e.g. the operational business of a company or the management liability of the management body. The key role of the management body on parent level, the divisional head and the local management bodies on subsidiary level of ensuring subsidiary governance, was undisputed. Altogether, the expert interviews confirmed the recognized tendency of the prior analysis that the institutional control organs on subsidiary level today are more and more formalized and require a more proactive and independent role for the subsidiary supervision than in the past. In many countries financial institutes are required to demonstrate to the local authorities how the supervisory organs execute their oversight role.

In comparison to other business models, the experts highlighted the great importance of the **institutional control organs** (board of directors and supervisory board) within the financial services subsidiaries, because such committee structures are a prerequisite for a banking license. The experts also confirmed the prior investigations that the general awareness of the national regulators constantly increases and there are continuously tighter requirements for the supervisory organs and its committee members. Thus, the experts have acknowledged my prior research, as there are already countless studies available, which analyze the various board structures and their consequences in different contexts. Both, the experts and literature review results confirm a shift away from pure control boards and rather towards an additional advisory organ for the management bodies.

Thematic cluster 5: According to the experts, the **management body of the parent** has the guideline setting competence for the entire group. There was strong support that the parent's executive board is responsible to define a group-wide corporate governance framework, including organizational and processual governance structures, appropriate internal control and oversight mechanisms, the overall strategic direction and target management processes. Moreover, it is responsible for a group-wide aligned risk management model, a group-wide compensation framework and appropriate HR principles for the staffing of key governance functions among the entire group, which confirms the earlier outcomes of my prior literature review. Beyond that, all experts agreed that the parent's management body has a special responsibility to raise the governance awareness as a fixed element of its leadership role and has to define the framework for the corporate core values and linked corporate culture, which is congruent with my prior analyses.

Further, from an external point of view, the experts confirmed that they are responsible for the public representation of the group interests and the collaboration with the group's institutional supervisory body. This also confirms the results of my prior research (cf. chapter 4.1). It was interesting to see that many experts highlighted in particular its leadership role and relevance for defining the pillars of a group-wide corporate culture and thus the necessity of a proper board communication. In sum, there was consensus that the parent's management body has the overall accountability for corporate governance within the entire group.

Even so, none of the experts explained in detail which leadership characteristics are particularly important in the context of corporate governance. This seems to be a contradiction to the scientific literature, in which it is a much-investigated topic among scholars, as the previous analysis in chapter 3.1.3 and 4.1 and 4.2 has illustrated. Apart from that, none of the interviewed experts explicitly mentioned

the responsibility of the group executive board to constantly challenge, redefine and further develop the core competences of the multinational group as a whole, as I have analyzed earlier in chapter 4.1.

Thematic cluster 6: The role of the **divisional head** was recognized as an important key function by the vast majority of the experts. Some experts explained that, embedded in the context of the strong regulated financial services business, they have to act as transformer and multiplier for governance issues to and for the parent's management body. Depending on the organizational setup, from a legal and regulatory perspective, they have similar responsibilities to the parent's management body or at least a very strong organizational responsibility for their division. The experts brought to mind that the role of the divisional head varies in each corporate group. Some multinational automotive groups also outsourced their financial services business towards a separate holding as risk buffer for the parent.
Despite this, the interview partners agreed that they are responsible for adjusting the intragroup standards and governance instruments towards the business model specifics and that they act as linking element between the parent's headquarters and the foreign subsidiaries. It was noticeable that there is no doubt among the experts regarding the importance of the divisional head. Yet, this contradicts the results of the reviewed literature, in which the role of a divisional head is largely ignored. It is noticeable that, despite the organizational importance of this governance function, it seems that the role of the divisional head is not clearly defined as e.g. in the case of the typical management or supervisory bodies where clear legal and regulatory requirements do exist. I conclude that this depends on the numerous possibilities to interpret the role of a divisional head in multiple contexts. Some experts also confirmed the necessity of a CoC for corporate governance issues (cf. chapter 3.4.1) in the corporate parent to support the divisional head. Then, again, other experts emphasized regular reporting obligations of the divisional head towards e.g. the parent management body and his strong say within the nomination of new governance key function holders on the subsidiary level. At its core, there was a broad approval of the experts to divide corporate governance management into a strategic and operational governance dimension, as suggested in chapter 4.1.

Thematic cluster 7: On a subsidiary level, the interview partners confirmed that especially the **subsidiary's management bodies** play a key role. The experts outlined the similarities between the roles of the parent´s management bodies in a group context and the local management bodies in a local host country context. The experts endorsed my prior analysis in chapter 3.4 and chapter 4, that the local boards are the legal representatives of the parent's executive board on a local level. There was consensus that they are held responsible for the corporate governance management in the subsidiary and have to adjust the predefined group standards regarding the local specifics. Selected interview partners even outlined that they are the most important key functions for ensuring corporate governance. Several managers proved that, as a foreign company, the intercultural management and a proper stakeholder management on local market level towards e.g. the national authorities are also critical and add additional complexity towards the role of local MD or FD. However, I investigated in chapter 3.4.2 that it is important to clarify the local management responsibilities to the parent, the directors´ obligations towards stakeholders, their role in the strategy setting process or their responsibilities for the internal control and risk management. I identified the composition of the subsidiary man-

agement body and the directors' profiles as relevant topics, but all those issues have been largely ignored or only briefly mentioned by the majority of the experts. Even so, I found that most experts highlighted the role of the subsidiary management bodies much more than it currently gets paid attention to by the scientific community. This may indicate one reason for the shortcomings of the current subsidiary governance debate among scholars.

Thematic cluster 8: While discussing the question about the right **intragroup management approach for corporate governance,** it was obvious that most of the experts recommended following the subsidiarity principle. At the same time some experts outlined that there are business models which are very successful with both, either a centralized or a decentralized approach. Even so, there was broad consensus to centralize topics in the parent's headquarters, which have a group-wide relevance, and to decentralize topics where close market proximity is required. In the automotive financial services business, the experts confirmed a rather decentral approach and clear local governance responsibilities, but with strong support of the parent's headquarters. These expert assertions all go in the same direction as already promoted by the prior analysis in the chapters 2.4, 3.4 and also in chapter 4.2.

The experts explained that multinational companies define a high-level intragroup governance target picture. On the one hand, this defines certain minimum standards, which the subsidiaries have to implement to safeguard a certain level of lucency, standardization and comparability. On the other hand, this approach ensures enough flexibility for the foreign subsidiaries to adjust it to their specific situation. The experts made clear that market proximity for topics is a fundamental requirement and cannot be managed out of an overseas headquarters. The experts stated that most multinational groups follow a *'comply or explain'* approach. Finally, the experts confirmed the results of the prior analysis. However, some experts remembered that particularly in bank subsidiaries several internal control functions, such as risk management, compliance or internal audit, are not allowed to be outsourced to a third party, which also clearly confirmed my prior analysis (cf. chapter 3.4 and 4.2). Furthermore, selected experts explained that framework agreements between the corporate parent and the subsidiaries clarify that the fulfillment of local legal and regulatory requirements has to always be prioritized. While the relevance of such framework contracts has been largely highlighted by the interviewed lawyers, it seems to only play a tangential role within my reviewed corporate governance literature.

In addition, the experts agreed that the management approach for intragroup corporate governance topics depends on the corporate culture and the legal and organizational construct of the multinational group. Various experts confirmed the prior research that most corporate groups implement the Three Lines of Defense Model (cf. chapter 3.3.2).

To sum up, the experts agreed that a mixed corporate governance management approach fits best due to its pure complexity, high dynamics and strong external influence towards the financial services business. It became clear that parents apply different instruments to manage their subsidiaries. On the one hand, parents predefine a certain set of administrative frameworks for their subsidiaries, which includes clear accountabilities and requirements for certain focus topics. On the other hand, the interviews and the previous analysis have shown that the parents make usage of cultural management instruments to bridge governance deficits. Instruments, such as e.g. group-wide corporate core val-

ues, the tone of the top communication, a corporate vision or mission statement for the entire corporate group play a crucial role – even if their effectiveness is difficult to steer from the distance. The result was that parents use multiple instruments that aim at clear intragroup planning and alignment procedures to define clear targets and secure the right resource allocation and prioritization. Nevertheless, it also became clear that rewards and remuneration schemes are commonly used as management instrument. Both, the previous analysis and the interviews have demonstrated that there are further used cybernetic management instruments, which focus more on either quantitative or qualitative KPIs, or even on mixed approaches like the balance scorecard.

I recognized that comparatively many experts outlined the need for governance reporting and control mechanisms, which was also previously discussed in chapter 3.4. However, the same experts simultaneously outlined later that the measurement of the corporate governance management within subsidiaries is challenging from distance.

Thematic cluster 9: In terms of major **key drivers** for an effective intragroup corporate governance management, most experts outlined the triangle of internal transparency, documentation and proper communication. Especially the interviewed top managers underlined the necessity of proper documentation and archiving to mitigate management liability risks. It was noticeable that many experts underlined the paramount importance to aim at a common governance understanding among all hierarchy levels. As also earlier analyzed in chapter 3.4 and 4.2, there was a broad endorsement to predefine governance requirements on the parent level. At the same time, several experts also outlined the importance to provide the subsidiaries sufficient resources and budget to fulfill their governance duties and strengthen their efforts for the integration of new technologies. Those are critical aspects, but seem to be very underrepresented or even ignored by the recent research community. According to the experts, new technologies and big data analytics provide numerous new opportunities to strengthen the intragroup corporate governance management.

It was surprising that several experts explicitly highlighted the relevance of internal alert procedures. In particular, adequate whistleblowing procedures were often mentioned to foster a proactive and bottom up approach to identify defective developments in the subsidiaries in early stages. Compared to others, this governance mechanism is discussed in the scientific literature as an effective internal early alert system, and in most countries legally required for banks (cf. chapter 3.2.2 and 4.2.5).

Thematic cluster 10: Analyzing the experts' statements about the **benefits of intragroup subsidiary governance**, it was obvious that the large majority of them stated increased lucency, the fulfillment of legal and regulatory requirements and mitigation of potential reputational risks as overarching objectives for a professional intragroup corporate governance management. Those benefits are equal to my prior analysis in chapter 3.1 and 3.2.1. Further, I also found in my literature research positive effects on important performance indicators like competitiveness, sustainability, innovation readiness, leadership and the organizational performance (cf. chapter 3.1.1 and 4.3). While a large majority of the experts confirmed that subsidiary governance clearly contributes to a better operational performance and strengthens the competitiveness of the group, only half of the interviewed experts felt confident that there are also positive effects on the innovation capacity and the sustainability activities. At the same

time, the majority confirmed that professional subsidiary governance has positive effects on the corporate culture and the leadership behavior. In contrast to the earlier argumentation in chapter 3.1.2, 4.3 and 4.4, the majority of the experts found that leadership and corporate culture rather forms the basis for an effective corporate governance management, than being a beneficial output of it.
Quite a few experts explained that, in a group external perspective, a professional intragroup corporate governance management creates trust among external investors. This side effect was so far rarely considered as stand-alone effect within the prior benefit analysis.
However, many experts also outlined the challenge to directly measure the benefits of corporate governance and confirmed the perception of the prior investigations in chapter 3.1.2. In sum, all experts agreed that even if the direct benefits are difficult or even impossible to measure, there could be a consensus reached that there are many, either direct or indirect, positive effects of aligned intragroup corporate governance standards.

Thematic cluster 11: Concerning the **limitations of centralized intragroup management approach**, there has been some uncertainty among the experts about clear enforcement rights. Some experts stated that this is still a grey area in many corporate groups, particularly in terms of decision-making processes. Having said that, the experts explained that the limitations are given by the topic, because local specific laws and regulations as well as organizational issues cannot be management from an overseas headquarters and require a local implementation. Additionally, subsidiaries are legal independent entities and the local management body is not allowed to delegate certain decisions to another party (e.g. corporate parent) in another country. Equally it also became clear that the parent is to a certain extent legally liable for the subsidiaries, especially in their role as official company owner or its board members e.g. as part of a local supervisory bodies. A few experts stated again that it also depends on whether the corporate group is organized as a management or a finance holding. In sum, those statements reflect the results of the prior literature review.
Nevertheless, beyond that, some experts also provided additional views which have not been covered from the reviewed literature. For example, the experts explained that the parent's headquarters manages address such challenges via the definition of *'strong recommendations'* for their subsidiaries to overcome the legal and regulatory burden. Further, the experts outlined that informal dependencies of the involved managers (often sent expatriates of the parent) within the clear hierarchical relationships are a vital intragroup governance and control mechanism, which should not be underestimated. Although such informal inter-human relationships are often not visible, they are very effective and at the moment only rarely analyzed by scholars in the context intragroup corporate governance. Regarding this, the experts provided their own important additional views, which go far beyond the prior made investigations.

Thematic cluster 12: Predefined sanction mechanisms for different levels of serious misconducts have also been highlighted. The experts agreed that it is a basic prerequisite that those sanctions are transparently communicated to the employees. Yet, it became also clear that claims are possible against persons, but not against the subsidiary itself. A few experts recommended to always start with a comprehensive and independent fraud investigation and to enforce the sanctions, if it is necessary.

While the experts provided valuable insights about sanction mechanisms, the prior literature review found no research on how to manage internal sanction mechanisms in corporate groups.
It was obvious that the experts directly linked the sanctions towards the corporate culture, which seems to have a major impact on how companies define and enforce sanctions. The large majority of the experts highlighted the linkage towards the individual compensation as most effective sanction mechanism for governance failures. Especially when taking into account the countless scientific studies about the effectiveness of intrinsic and extrinsic motivational factors, it was surprising that there was such a clear commitment towards this single mechanism.

Thematic cluster 13: The broad majority of the experts confirmed the earlier identified eight **intragroup corporate governance management key areas**. The experts agreed that all the relevant focus topics are included in the governance dimensions (cf. chapter 4.2) even if they are sometimes named differently among companies.
Specifically, the interviewed top managers outlined the benefit of such a topic overview as a comprehensive management supporting tool to get a consolidated overview about the key topics. They emphasized that such a comprehensive overview is often missing, but much needed – specifically in complex group structures and the steadily increasing regulatory pressure. Yet, few experts suggested to put a greater emphasis on financial management related topics, rank the different dimensions according to their relevance or risk potential or to include the external auditor as external stakeholder outside the group to ensure a comprehensive view. In general, most of the experts provided detailed feedback to the different dimensions and contributed valuable ideas on how a management model for financial services subsidiaries could look like.
It became clear that some experts suggested considering the corporate culture, corporate core values and leadership as underlying basis amongst all other dimensions, because together they all influence the management of each of the eight key areas and subordinated sub-topics. This is an interesting fact, as some others of the interviewed experts argued in the same direction when they talked about the benefits of a professional intragroup management of corporate governance.

Thematic cluster 14: There was a strong support of the experts to apply a self-evaluation approach for the **governance assessment** as defined in chapter 4.3 and based on this, to develop a governance maturity index. Despite this, selected experts mentioned that the requirements to reach the different maturity levels need to be predefined. It was remarkable, that the experts broadly confirmed the necessity to follow a broader corporate governance management understanding that better connects the different corporate governance topics to each other, than it was the case in the past.

Thematic cluster 15: The question about the right **organizational design** of the governance organizations were answered by the experts from different perspectives and highlighted, that there are numerous influencing factors that need to be taken into account. The experts outlined that, especially in the financial services business, strong governance structures and processes are a prerequisite and that they are largely predefined by the external legal and regulatory framework. To counteract the increasing regulatory pressure, isolated experts explained that some corporate groups decided to

implement chief governance officers in the management body of the parent. Nevertheless, the vast majority of the experts advised against such positions and argued that corporate governance should be defined as joint responsibility. In contrast, there was a broad approval of a CoC for corporate governance to support the divisional head to fulfill his governance obligations. Several experts supported the intention to install local corporate governance delegates in the subsidiaries. Most experts agreed that this could be executed by the local compliance officer. The experts confirmed the prior analysis, particularly regarding a separate CoC and local corporate governance delegates (cf. chapter 2.4; 4.2.6; 4.4). At the same time, I was surprised that there was such a decisive refusal of a chief corporate governance officer. It was noticeable that comparatively less experts suggested the implementation of a group-wide corporate governance committee. Then again, it was interesting that certain experts outlined that the design of the right corporate governance organization always strongly depends on the corporate culture, which was not prioritized in my prior analysis about the organizational setup of corporate groups (cf. chapter 2.2 and 3.4).

Thematic cluster 16: Most of the experts linked **corporate governance communication** directly with the *'tone from the top*.' While the experts underlined the necessity of a target group specific communication, others explained that a close collaboration with the subsidiaries and a continuous, consistent and timely communication across all hierarchy levels is indispensable. It was interesting that the experts provided numerous examples for governance communication instruments, but pronounced intragroup conference formats in particular, as a central intragroup networking and information exchange platform. The experts confirmed the prior analysis (cf. chapter 4.1.1 and 4.2) and highlighted codes of conducts and mission statements as central instruments to provide staff guidance. Likewise, the experts supported the investigations in chapter 3.2, 4.1 and 4.2 that the governance communication via intragroup corporate rules and other internal regulation landscapes is becoming increasingly relevant. While this is the starting point for internal audit activities, it is also required to meet the external regulatory requirements for banks. Even if there is solely limited scientific literature available, several experts underlined the key role of intragroup corporate governance communication. Several experts explained that the informal communication is equally important to formal communication formats. The personal relationship between the different MDs / FDs on subsidiary level and e.g. the parent CEO is a crucial aspect for the intragroup governance communication and collaboration. Besides, it was prominent that the experts primarily focused on intragroup communication, but not on the communication towards externals such as investors, the public or authorities, which I ranked as relevant addressors.

Thematic cluster 17: As the most crucial **success factors for the intragroup corporate governance implementation**, the experts outlined again the willingness and commitment of the management. The experts underlined not to underestimate the reason why e.g. stricter corporate governance gets implemented. The individual perception and the desired corporate governance framework differ completely, if stricter corporate governance is implemented due to e.g. a compliance breach or contrarily, to further enhance the organizational alignment.

The experts confirmed that dealing with various local legal and regulatory requirements is one of the major obstacles and make a standardized implementation approach difficult. The majority of the experts repeatedly highlighted the relevance of a common companywide definition and clarity about the internal and external framework conditions. According to the experts, a professional stakeholder management is essential within the implementation to ensure the acceptance and desired outcomes. Another mentioned obstacle is the trend towards outsourcing relevant key functions to shared service centers, because it must be ensured that those third party providers comply with the various legal and regulatory standards. As the earlier literature review illustrated, there is currently no information found which focuses on the corporate governance implementation in corporate group structures. The experts provided important insights to enhance the further understanding of corporate governance and its associated processes and mechanisms. I outline that only if corporate governance is carefully embedded into the intragroup structures and processes it will be accepted and considered, and thus will be able to be effective and beneficial for the entire corporate group and its stakeholders.

The results of the expert interviews, in particular in terms of the identified subsidiary governance dimensions and the debates about suitable management approaches, provided a solid foundation to develop a first draft of a management model in the next subchapter 6.1.3. The interviewed experts validated the different dimensions that are important for the subsidiary governance and supplemented additional crucial insights that were not previously considered. Both, the theoretical foundations and the practical experiences of the interviewed experts form the basis for the developed model draft in the next subchapter, which will be verified once more in a second step by some of the experts of the first interview round (subchapter 6.2.1).

6.1.3 Development of a model draft

According to the prior analysis and the opinions of the interviewed experts', one of the biggest problems of the research community is the isolated view of many scholars, which ignores that corporate governance can only be efficient and effective if it is recognized as a package. While there are many instruments and governance mechanisms, which may be recognized in an isolated view as governance management instrument, this dissertation argues that the effectiveness of the intragroup governance management largely depends on the combination of the different instruments.
The developed model (draft) in this chapter follows a holistic and integrated approach, which separates corporate governance in a *general management* and *internal control cluster*. All identified key topics of the two clusters have different characteristics and interdependencies in corporate groups and each subsidiary, as they are always influenced by the subjective, individual interpretation and implementation of various layers, such as *culture and leadership, communication, training and the integration new technologies*. That is why a common understanding among those enablers forms the foundation and acts as binding element between the parent and its subsidiaries to secure a consistent approach. At the same time, *environmental determinants*, such as the *society*, *politics* or the intensity of the competition within an *industry*, also influence the multinational group construct and their applied intragroup governance management instruments. Moreover, *legal determinates* influence corporate

governance on a global and local level, which provides in turn the foundation for the intragroup management, related standards, structures and processes. As the third crucial pillar, the *external audit* and different *authorities* also sharpen the design and management of the subsidiary's corporate governance in each country as the following Figure 22 illustrates:

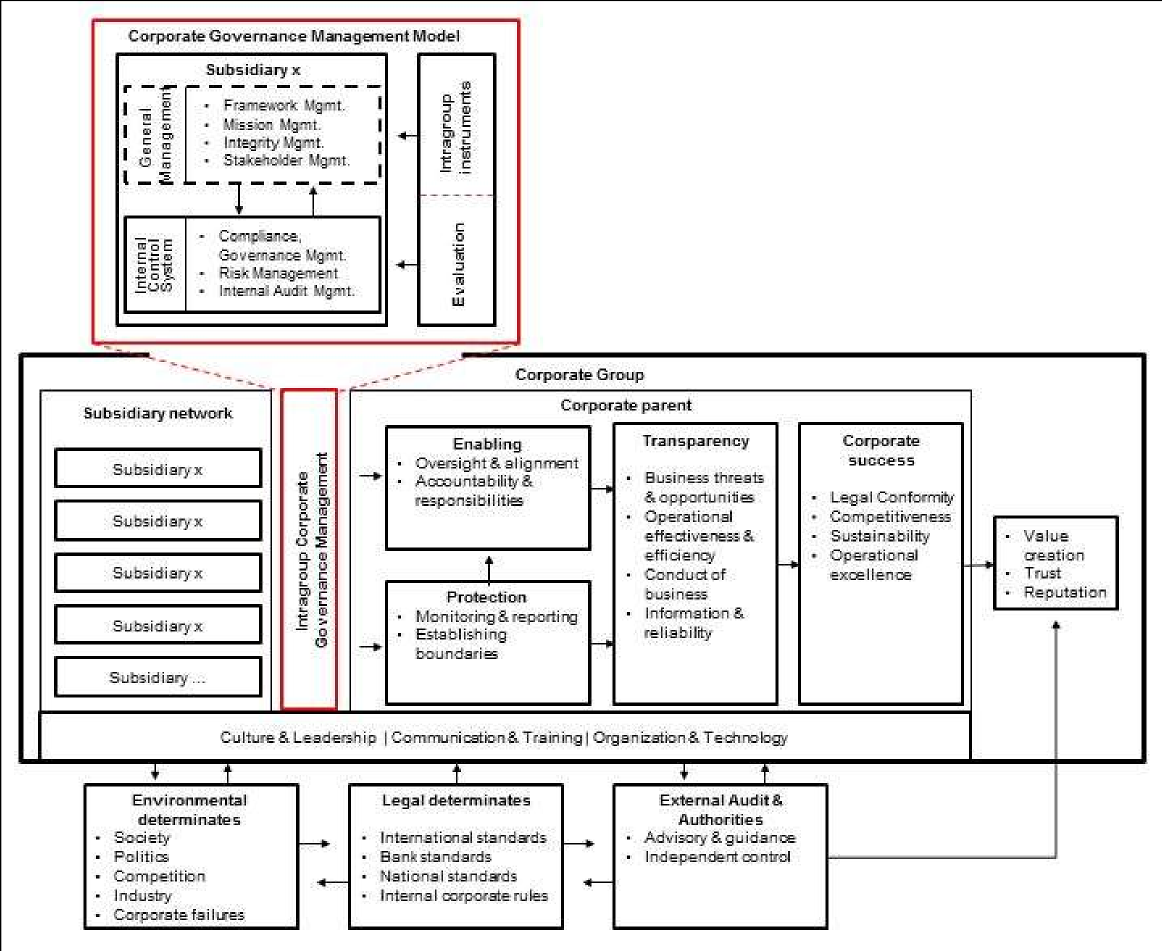

Figure 22: Intragroup corporate governance management model (draft 1).
Source: Own illustration.

Embedded in this field of tension, it is essential to create a common understanding of the crucial focus topics and on how the general management of the subsidiary and its internal control should be executed to secure that the subsidiaries act in the interest of their parents. It has to be clarified how the intragroup collaboration is organized and how the parent can proactively manage those topics with respective governance instruments.

The corporate governance management model has to be embedded in those externalities and consists of three major elements: (1) the *intragroup governance instruments*; *(2) subsidiary focus topics (divided in general management and internal control system topics)* that have to be addressed within the subsidiaries and (3) the *evaluation* if they have the desired outcomes.

In essence, corporate groups focus on administrative *governance instruments* by predefining clear accountabilities, standardized structures and core processes as well as internal guidelines and regulations. In addition, there are instruments that predominantly aim to manage the corporate culture dimension and social norms for the employees. Parents manage their intragroup governance via standardized planning and alignment mechanisms and cybernetic instruments, with qualitative and quantitative KPIs and respective compensation and reward schemes or the simple definition of focus topics that have to be addressed on subsidiary level.

The following Figure 23 provides a comprehensive overview of the various intragroup management instruments for the *governance focus topics* of both, the *general management* and *internal control system*, which will further be described in the following paragraph:

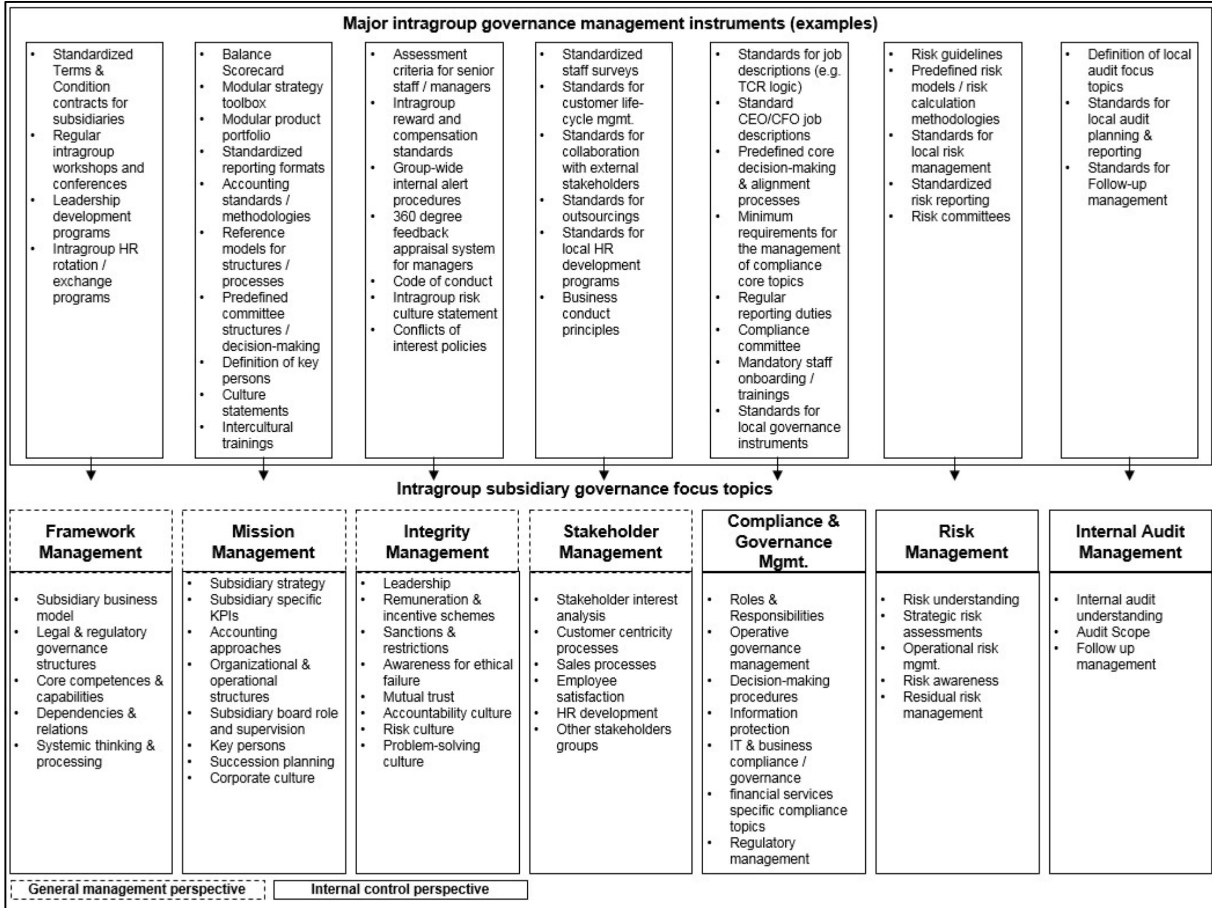

Figure 23: Intragroup governance instruments to manage governance topics in subsidiaries.
Source: Own illustration.

The *general management* cluster focuses predominately on the subsidiaries leadership team and describes the prerequisites for ensuring governance among the entire corporate group. The **framework management** focuses on the question how subsidiaries can manage their business embedded in the group context. From a parent´s perspective, there are different governance instruments to support this. On the one hand, terms and conditions contracts can be defined which clarify in detail the purpose of the subsidiary. On the other hand, parent entities organize regular workshops and confer-

ences for the local management staff of their subsidiaries to secure a platform for best practice sharing, networking and intra-group knowledge transfer to support the framework understanding throughout the entire group (cf., e.g. the study results of Tarwneh, 2019). Intragroup job rotation programs are another crucial instrument to support the systemic thinking and processual mindset of the employees.

The **mission management** focuses on the complex interdependencies between the parent´s headquarters and the subsidiaries and includes the triad of strategy, culture and structure. Typical intragroup governance instruments of the parent are balanced scorecards and modular strategy toolboxes or predefined target product portfolios. Other instruments are intragroup standards for the accounting and predefined accounting approaches and methodologies to ensure consistency within the consolidated financial statement of the parent. Moreover, parents tend to standardize to a maximum extent local decision-making, reporting formats and organizational and structural designs for the subsidiaries to secure overview, alignment and comprehensibility. The most difficult topic to manage from distance is the corporate culture. Thus, parents define group-wide corporate core values or an intragroup culture statement. Parents also implement standardized HR evaluation schemes within their subsidiaries, in which the group core values are a fixed component of the individual merit rating.

The **integrity management** addresses the often ignored soft topics that are fundamental to secure ethical behavior, business conduct and an appropriate risk culture. Even if this is difficult to assess from an overseas headquarter, parent entities concentrate on encouraging integrity by considering this as a standard assessment criteria for senior management staff, implement 360 degree feedback appraisal systems, and define group-wide code of conducts. However, despite this, it remains difficult to steer or actively manage the integrity behavior. Nevertheless, there is no doubt that it should be a core topic within the intragroup leadership development trainings.

The **stakeholder management** reflects the relevance to consider the various and sometimes even contradictory interests of the different stakeholder groups on a local and global level as a major pillar of a sustainable long-term corporate success. The consideration of the stakeholder interests should serve as a corrective to balance profit orientation in the decision-making, aims to provide guidance for the accepted risk taking behavior and contributes to mitigate the likelihood of reputational damage. Thus, parent companies can implement standardized employee or customer surveys on local level as feedback instruments or define principles for the collaboration with business partners or intragroup premises for outsourcings and provider management.

In sum, the general management dimension enables both, the subsidiaries and the corporate parent, to gain oversight and alignment. All those instruments secure a certain level of intragroup standardization and clarify accountabilities and responsibilities within the group network.

As complementary and supplementary element, an appropriate **internal control system** supports the overall general management of the subsidiary. This cluster provides important supplementing information to secure a comprehensive decision-making basis. Corporate groups with financial services entities have to develop a strong and comprehensive internal control framework and a business culture that encourages a positive attitude towards oversight and control. All internal control functions (namely compliance, risk and internal audit) require appropriate and sufficient authority, statue and access towards the subsidiary’s management body to fulfill their duties. The appropriateness and ef-

fectiveness of the compliance and risk management functions should be regularly assessed by the internal audit function. All local internal control functions have to be encouraged and to be guided by dedicated group functions to secure an aligned group-wide approach.

The **compliance and governance management** focuses on compliance with applicable laws, regulations, supervisory requirements and the entity's internal governance management in terms of e.g. local documentation, processes and corporate rule landscapes, but also clear roles and responsibilities and decision-making procedures.[319] For the local compliance and governance management, parents usually favor a very strong guidance with clear minimum requirements on how those topics have to get managed on a local level. Further, parents usually concentrate on comparatively strong monitoring and reporting duties about the local compliance management. For that reason, mandatory onboarding and training activities also play a major role. Parents predefine mandatory governance instruments and procedures and how they have to be managed on a local subsidiary level (e.g. local guideline landscape, job descriptions, standards for local documentation and archiving activities etc.).

The **risk management** concentrates on an adequate identification, measurement and mitigation of all risks affecting the subsidiary and therefore also its parent. Typical governance instruments used by the parent are binding guidelines on how different risks have to be managed, the provision of central developed risk models and risk calculation methodologies, risk appetite frameworks and reporting formats or the requirement to implement local credit and risk committees.

The **internal audit management** has to control the reliability of reported financial and non-financial information, both internally and externally of the subsidiary, and it has to secure a proper follow up management of local audit findings. For the parents, the local internal audit functions are a crucial information source to gain feedback about the local organization and the implementation of their predefined governance instruments. The parent entities predefine relevant key audit topics and processes in a group-wide audit plan, which ensures that local audit reports get forwarded to the parent. Other intragroup instruments include standards on how local audits have to be executed and automated follow up management procedures to stay informed about local management actions to solve identified deficits. Parents usually favor, whenever local laws and regulations permit it, not to implement local internal audit functions and prefer to perform the internal audit activities centrally from the corporate audit function or regional audit hubs to secure greater market proximity.

For all internal control functions the proportionality principle always has to be taken into account to reflect the individual risk profiles, different sizes and natures of the subsidiaries.

Especially the internal control dimensions support the managerial decision-making of the general management dimension. On the one hand, those governance functions enable the management to get a comprehensive decision-making basis due to their continuous monitoring and reporting obligations. On the other hand, the group internal control framework and risk management framework also set clear boundaries and provide guidance.

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[319] Due to the close interaction of compliance and governance topics, I have decided to merge the both key areas compliance & regulatory management (cf. subchapter 4.2.5) and governance management (cf. subchapter 4.2.6) towards one focus area.

However, to make the different dimensions proactively manageable, it is also necessary to perform a regular **evaluation** to get transparency about the governance maturity, the implementation stage and effectiveness of the defined intragroup governance management instruments in the subsidiaries. The regular evaluation has to take place via a **standardized questionnaire**. On the one hand, a regular governance tracking provides the basis for the corporate parent to have an overview of the local corporate governance maturity in its subsidiaries and to get feedback about the appropriateness and effectiveness of the instruments. On the other hand, it is an important self-assessment tool for the subsidiaries to identify governance deficits and disparities towards group standards and intragroup governance instruments, identify improvement areas and monitor the made progress. Consequently, there has to be a standardized evaluation of the maturity levels of each governance sub-topic and how those are locally managed with the help of different intragroup instruments to get a comprehensive overview of the governance situation on subsidiary level. This provides the foundation to define further management actions that need to be taken to mitigate identified deviations.

The implementation of intragroup management instruments enables the subsidiaries to act appropriately in the local market and intragroup framework and secures clear roles and responsibilities, collaborations and interaction procedures. The implementation of the governance management instruments **enables** the parent to proactively manage the entire corporate group as a whole and helps to **protect** the corporate group with a professional and consistent intragroup control and risk management. This **transparency** supports the parent to identify, assess and monitor business opportunities and threats in an early stage and it provides the foundation for the group-strategy and reasonable target definition, monitoring and control. The combined subsidiary governance framework forms the foundation for operational effectiveness and efficiency among the entire subsidiary network, provides guidance for expected business conduct, secures a correct and reliable information basis and mitigates the general risk potential.
Consequently, an adequate intragroup subsidiary governance management is a prerequisite for the **corporate success** of the corporate group as a whole. The focus on the identified focus topics enables the organizations to be compliant with legal and regulatory requirements, intragroup governance instruments, increases the competitiveness and has beneficial effects on the operational excellence and corporate sustainability.

Altogether, a proper intragroup governance management creates **value**, increases the **trust** and **reliability** of the reported financial and non-financial information, both internally and externally and mitigates the likelihood of **reputational damage** of the entire group.

In a second step, this developed draft of the corporate governance management model for financial services subsidiaries will be verified by another interview session. As outlined in chapter 5.1, the intention behind this second interview loop is to improve the overall quality of the management model as implied by the underlying Delphi methodology.

6.2 Verification of a corporate governance model for financial services subsidiaries

Following the introduced research concept of this dissertation, I will at first illustrate the results of the second interview loop with 10 of the 24 interviewed subject matter experts, who were executed between September and December 2017. Every interview partner got the draft of the initially developed management model including the overview with the identified sub-topics in advance, to secure a proper preparation and to use it as corrective within their judgment formation. After a short overview of the results of the interviews, I will debate the gathered information and improvement suggestions in subchapter 6.2.2, before the final management model will be introduced in chapter 6.3.

6.2.1 Results of expert interviews

After the completion of a first draft of the management model (cf. Figure 22 and 23 in chapter 6.1.3), I executed 10 additional interviews with the same subject matter experts of the first interview session in a second step, to consolidate the interim results.

All interviewed subject matter experts agreed that all relevant subsidiary governance management topics are included in this first draft of the management model. However, only expert 2 and 4 raised the question to rethink the hierarchical relationship and dependencies between the corporate parent and the subsidiaries as well as the respective governance management instruments in more detail. For example, expert 4 ascertained that *"You strongly focus on the governance topics and not that much on how to manage financial services subsidiaries from the parent's headquarters perspective than I would expect."* Expert 2 and 4 qualified their statements and outlined that this depends on the overall objective of the model.

In contrast to this, expert 5 summarized that *"…this is a very comprehensive model, reduces complexities and provides a simple overview of the different interactions of the complex, multidimensional topic of subsidiary governance management in a two-dimensional model."* Further, expert 1, 3, 6 and 7, 9 and 10 clearly stated that the model makes sense, is comprehensive and involves all important layers within the two charts. Subject matter expert 7 made clear that *„…a model is always a simplification of the reality and has a certain level of abstraction with many carefully defined ulterior motives behind the used terms and topic clusters. Especially in combination with the existing explanations, it is a coherent concept."*

Thematic cluster 1: Subsidiary governance management topics (general management & internal control system): The large majority of the experts (e.g. expert 1, 3, 4, 5, 6, 7) explicitly agreed that the identified topics in the *'general management'* and *'internal control system'* boxes of the management model cover all important focus topics of subsidiary governance. Even so, several experts (e.g. expert 1, 3, 4 and 7) suggested describing the different subtopics in the written explanations. Expert 7 outlined that such a *'checklist with focus topics* makes a lot of sense to provide guidance and secure a standardized evaluation and measurement of those topics. Expert 6 proposed to *"[…] use a circle arrow to indicate the rolling process between 'general management' and 'internal control system'. The 'general management' gets managed and below it gets continuously supported, but also controlled and monitored to achieve a continuous improvement."* Expert 5, 6, 7 and 8 further suggest-

ed to separate the 'internal audit' within the 'internal control system'. Expert 5 declared that internal audit "*…is from a holistic group-wide perspective responsible for the monitoring and control of the 'risk and compliance & governance management.' That's why a separation would better reflect its hierarchical relationship."* Expert 6 remembered that this would also reflect the Three Lines of Defense approach. Expert 2 and 6 raised the question of whether it makes sense to describe and bundle the controlling topics to a broader financial management area within the framework management or as separate cluster. Expert 6 outlined that in a multinational group context with subsidiaries, particularly "[*…] financial KPI management systems are a crucial control instrument for the parents´ headquarters."* Expert 9 recommended also considering the selection and nomination process of new senior managers on subsidiary level. Expert 10 recognized that there are some overlaps among the clustered topics, but also agreed that it would be difficult to avoid this. Among several experts, such as expert 10, especially the risk culture was mentioned to be allocated in the risk management dimension. Others recommended combining, renaming and/or reallocating some of the sub-topics (e.g. core competences and capabilities, systemic thinking and processes) to make them more self-explanatory. Among others, particularly experts 2 and 10 recommended to put greater emphasis on the intragroup management of the decision-making framework as well as roles and responsibilities.

Thematic cluster 2: Intragroup governance instruments: In essence, the experts agreed with the different intragroup governance management instruments. However, there was broad consensus to cluster the different management instruments not only among the topics but also among other dimensions to secure more transparency and clarity about their interdependencies to each other. Expert 3 suggested to separate them along a strategic, operative and cultural dimension, others suggested to use a hierarchical order (expert 1) or to cluster it among the control dimension (expert 8) or based on their legal and regulatory relevance (expert 6). Two experts (e.g. expert 2 and 4) even stated that it would be interesting to define certain indications to identify which of the intragroup governance instruments fits best for which reason.

Thematic cluster 3: Standardized evaluation: There was a broad degree of consensus among the interviewed subject matter experts (e.g. expert 1, 3, 4, 5, 6, 7, 9, 10) that a standardized evaluation with a maturity level approach is an appropriate way for the management, steering and monitoring of subsidiary governance. Even so, especially expert 6 raised the question of whether it is only a "*standardized evaluation or also a measurement*" and explained that in his multinational group the parent's consolidating governance functions perform both. For that reason expert 2 and 6 criticized that the arrow signs in the model draft regarding the intragroup instruments and the evaluation are currently misleading, as this is a clear task of the parent. Subject matter expert 7 and 8 noted again that such a procedure requires clearly predefined measures for the evaluation. Expert 10 recommended to clarify why the allocation of the topics follows a risk-based approach.

Thematic cluster 4: Corporate parent: There was a dissent among the experts regarding the interpretation of the 'corporate parent' box. Although some of them (e.g. expert 1, 3, 5, 7) agreed with the wording, others (e.g. expert 2, 4, 6) recommended to rename it or use a different design as this termi-

nation is unclear and indeterminate. Expert 2 suggested to clarify this in more detail, to adjust it according to the different subtopics and to make it more self-explanatory. Expert 4 analyzed in this context that *"…currently the terms 'enabling', 'protection', 'transparency' etc. seem to be the outcome of the intragroup governance management model, but those terms also describe the essentials of governance and can be both, the input / output of them...."*

Thematic cluster 5: Protection and enabling: The interviewed experts agreed that the context of the 'enabling' and 'protection' boxes fit into the argumentation and make sense. Expert 6 recommended to use a circle graph at this point, with arrows to indicate the continuous interaction between both, the 'enabling' and 'protection' dimensions. Expert 5 suggested to also highlight in the protection box the interpretation and adjustment of the external laws and regulations towards the context of the corporate group. Expert 2 explained that out of his point of view the mentioned topics in the 'protection' box reflect the key elements of the operational governance.

Thematic cluster 6: Transparency: The vast majority of the interviewed experts (e.g. expert 1, 3, 5, 6, 7, 9, 10) confirmed that the defined measures in the 'enabling' and 'protection' box result in a greater intragroup transparency. Expert 6 criticized that *'operational effectiveness and efficiency'* is rather the reverse effect of proper corporate governance or the output of a high level of transparency. Expert 2 complemented that the conclusion arising out of a high level of transparency is currently not adequately considered and argued that *"…stand-alone 'transparency' does not automatically lead to 'corporate success…'* it is rather the basis to define appropriate management actions and monitoring of governance deficits. Subject matter expert 10 recognized that out of a conceptual perspective it would be preferable if the 'protection', 'enabling' and 'transparency' box would have a different design than the other ones, as they have a different message. One rather describes the effects and the other two describe more the organizational forms (e.g. 'subsidiary', 'corporate parent').

Thematic cluster 7: Corporate success: In general, consensus was found about the identified corporate success factors. According to the experiences of expert 3, the term 'corporate success' is commonly used to describe solely the economic success and he suggested to redefine it with the term 'corporate stability' or 'corporate benefits. He found that governance is rather the basis for corporate and organizational stability and is therefore more an 'enabler' and 'stabilizer'. Expert 6 recommended to separate the 'corporate success' box, as this refers to the entire corporate group, including the corporate parent and subsidiaries. Also, he suggested to replace the box with a circle and continuous process loop as it has to be understood as continuous improvement process in a fast and ever-changing business environment. Expert 1 also remarked to include *'customer centricity'* as another crucial characteristic in this context, which further directly pays in the overarching objective of 'value creation'.

Thematic cluster 8: Value creation, trust and reputation: At its core all interviewed experts agreed to the identified overarching objectives of 'value creation', 'trust' and 'reputation' in the context of corporate governance management. Especially experts 3 and 7 outlined the benefits of a generic term

like ‘value creation’ as this provides the flexibility to interpret it in various ways with respect to the heterogeneous target groups. Contrarily, expert 10 raised the question if value creation is rather the heading for other terms, such ‘trust’ and ‘reputation’. Expert 6 advised to add also ‘shareholder value’ at this point and transferred the term ‘competitiveness’ also to the ‘value creation’ box. In his opinion, this was rather the external perception of group-internal operational efficiency and effectiveness.

Thematic cluster 9: Underlying dimensions: All experts confirmed the identified underlying dimensions and outlined that a common understanding regarding those topics is a clear prerequisite in multinational groups, to secure an adequate intragroup corporate governance management. To highlight its importance, expert 4 recommended to illustrate a clear interlink to the ‘value creation’. Expert 5 suggested to also include ‘people to address both, the qualitative and quantitative staffing' in the ‘organization & technology’ box. She argued that *“…this always gets more crucial to have enough people including the right skillset and professional experiences and reflects the increasing dependency of governance efficiency and effectiveness of appropriate IT infrastructure.”* Furthermore, expert 6 induced to place those underlying dimensions on the left/ right and not on the bottom line to make clear that those are the binding elements which have to be aligned among the entire corporate group.

Thematic cluster 10: External environment: The experts agreed that the management model is embedded in different externalities and confirmed the defined key influencing determinants. Expert 1 even recognized the elements of the St. Galler Management Model. Expert 2 and expert 3 strongly recommended to choose another format of presentation to make it more self-explanatory. Thus, they endorsed to use circles with different sizes to clarify that the environmental framework influences the entire corporate group. Experts 1, 4 and 10 recognized that the different external forces are currently illustrated as they are all on the same hierarchical level. Yet, subject matter expert 7 responded to that and advised to use a pie chart as presentation form to avoid any rating or hierarchical arrangement among the three external forces.

Thematic cluster 11: External audit and authorities: Experts 2, 3, 4, 5, 6 and 7 advised to exclude the external audit from the box as this is a different procedure. Expert 3 made clear that *“…the external authorities provide guidance with the interpretation of legal and regulatory framework, but the external auditor is the independent control function and has to be separated from the role of the authorities and should be stand-alone.”* Moreover, expert 5 remembered that this would also better reflect the ‘Three Lines of Defence’ approach. Finally, expert 5 and 6 outlined the need to supplement the term ‘supervision’ and law enforcement’.

Thematic cluster 12: Legal and regulatory determinants: Some of the experts critically questioned whether there was a clear demarcation line between ‘legal and regulatory determinants’ and the ‘external audit / authorities’. Expert 5 explained that from an international perspective there are different argumentations possible. Expert 4 raised the question if it would increase clarity if there was no differentiation between the ‘legal and regulatory determinates’ and the authorities. Furthermore, expert 2, 4, 7, 8 and 10 suggested to also reflect the influence of lobbying with an arrow from the group construct

towards the 'legal and regulatory determinants'. Expert 7 explained that this is in many immature markets common practice and is an important mechanism for setting the right future oriented external framework conditions. Having said this, this statement is contradictory towards the opinion of expert 5 who recommended to leave this topic out of the model as the influence of lobby associations is rather weak. In addition, expert 8 mentioned that he would prefer 'requirements' instead of the softer terminology 'standards' to make clear that there are also legal obligations that companies have to follow.

After a short overview of the statements of the interview partners in the second interview loop, I will discuss the conclusions for the further development of the model in the following subchapter.

6.2.2 Discussion of the results

All interviewed experts provided valuable input to further develop the earlier introduced model draft. While most interviewed subject matter experts agreed to the considered subject areas that were covered in the first model draft, many of the provided valuable insights to improve the illustration of the model. Due to the complexity of the topic, the experts outlined the benefits of a simple illustration to demonstrate the intragroup context in which the model is embedded.

It also became clear that in particular the target group, scope and expectations of the management model have to be properly described, as the divergent statements of the interviewed experts had illustrated. While some argued that the concept only provides a governance management concept itself, others highlighted, e.g. from their senior management role of a financial services subsidiary, a clear benefit of the model. Two single experts argued that they would concentrate more on the different management instruments. I responded to that and outlined that appropriate management instruments will be discussed in detail within the explanation of the entire model and will be covered by a questionnaire for evaluating the local implementation and effectiveness of intragroup governance instruments. For limited time reasons, I decided not to include the complete questionnaires in detail for each governance topic within the interviews. Nevertheless, the provided feedback indicates that the intragroup **instruments** and the hierarchical relationship should be better reflected and it implies the imperative need to refer to specific management instruments for the particular topics within the evaluation questionnaire.

The experts confirmed that the external forces with the**' environmental', 'legal and regulatory determinates'** as well as the **'external audit'** and '**supervisory authorities'** influence the corporate governance management of the entire group. Moreover, there was a discussion if the lobbying activities of the automotive industry should rather be considered or not. Concerning this, there was a dissent among the interviewed experts and I have not concentrated on this particular mechanism so far. However, as the majority of the experts recommended to take into account lobbying activities, I will consider this mechanism in the further development of the model. Even so, it became clear that the 'external audit' and the 'supervisory authorities' should be separated from each other as they have to fulfill different tasks. While the 'supervisory authorities' are responsible for the law enforcement and supervision, the 'external audit' has to act primarily as an independent external control function.

There was consensus that the identified **focus topics** reflect the relevant intragroup corporate governance topics. However, within the general management dimension, especially the topics of 'framework management', 'mission management' and 'integrity management' have been in the limelight and some experts suggested to rename them and reallocate some of the sub-topics to make them more self-explanatory. The interviewed subject matter experts recommended to place greater emphasis on the topic of decision-making in particular as well as the definition of clear roles and responsibilities. Some others experts suggested to take more account of weighting strategy, financial management and HR related governance mechanisms in the model.
In sum, all experts confirmed the 'risk management', 'compliance and governance management' as an entire component of the 'internal control' dimension. Yet, few of the experts recommended to slightly separate the internal audit function from the others. While some argued that internal audit has to be considered within the model to secure a comprehensive 360-degree view, others found that it should be allocated outside of the model's scope. However, the consideration of the Three Lines of Defense approach logic within the model was positively highlighted by several experts.

Regarding the '**evaluation'** of the topics, the experts agreed that a standardized questionnaire seems to be appropriate to monitor and evaluate the maturity level in the subsidiaries and to get feedback concerning the local implementation stage. However, the experts made clear that there have to be clear evaluation measures to secure comparability and consistency by following a risk based approach.

Two experts critically discussed the general topic of **'enabling', 'protection'** and the **'transparency'**. One of them found that transparency itself does not lead to corporate success as, from his point of view, it rather describes the fundament and is a prerequisite for the parent management body to define appropriate actions. In fact, this is a perspective that is currently not adequately considered in the model. Moreover, the expert found that the 'enabling' and 'protection' box rather describe the operational governance that is performed by the consolidating internal control functions.

Another much-discussed issue was the 'corporate success' dimension. In essence, the experts recommended to use a different design for this box, to reflect that this is the benefit of a consistent intragroup corporate governance management. Thus, it should be separated from the corporate parent, as this affects the entire group from the subsidiaries towards the parent.

Moreover, the experts confirmed the identified binding elements between the parent and its subsidiaries ('culture and leadership', 'communication and training', 'organization and technology') as relevant key components. Especially the term 'technology', 'training' and 'communication' was highlighted, and the qualitative and quantitative staffing of the right people was emphasized as another crucial key enabler.

In terms of the '**value creation'**, the experts generally agreed, but some advised to add **'competitiveness'** as another crucial output factor within the overall external perception of the corporate group. At

the same time, similarly to the first round of interviews, the experts again highlighted the difficulties to measure the additional value of a proper management of the corporate governance.

Overall, the second round of interviews provided additional ideas and relevant insights to hereafter develop a comprehensive management model for groups to evaluate and measure the corporate governance maturity levels of their subsidiaries in a final step.

6.3 Entire corporate governance management model for financial services subsidiaries

Based on the feedback of the second interview loop with the selected subject matter experts, I was able to advance the first draft of the introduced management model. The second draft reflects even more the complex environment in which the management model is embedded and puts a greater emphasis on the intragroup governance management instruments and their evaluation.
Different external forces, such as the society, politics industry and competition, the legal and regulatory determinants and the competent supervisory authorities as well as external auditors, influence the entire corporate group. With their lobbying activities, the automotive multinational groups also influence, in some cases rather direct and in others rather indirect, the standard setting and general framework conditions for their industry. In sum, all those externalities exert influence on the **corporate culture, the corporate core values and performed leadership** within the group, the overall **organizational structures and processes, its people and deployed technologies** as well as the prevalent communication approaches and training activities, which altogether form the basis for the group-wide corporate governance management. Furthermore, it influences the selection and the design of the intragroup governance management instruments and defines focus topics that have to be addressed by them. The Figure 24 on the next page illustrates the complete group construct in which the management model (red box) is embedded.

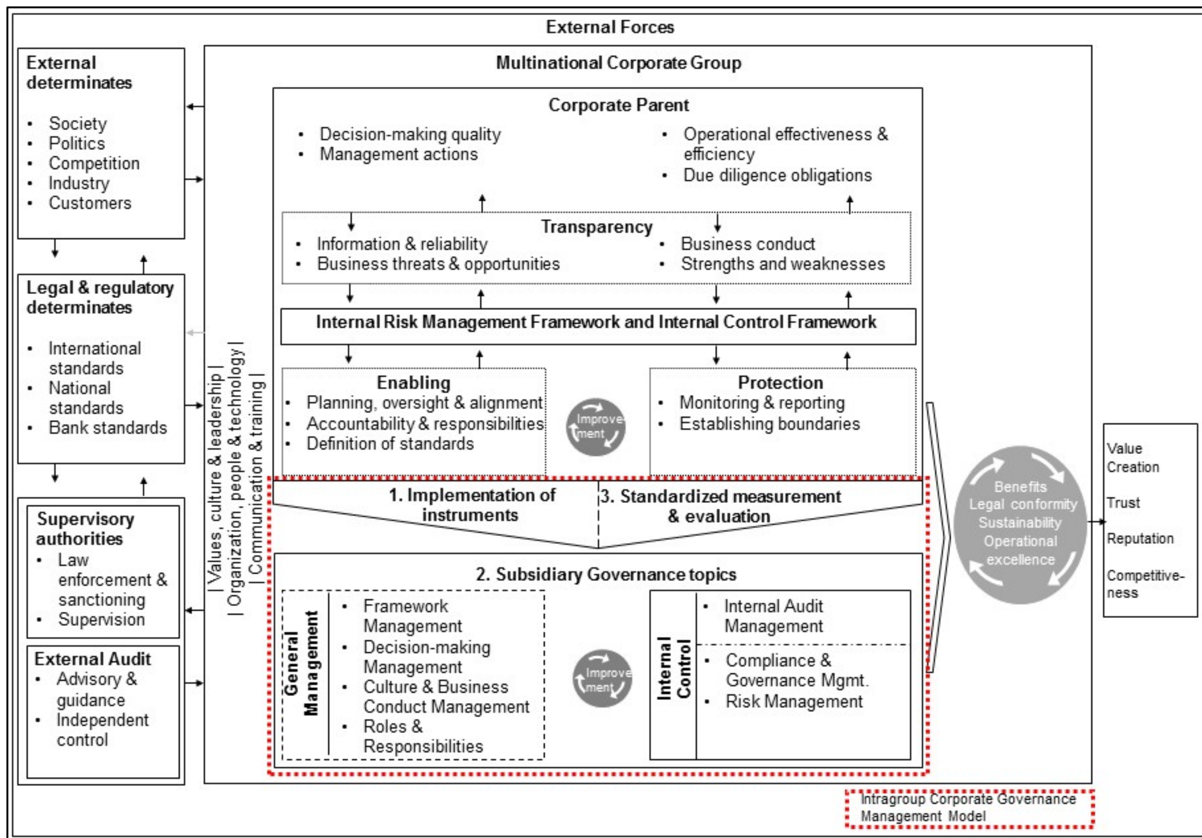


Figure 24: Group corporate governance construct.
Source: Own illustration.

The intragroup governance management model consists out of three different elements:

At first, the corporate parent has to decide about the appropriate governance management approach, which is essential to determine the **management instruments** that fit best. Those instruments formulate the parent´s expectations in many different ways and set the intragroup standards that have to be met by the subsidiaries and which will be discussed in the following subchapter 6.3.1. The implementation of those instruments forms the basis for intragroup transparency, alignment, coordination and control, but also leads to a continuous improvement on subsidiary and parent level. In addition, they are a prerequisite for the parent to manage the different intragroup governance focus topics.

Secondly, alongside the instruments, the respective **governance focus topics on subsidiary level** also have to be defined. While such topics enable the subsidiaries to perform a holistic general management, they also secure appropriate internal control and risk mitigation measures to provide a solid information basis for decisions that have to be taken. Those key topics will be discussed in subchapter 6.3.2.

Thirdly, to get transparency of both, the effects and implementation stage of the instruments, but also to secure oversight and insight about the defined intragroup governance focus topics, a **standardized measurement and evaluation** is required. This enables the parent to define the governance maturity of the subsidiaries and will be detailed in subchapter 6.3.3. The Figure 25 on the next page provides the overview of the interaction of the three parts of the entire model.

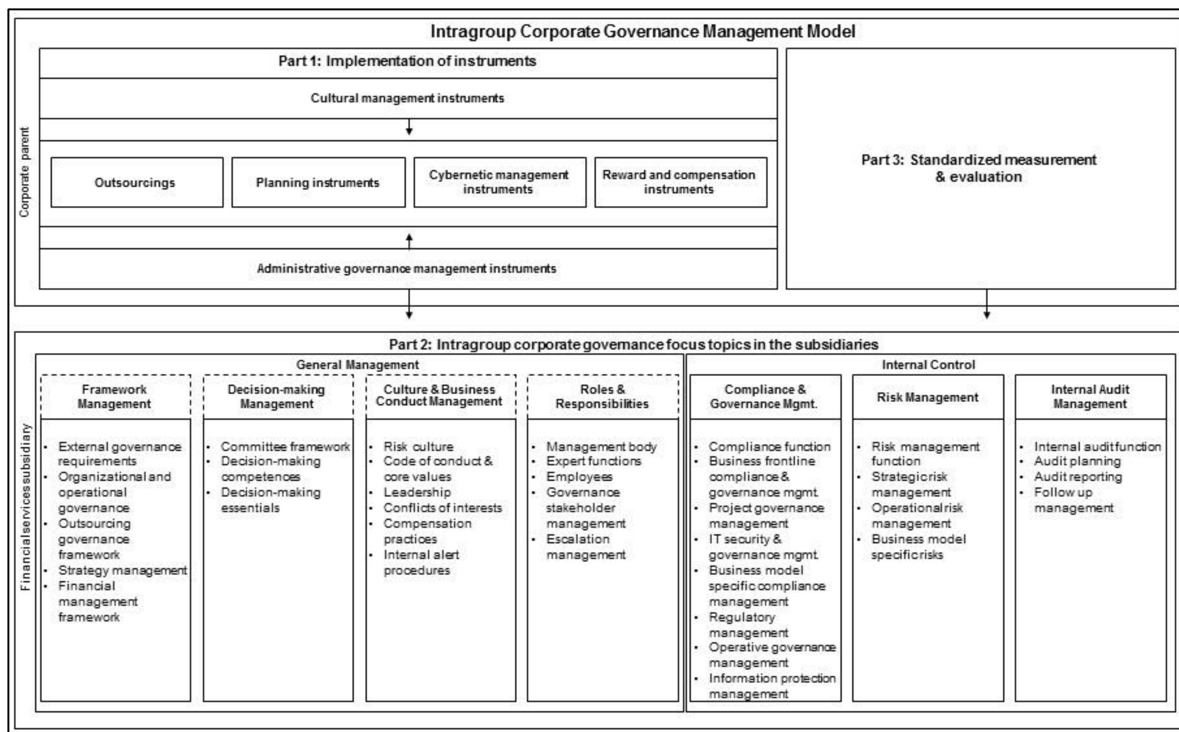


Figure 25: Intragroup Corporate Governance Management Model.
Source: Own illustration.

This tripartite approach of predefined instruments, governance focus topics and a standardized measurement and evaluation, **enables** the parent to gain intragroup oversight and alignment and to perform respective planning activities. It is a prerequisite to define clear responsibilities and accountabilities and to implement intragroup standards. Equally, this approach contributes to **risk prevention**, as it secures a continuous monitoring and reporting of risk related topics, and it supports to avoid intragroup organizational failure and defines clear boundaries for the subsidiaries.

In sum, all this gathered information is a prerequisite to secure the effectiveness of the **group-wide internal risk management and internal control framework**. It enables the group to have transparency of all relevant information to secure a holistic overview about group-wide business threats and opportunities, provides indications about intragroup strengths and weaknesses and allows reliable conclusions on the business conduct and behavior of the organizational members.

All in all, a proper intragroup governance management will lead to greater quality of the decisions which have to be taken, it will improve the operational effectiveness and efficiency and it will enable the parents to define appropriate management actions and will help to fulfill its due diligence obligations.

Finally, the combination of the multiple mechanisms, instruments and their multiple direct or rather indirect interdependencies lead towards **legal conformity**, support the **sustainability** efforts and secure **operational excellence**. It encourages the value creation and fosters external trust, mitigates the probability for **reputational damage** and thus, in a final consequence, the perceived competitiveness of the corporate group.

After this introduction, I will take a step further and outline the respective intragroup management instruments as a first part of the model in the next subchapter.

6.3.1 Part 1: Intragroup governance management instruments

Clarity about the individual corporate governance definition is the starting point to define intragroup management instruments and relevant focus topics, which are essential to make corporate governance manageable. Mutually agreed upon intragroup governance standards are required to ensure transparency, standardization and oversight in the multinational group. It influences the identification, allocation and the design of the right instruments to manage intragroup governance. As the previous analysis illustrated, the different intragroup governance instruments can be clustered in six different groups.[320] Parents focus on instruments to set a clear cultural and administrative framework, apply reward and compensation instruments, use outsourcing agreements and different planning and cybernetic instruments to manage their subsidiaries. The different types of instruments encourage the parent to proactively manage their subsidiaries among essential focus topics, secure intragroup coordination and alignment and reduce the overall risk potential within the group. The following Figure 26 illustrates the multiple clusters of instruments by which parents manage the intragroup governance:

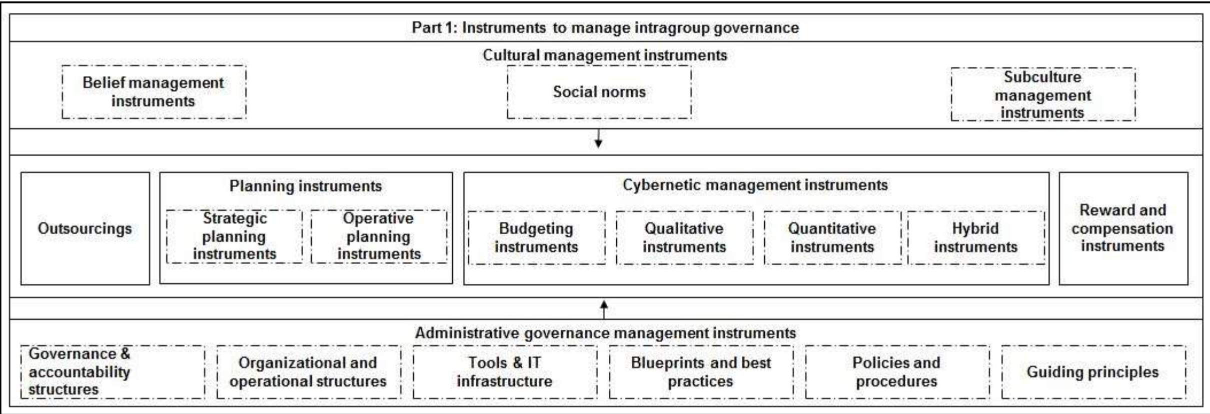


Figure 26: Intragroup governance management instruments.
Source: Own illustration.

On the one hand, parents focus on cultural management instruments and, on the other hand, they define clear administrative governance frameworks for their subsidiaries, in which are embedded different other management instruments (e.g. outsourcings, planning or cybernetic instruments). While each of the mentioned instruments can be recognized in isolation as own governance management system, I combine them to one package.[321] Only if they are properly aligned with each other, it is possible to secure the holistic and comprehensive corporate governance approach. In the following paragraph, I debate the different instrument clusters and how parents use the different groups of instruments to secure a group-wide approach.

[320] The classification of the management instruments is derived from the suggested dimensions of management control of Malmi & Brown (2008).
[321] This argumentation is adopted from Malmi & Brown (2008) who introduced this perspective for management control. For further information, cf. chapter 2.4.

Cluster 1: Culture management instruments: Parent entities use culture to bridge existing governance gaps within the group that undoubtedly exist in each organization. The corporate culture consists of shared values, beliefs and social norms within the entire group and influences the individual thoughts and behaviors.[322] Especially in multinational organizations the conscious and targeted use of cultural management instruments are of great importance. Corporate culture is a sustainable key driver, develops over time and usually stays within an organization even if local managers or other key persons in the subsidiary change. However, cultural instruments are often difficult to steer from distance, depend much on the individual interpretation and always have to be transferred to the local national culture to be effective. Nevertheless, the instruments used by the executives to communicate formally and reinforce values, purpose and direction towards the organization (e.g. mission statements, vision statements, corporate core values etc.) are essential and aim on a group-wide feeling of togetherness. Other instruments are those focusing on visible signs and symbols (e.g. design of the buildings, clothing styles, workplace designs etc.) and provide guidance regarding the accepted social norms within the corporate group. Especially in mixed groups with different business models (e.g. car production and financial services), it is required to balance, on the one hand, one uniform group standard, and on the other hand, also to take into account any business model specifics to secure the authenticity and desired effects. Other culture-related management instruments focus on the recruiting to secure that the hired employees fit to the organizational values (e.g. predefined recruiting criteria or assessment processes, centralized recruiting for senior management positions within the parent). Apart from that, even if it is difficult to manage via central instruments, the parents use intragroup leadership development programs and job rotation programs to promote the joint core values, to foster a similar interpretation and to avoid too many variances within the subcultures in the subsidiaries. Apart from the fact that it is not possible to eliminate subcultures, particularly in large multinational organizations they are necessary for the local staff to identify with the organization; finally they also reduce employee fluctuation. While subcultures have a strong impact on the individual behavior within the socialization process (e.g. own ceremonies, rituals, team events etc.), parents want to avoid too strong subcultures. In order to cope with this challenge, parents usually install e.g. a manager out of the local market as subsidiary CEO and mangers out of the parent as CFO. Nevertheless, the cultural dimension is one of the most critical management instruments, even if it is only possible to a very limited extend to manage from abroad. Whether the desired effects of the cultural management are achieved or not largely depends on the local management and how they interpret their role as local ambassadors of the parent´s management body.

Cluster 2: Administrative management instruments: Other crucial instruments are clear requirements for e.g. the organizational and operational design of subsidiaries, intragroup accountability frameworks and intertwining policies and procedures. Other instruments include the provision of tools and group-wide IT systems, guiding principles or the provision of central developed blueprints. Parents implement those instruments to secure structures and procedures for alignment between the different functions and organizational units both vertically and horizontally, but also locally and globally. At its core, those instruments aim to guide the staff and their behaviors throughout the organization and

[322] For further information, cf. chapter 3.1.3.

specify the parent´s expectations on how tasks and behaviors have to be performed or not. Additionally, they secure that the subsidiaries are accountable for their behaviors.
Even if this sounds obvious, it is often difficult to balance the right level of detail to secure on the one hand a clear organizational systemization among the entire group but, on the other hand, enough flexibility for local adoption. There are different instruments applied with different levels of obligation, starting with guiding principles, blueprints and best practices towards compulsory policies and procedures that have to be implemented in each subsidiary. However, especially organizational and operational reference models are commonly used instruments to standardize structure types, core processes, relations and interdependencies to a maximum extent. Standardized organizational and operational designs help to reduce variances, variability of behaviors and increase the intragroup transparency. In a perfect world, this seems to be logical, but in multinational groups with historically grown structures, different types of subsidiaries, merger and acquisitions, varying business models and levels of regulations it is often difficult to achieve. Moreover, parents predefine clear accountability frameworks and decision-making structures via different instruments. As particularly in the financial services business, this is closely linked to the liability and duty of care obligations, parents tend to use clear requirements for the design and the composition of the institutional management and supervisory body, and tend to implement standardized job descriptions for the senior management positions in subsidiaries. In addition, there are usually formal lines of authority and accountability as well as standardized intragroup escalation mechanisms for the case of dissent.
Thus, parents often introduce predefined decision-making procedures, including standardized committee designs, (pre-) alignment matrixes for the decision-making, predefined committee topics, documentation and follow up processes and regular reporting formats. While this is necessary for intragroup information flow and decision-making preparation of the parent, it also leads to more bureaucratic burdens, longer decision-making processes and in many ways limits the often requested agility and flexibility of the parent´s top management. Further, it has to be kept in mind that the local management is held accountable by the local authorities for the decisions taken, which may lead to problems if crucial decisions affecting the subsidiary have to be taken from an intragroup perspective on higher hierarchy levels. Having said that, parents can solve this problem via mandatory intragroup pre-alignment procedures before the final decisions are taken by the local management body.
Tools and IT Infrastructure are another crucial, but often ignored governance management instrument. The group-wide application of the same tools and IT systems fosters the systemic approach, simplifies the management and is a prerequisite for reporting, alignment, communication and information exchange. There is no doubt that it is a crucial enabler to manage the growing digitalization and data driven business models. Even so, many multinational companies struggle to harmonize their multifaceted, fragmented IT landscapes and form a uniform intragroup IT architecture.

Cluster 3: Intragroup management via outsourcing agreements: Another crucial intragroup governance management instrument is outsourcing. Intragroup outsourcings are arrangements in which the parent or another affiliated company provides services for others within the same group, which could also be or usually have been typical in-house activities. Multinational groups use intragroup and external outsourcings to increase internal efficiency regarding e.g. services, such as administration,

information technology or finance, which are provided in arm's length relationships. Even if there are multiple transfer pricing requirements and cross boarder tax treatments that have to be taken into account, parents predefine for topics with a high strategic relevance, high-risk potential or other core competencies that are relevant for securing the competitive advantage which have to be outsourced from their subsidiaries to the parent. While this supports intragroup standardization, it also reduces organizational opacity, redundancies and duplication of work within the different business units, but likewise can favor cluster risks. On the one hand, for the parents this centralization simplifies defining and implementing intragroup standards, secures better oversight and alignment and may reduce administrative costs. On the other hand, especially in strong regulated financial services entities, clear limitations exist for outsourcings in most countries. While in banks it is usually not allowed to outsource certain business and core control activities (e.g. risk management function, internal audit, compliance functions) towards another entity, in other countries, it is prohibited to outsource activities cross-border or transfer customer data to any third-party providers. Nevertheless, outsourcings are an increasingly important governance instrument and parents implement standardized service level agreements with their subsidiaries, define standards for local outsourcing activities and implement provider management functions to secure a professional management of the outsourcing activities.

Cluster 4: Intragroup management via forecasting / planning instruments: Planning and forecasting instruments are another commonly used group of instruments. Such instruments have an ex ante focus and define targets and actions for the subsidiaries, i.e. they define standards and expectations of the parent that have to be achieved. While planning instruments are required to coordinate the intragroup targets, it is also a prerequisite to control the subsidiaries and to secure the successful implementation of the group strategy, target achievement and the desired outcomes from a group-wide perspective. Typical instruments are the stringent implementation of intragroup balance scorecards among all hierarchies, from division specific strategies derived from the overarching group strategy, strategy toolboxes for subsidiaries with modular strategies or target product portfolios. Such instruments provide intragroup guidance for the decision-making and prioritization of future activities within the subsidiaries.

The targets and actions between the middle and long-term view are usually defined in standardized intragroup long-range planning procedures to overcome future uncertainty and take into account future trends to see what the possible range of alternative futures might be. At the same time, there are also more operative planning instruments which formulate rather short-term targets and actions (e.g. up to one business year) and include much more detailed standards and concrete instructions.

In sum, those instruments primarily aim to secure that the overarching group strategy gets implemented and they formulate e.g. clear time schedules, specific tasks and behaviors to be taken or concrete resource allocations for the achievement of the set standards. Although intragroup planning and forecasting instruments are often bureaucratic, time-consuming and lead to much discussion, they are crucial to manage global subsidiary networks. While those instruments support managing intragroup complexity and interdependencies, they are also necessary to manage stakeholders and to deal with the increasingly volatile business environments.

Cluster 5: Cybernetic management instruments: As the previous discussion illustrated, there are tools used to manage the intragroup governance with standardized feedback loops and primarily focus either on information provision or decision support. While such instruments formulate the expectations of the parent in e.g. intragroup standards and targets that have to be achieved, they are further used as measuring system to check and compare the performance of the subsidiaries, and therefore the variance level towards the set standards. Such instruments are commonly used, as they provide targets or systems with the help of their counter flow procedure feedback (which is a prerequisite to continually modify existing intragroup standards).

Parents primarily use such instruments for the yearly budgeting of their subsidiaries, which further forms the basis to perform the yearly ex post performance evaluation. Apart from that, such instruments help to assign responsibilities and are a main source for decisions about resource allocations.

There are many financial or non-financial, qualitative or rather quantitative cybernetic management instruments used to manage and control the subsidiaries. They are applied via financial performance measures, such as profit contribution towards the parent, ROI, EVA, EBIT KPIs, but are also used as a tool for the intragroup target setting. While financial measurement instruments seem to be the most obvious, there are also other quantitative governance instruments, which define standards with absolute or relative KPIs for e.g. the IT performance or process quality.

There are also non-financial measurement instruments used to bridge the limitations of pure financial performance measures (e.g. TQM Models, Three Lines of Defense). Such qualitative measurement instruments are e.g. regular employee / customer surveys or mandatory 360-degree feedback appraisal systems. Instruments that incorporate elements of financial and non-financial measures also become increasingly important, as it typically is the case in the Balance Scorecard, COSO Frameworks and 'Management by Objectives' approaches. Also due to the preferred usage of information technology and customer-centric approaches, such cybernetic management instruments become increasingly relevant, secure a more collaborative approach and are essential to transform multinational groups into the earlier mentioned high-performance organizations. However, such cybernetic instruments are also often associated with comparatively high implementation complexity, time and cost effort to steer their effectiveness.

Cluster 6: Intragroup management via reward and compensation: Driven by the previous debates, parents also use management instruments that focus on the extrinsic and intrinsic motivation to increase the performance and target congruence. In particular, parents design monetary incentive schemes as management instruments to support organizational and individual prioritization and clarify their expectations regarding the set intragroup standards. While this further helps to increase the effort of subsidiaries and their employees, it is also a crucial control instrument for the parent to set clear boundaries about the expected level of risk taking or accepted variances of the predefined intragroup standards. Parents apply instruments that focus on both, individual and group rewards to encourage cultural controls and foster intragroup alignment and collaboration. Typical intragroup management instruments are e.g. joint targets for subsidiaries in the same host country (local financial services subsidiary and local sales subsidiary) or level-target agreements among different hierarchy levels or business units. It is common practice that the variable component of the individual remuneration in-

cludes a fixed element that depends on the achievement of the overarching group results to encourage the intragroup collaboration.[323] While this supports the intragroup target congruence, it can also have a demotivating effect if there is an over-fulfillment of the set targets on a local level, but not on group-wide scale. The group-wide alignment of the reward systems is often difficult as there are multiple internal and external factors that influence the individual amount of remuneration (e.g. different income tax systems in host countries, varying social security systems, purchasing powers and many others) and affect the individual compensation package. More difficulties may arise from the different business models within a multinational group, which usually include varying compensation schemes, too. Nevertheless, parents usually put a great emphasis on aligned reward systems, implement scoring systems, and define standards for the local grading or job evaluation schemes within the subsidiaries to secure a group-wide standard. Contrarily, as the expert interviews illustrated, the compensation schemes are also used as effective sanction mechanism for non-compliant behavior with intragroup governance and compliance standards.

In essence, all those multiple intragroup governance management instruments, that are sometimes legally or regulatory required, enable the parent to manage a particular topic on different levels, aim at different target groups, have different levels of interdependencies and aim to manage either processes, structures or simply formulate expectations on how to behave or not.

Selection criteria

As this previous debate illustrated it is neither possible nor target-orientated to define whether one instrument may be more important than the other, as they all have different purposes and are used in multiple contexts. Even so, I argue that there are some criteria, which can assist corporate groups to identify the most appropriate instrument for their needs as the Figure 27 on the next page demonstrates.

[323] The study of Krapp et al. (2010) provides evidence that optimal compensation contracts under decentralization includes both divisional and firm-wide metrics, but that pure divisional performance evaluation is optimal under centralization when abstracting from risk interdependencies.

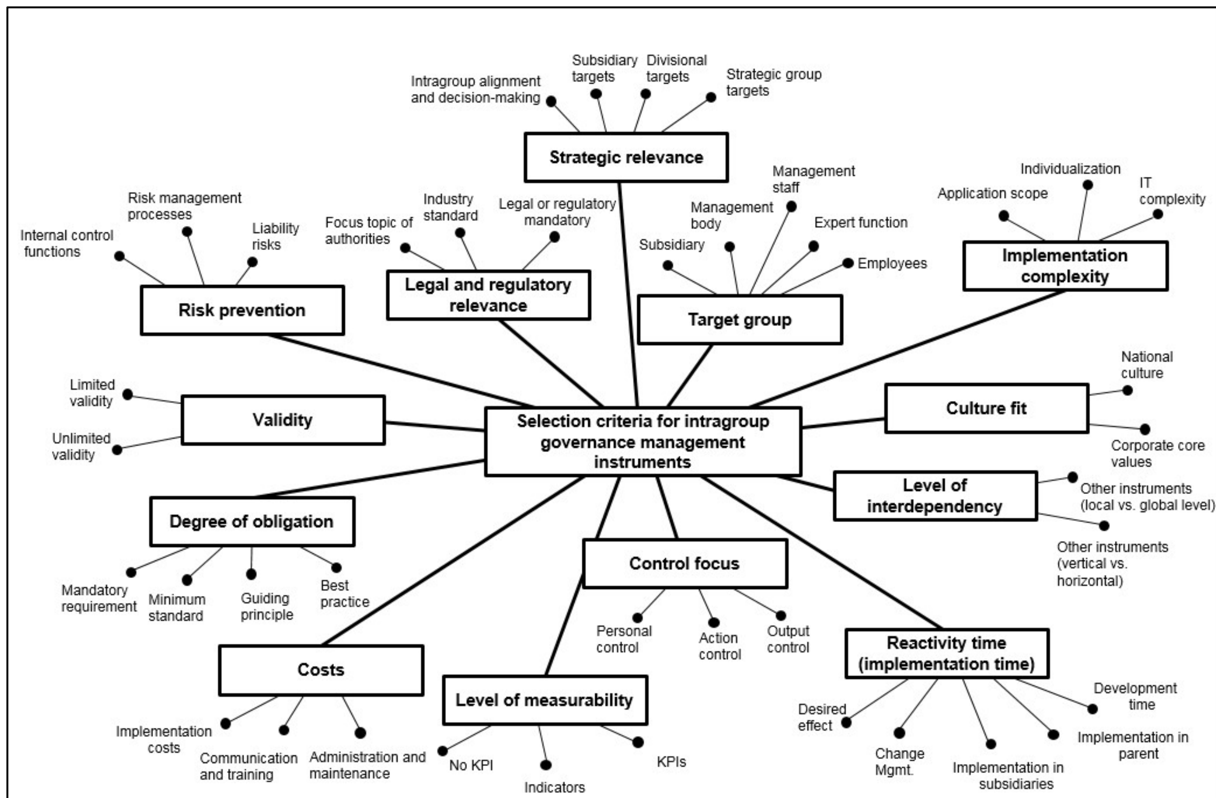


Figure 27: Selection criteria for the right intragroup governance instrument.
Source: Own illustration.

On the one hand, parents should clarify the **target group** for the use of the instruments. While there are instruments that primarily focus on the subsidiary's management body, there are others that predominantly aim e.g. at the management levels, focus on a particular expert function or are applicable for all employees. Others again focus on the subsidiary as a whole to secure internal collaboration and alignment (e.g. joint targets).

On the other hand, especially in the strongly regulated financial services business, parents have to take into account the **legal and regulatory relevance** of the instrument. In classified bank entities there are multiple instruments and mechanisms that are predefined by the external banking regulations (e.g. own internal control functions, implementation of a supervisory body), that have to be implemented and that predefine which implementation standard is expected without allowing divergences. Other instruments are required to fulfill the parent's duty of care obligations or are known as preferred audit topic, of e.g. national supervisory authorities, and imply the necessity to implement a certain standard.

Likewise, an impact analysis for the **intragroup risk prevention** should be taken into account. While there do exist instruments and mechanisms that are required to secure the effectiveness of the group-wide internal control or risk management framework, there are others that primarily concentrate on a better information basis for decision-making and have a rather indirect impact on risk mitigation. Risk mitigation effects for the personal management liability are another crucial decisive factor.

Closely linked to this is the **degree of obligation** of the instrument. Driven by the fact, that from a local perspective subsidiaries are legally independent entities, it is crucial to also consider the binding char-

acter of the applied instruments. While for some topics a strong instruction character from the parent is possible, others have to stay in the responsibility of the local management. Consequently, the degree of commitment has to be taken into account. While some instruments provide guidance and support intragroup knowledge and best practice sharing, there are others that define compulsory requirements, which have to be locally implemented. Hereby, especially legal and regulatory requirements are a key driver, but also the associated risk potential in case of ignorance or the level of possible detailing influences the instrument selection.
Another selection criterion for the most appropriate management instrument can be its relevance to **fulfill the strategic targets** of the entire corporate group. While there are instruments that are obligatory to meet the strategic targets, such as intragroup planning instruments or balance scorecard approaches for the target prioritization and resource allocation, there are others that have a rather indirect impact and focus on the organizational sustainability or e.g. the cultural dimension.
However, the compatibility with the **corporate culture** is important, too. Within the selection process, parents should be aware of the signal function towards the affected target group of the instrument. While there are very control-oriented corporate cultures, there are others which favor trust or principle-based approaches. If the respective instrument does not reflect the core values of the corporate group, the desired effect of the intragroup governance instrument will be limited or will lead to unwanted side effects. Hereby, the different national cultures have to also be taken into account.
Furthermore, the **level of interdependency** between the governance management instruments themselves is a crucial criterion. For instance, only a standardized organizational design of the subsidiaries enables the parent to implement e.g. an aligned process map with predefined core processes or standardized job descriptions including clear roles and responsibilities of e.g. the subsidiary's CEO and CFO. Others, such as intragroup long-range planning procedures, must be aligned to enable the consolidating group functions to have oversight and coordinate the intragroup resource prioritization and allocation. Besides that, subsidiaries depend e.g. within their local strategy development process on the input of the headquarters or the overarching group strategy. Thus, the intragroup level of upstream and downstream interdependencies is essential to observe, too. Functional and cross-functional interdependencies also need to be considered. For example, the predefined subsidiary targets affect the structure of the personal compensation of the local management, which again affects their risk taking behavior, and that may also influence the local risk culture.
The **reactivity** (**implementation) time** also is a relevant selection criterion. Notably in large multinational organizations the development and implementation of new instruments can be time consuming and complex. Compared to others, some instruments only have to be developed once within the parent and are then implemented for the entire group, while others' relevance primarily rely on the additional efforts of alignment within the subsidiaries to implement them optimally. For instance, in case of a local governance or compliance breach within the subsidiary, a market visit of the parent´s governance function can be a short-dated measure, but the development of an intragroup guideline to adequately address this deficit area can be time consuming and requires many alignment efforts. Whereas others might require a strong tone from the top or more communication and training activities to be effective, others can be immediately implemented. Thus, the estimated time until the desired effects of the instrument will be achieved, can vary and should be observed.

In addition, the **implementation complexity** is directly related to the reactivity time. The implementation complexity largely depends on the application scope of the respective instrument. There are instruments that aim for a group-wide application, while there are others, which have a division-specific or solely a business model specific scope. The related IT complexity is another fundamental key driver, because the implementation and outcome of many instruments largely relies on their implementation within the IT landscape. While in an ideal world there are solely aligned intragroup IT systems available, in many multinational groups multiple IT systems exist on local as well as global level, that are not in any case compatible with each other.
However, not only the implementation complexity, but also the **associated costs** for the instrument have to be considered. Some instruments bear development costs only once, while others cause regular follow-up costs for their administration and maintenance. In many cases the effectiveness of the instruments depends on intragroup training and communication activities, which have to be taken into consideration particularly in large subsidiary networks.
In line with the management control classification of Merchant & Van der Stede (2007), the **control focus** of the respective instrument has to be also taken into account. While there are instruments that focus more on the personal control of the employees, there are others, which concentrate rather on action control and specify how a certain activity has to be executed (e.g. intragroup guidelines). Still others solely focus on the outcome without predefining any requirements or standards that have to be met, to achieve the desired result.
Finally, the **validity** of the instrument is also a relevant selection criterion. While parents can apply governance instruments, which have an unlimited validity, if they are approved once, there are others, which require new approval on a regular basis. Therefore, I argue that it must be carefully assessed whether an instrument requires an unlimited validity. In most cases it seems recommendable to ensure a regular review and adjustment of the instruments towards any changed intragroup or external requirements.
The level of measurability is also of great interest. While there are clear financial KPIs available for e.g. the cybernetic financial measurement instruments, there are solely indirect indicators available for others that measure their effectiveness. Yet, it is of great importance to be aware of the interpretation of the measures to avoid any superficial transparency or oversight, which might reflect unreal situations within the subsidiaries.

I summarize that there are multiple instruments available for parents to manage their intragroup governance among their financial services subsidiaries. Their individual design, implementation and effectiveness always depend on the individual multinational group. Nevertheless, I was able to provide indications on how parents can decide which instrument is more appropriate compared to the others.

After the introduction of the intragroup governance management instruments, I now introduce the different focus topics, which have to be addressed on subsidiary level to secure intragroup governance and to mitigate the overall risk of reputational damage or organizational failure.

6.3.2 Part 2: Intragroup corporate governance focus topics

As the second part of the management model, the governance focus topics, on which parents have to concentrate within their subsidiary networks, play a crucial role. While this is required to secure a comprehensive intragroup governance framework, a professional management of those topics also enables the subsidiaries to position themselves well to execute their role within the group and the local business environment. Without the instruments debated above, the aligned and coordinated intragroup management of the relevant governance focus topics is impossible.

Parents define a different bundle of instruments for each of those topics, that should be used to provide enough flexibility and to consider the nature of the subsidiary as well as the different local markets, legal and regulatory environments and overall maturity levels of the various host countries. This means that there are also subsidiaries in which the local legal and regulatory framework is stricter than the defined parent's standards or may also hinder the local implementation due to contradictory requirements. In general, it must be clear that the top priority above all set intragroup standards is that the subsidiaries comply with applicable legal and regulatory requirements. Thus, the parent indeed defines standards regarding the content, but, in many cases, solely how these topics have to get managed with particular instruments.

Due to the cross-functional character of some focus topics, there also exist interdependencies among some of the identified subtopics. As previously outlined, the relevant focus topics can be divided into topics that rather concentrate on the general management and others, which rather concentrate on the adequate internal control. The focus areas illustrated in Figure 28 are defined by following a risk-based approach. They are the outcome of the previous literature review as well as of the conducted expert interviews. In the following paragraphs, each of the focus areas will be explained in more detail:

Part 2: Intragroup corporate governance focus topics in the subsidiaries						
General Management				Internal Control		
Framework Management	Decision-making Management	Culture & Business Conduct Management	Roles & Responsibilities	Compliance & Governance Mgmt.	Risk Management	Internal Audit Management
• External governance requirements • Organizational and operational governance • Outsourcing governance framework • Strategy management • Financial management framework	• Committee framework • Decision-making competences • Decision-making essentials	• Risk culture • Code of conduct & core values • Leadership • Conflicts of interests • Compensation practices • Internal alert procedures	• Management body • Expert functions • Employees • Governance stakeholder management • Escalation management	• Compliance function • Business frontline compliance & governance mgmt. • Project governance management • IT security & governance mgmt. • Business model specific compliance management • Regulatory management • Operative governance management • Information protection management	• Risk management function • Strategic risk management • Operational risk management • Business model specific risks	• Internal audit function • Audit planning • Audit reporting • Follow up management

Figure 28: Intragroup corporate governance focus topics.
Source: Own illustration.

The **framework management** addresses the general business environment in which the subsidiary is embedded in the particular host country. This is a prerequisite for the local executives to manage the subsidiary. Hereby, it is essential to have transparency about the host country's specific governance framework, including the legal and regulatory structures of the local entity and their implications for the conducted business, the provided products and their services. Further, the organizational and operational structure also has to be clearly defined as in the best case they reflect the overall structural and

processual approach of the group. For this, typical intragroup governance management instruments are e.g. organizational and operational reference models, which help to standardize the intragroup organizational structures and processes of the subsidiaries.
Likewise, it is required to have an overview of the intragroup and external outsourcing framework of the subsidiary. Parents usually predefine intragroup quality standards for local outsourcings, provider management and the documentation of service level agreements.
To foster the framework understanding, clarity about intragroup approach for the strategy setting is essential, too. The subsidiary strategy development has to address both, the overarching group and financial services strategy as well as the local specific market environment. An aligned intragroup strategy process with standardized pre-alignment and approval procedures assures strategy harmonization before it becomes formally approved by the local senior management.
Moreover, it is essential to secure lucency of the intragroup financial management framework. It aims on a comprehensive understanding, oversight and clear procedures for the financial planning, reporting and tax management to fulfill the subsidiary's obligations. To safeguard an aligned intragroup financial management, parents implement automated reporting systems, define standardized intragroup processes, calculation and accounting methods for financial KPIs and predefine due dates for reporting to secure the disclosure of the group financials on time. Intragroup policies for the handling of reporting risks or guiding principles for the local tax management also exist to formulate the expectations of the parent.

The **decision-making management** focuses on the decision-making procedures within the subsidiary. To make intragroup decision-making manageable, it has to follow the subsidiarity principle. Most of the decision-making is formally operated on a local level. Thus, an aligned intragroup decision-making framework is required to secure organizational alignment with clear roles and responsibilities and adequate competence schemes. Appropriate local committee frameworks and a common decision-making culture guarantee an effective and efficient way of decision-making. To secure a coordinated decision-making, it is required to assure that the local decision-making structures and processes fit to the decision-making procedures on parent level. Typical governance management instruments are standardized intragroup committee landscapes. Others include binding committee by-laws, mandatory pre-alignment approaches before local decisions are taken or standards for the decision-making administration. Besides, clearly defined competence schemes for both, committees and individual employees, avoid redundancies and secure clear decision-making scopes. When there is consensus about essentials for decision-making, such as the four-eye principle or the separation between front and back office in financial services organizations, it contributes to achieve a common standard and decision-making systemization.

Culture and business conduct management focuses on a corporate culture, which reinforces appropriate norms for responsible and ethical behavior. The expectations of the parent regarding the group-wide core values, subsidiary's corporate culture and business conduct of the staff, have to be reflected in the daily business. To provide guidance it is crucial that the group culture elements get supplemented by country specific cultural issues as well as other additional elements, such as appro-

priate mechanisms in case of continuous dissent among committee members, guidance for dealing with conflicts of interests, adequate compensation schemes and internal alert procedures. As already outlined, the management of the corporate culture from an overseas headquarters is challenging, but there are instruments that parents use to formulate their expectations, such as e.g. a risk culture statement, a risk appetite framework, a group risk policy and predefined risk limits. Other instruments are e.g. a group-wide code of conduct, a compliance culture statement or leadership principles. Especially regular staff surveys or 360-degree employee evaluation systems are a crucial cybernetic management instrument to get an indication on the local corporate culture. An intragroup conflict of interests, policy, principles for local job evaluations and remuneration practices help to clarify the expectations of the parent on how such topics have to be managed within the subsidiaries. To report bottom up local misconduct, all subsidiary staff should have transparency and access towards internal alert procedures (e.g. anonymous whistleblowing mechanism).

Clarity about the **roles and responsibilities** is essential to mitigate intragroup governance risks, avoid misalignments and ensures clear accountabilities. Thus, a common approach for the definition of tasks, roles and responsibilities are a basic prerequisite. The subsidiary's senior management acts as local ambassador of the parent's management body and has to fulfill a strategic governance role in the subsidiary. The local management is held responsible for the succession planning of certain governance key roles on subsidiary level. For example, in most markets, it is a legal or regulatory requirement to have internal control functions (compliance, risk, internal audit) and it has to be secured that those functions are always adequately staffed. If this should not be the case, it could result in a withdrawal of the held business license.
Also, it is of great importance that there is transparency of mandatory local legal and regulatory expert functions (e.g. remuneration officer, compliance officer, health and safety officers etc.) and any mandatory expert functions (e.g. IT Security Officer, Governance Officer, Information Protection Officer). Every single employee has to understand that he is held responsible for following the governance standards within his action scope.
It has to be assured that there is lucency of the relevant intragroup and external stakeholder groups and that their interests are adequately taken into account. This enables subsidiaries to define clear responsibilities for each local key stakeholder group (e.g. media, politics, governmental agencies, external auditor). Commonly agreed intragroup standards for the communication and collaboration with external stakeholder groups further professionalizes the stakeholder management and externally secures a uniform appearance of the group as a whole.
Moreover, it is crucial that there are also appropriate escalation mechanisms in place for the case of dissent within the subsidiaries, e.g. between the local management members.

A professional **compliance and governance management** are basic elements for corporate governance in the subsidiaries. As second line of defense function, it has to support the local management body to fulfill their duties and mitigate the risks of non-compliance with intragroup requirements and external laws and regulations. A competent compliance function on subsidiary level has to mitigate the risk of management liability, reputational damage and financial penalties or even the loss of the busi-

ness license due to any misconduct or illegal actions of local staff. Hereby, especially the strengthening of the business frontline compliance and governance, IT security and governance and any financial services business model specific compliance topics (e.g. anti-money laundering or consumer credit protection topics) plays a dominant role as they differ in many cases largely from the compliance topics that have to be addressed by the rest of the multinational group.
A professional regulatory management helps to mitigate on the one hand the management liability, but on the other hand, also strengthens the public faith in the organization, secures transparency and accountability and forms the foundation to fulfill the different disclosure obligations. This also includes a regular forecasting of any upcoming legal and regulatory trends, which may affect the subsidiary in future. While this is only possible to perform with a close market proximity, it is also essential to secure adequate intragroup (long-range) planning.
In each subsidiary there has to be an operative governance management performed which is e.g. responsible for the coordination of local governance instruments (e.g. local policies) and their alignment with the overarching intragroup standards. Moreover, it is required to have local delegates, which are responsible for the local information protection management.

Risk management is an important internal control function in financial subsidiaries. It has to secure that risks get identified, analyzed and evaluated, and that respective mitigation measures get defined and implemented. In each legal entity, there is the necessity to implement a professional risk management to ensure consistency and risk transparency on local level but also on group-wide level within the parent. An aligned risk understanding with clear roles and responsibilities regarding strategic and operative risk management are essential. In automotive financial services subsidiaries, in particular the residual value risk, credit risk and interest rate risk management require a clear separation of duties between the involved functions to execute a group-wide strategic risk management. Consequently, governance management instruments from the parent are a predefined group-wide risk strategy, an intragroup risk management framework, VaR models, equity planning or stress testing procedures for the subsidiaries. Also intragroup risk guidelines and policies enable the subsidiaries to locally perform a professional risk management. Respective credit approval matrixes and standardized risk processes support to mitigate risks and secure a consistent risk management approach within the group. In addition, aligned risk calculation methods, risk parameters and intragroup reporting tools enable the parent to get a realistic picture of the group-wide risk situation in the different markets and subsidiaries.

As another crucial element of a 360-degree view on corporate governance on subsidiary level, there also has to be a professional **internal audit management.** The internal audit function has to be implemented as independent third line of defense and has to identify and assess potential risks for the business operations. Internal audit has to deliver transparency for corporate management and support the subsidiary's management body to ensure a holistic view on the entire organization and associated risks. As independent business unit, it has to verify the effectiveness of the implemented control procedures, which are required to secure the effectiveness of the group-wide internal control system.
While it has to evaluate, if the desired effects of the intragroup governance instruments are locally achieved, it further provides an additional independent view to better classify the reported information

of the subsidiaries. Internal audit performs important advisory services to constantly further develop the governance framework, helps to minimize local governance variances and secures an organization-wide perspective on the interdependencies of the applied instruments. The gathered information of the different intragroup internal audit instruments is a crucial information source for the management bodies and their supervisory bodies to fulfill their duty of care obligations. Without the implementation of group-wide aligned and specialized internal audit instruments (e.g. standardized documentation and reporting duties, follow up systems, aligned audit methodologies) it is nearly impossible to adequately manage this among the global subsidiary network.
However, a challenge arises out of the fact that there are some countries where it is mandatory to have an own internal audit function within the subsidiary, while in others it is no problem to outsource it towards the parent. Another difficulty is that the internal audit requires in-depth local market expertise, which makes it challenging to follow a centralized corporate audit approach.
It must be assured that the design of the internal audit functions in the subsidiaries avoid any conflicts of interests e.g. within the reporting of audit findings towards the consolidating parent function. Thus, parents define e.g. clear premises for the organizational design of the local internal audit functions. In addition, there should be predefined standards for the internal audit activity and e.g. for the alignment of the local internal audit planning with the corporate audit department of the parent. Aligned audit reporting formats and procedures for audit findings as well as follow-up management encourages the consolidating parent to secure intragroup lucency and oversight of identified weaknesses and the monitoring of the implementation efforts of defined countermeasures within the subsidiaries.
However, due to its ordinary independent control function, internal audit can also be recognized as independent function outside of the management model. But I argue that a holistic overview of the maturity level of the corporate governance management on subsidiary level can only be achieved if the subsidiary’s internal audit management is integrated in the regular corporate governance maturity assessment.

All above outlined governance related focus topics within the subsidiaries are essential and must be taken into consideration to secure a holistic corporate governance approach. As the previous debate showed, some of the topics are easier and others are more challenging to manage from distance and lead towards different intragroup management approaches for each topic. While in certain cases a central management is comparatively easy, e.g. via a central reporting tool, there are other governance topics that are solely insufficient or even not possible to manage from the parent´s oversea headquarters. In such cases, parents concentrate to rather formulate management standards than the concrete topic to secure a common intragroup management approach.

The instruments for each of the seven focus topics have to be regularly reviewed and be adjusted to group-internal and external changes. The responsibility for the topicality, correctness, completeness and quality of the intragroup governance instrument stays with the consolidating risk owner function in the parent. This approach secures a close alignment between the consolidating group functions and the local counterparts, and it is the starting point to achieve a group-wide consolidated view on all corporate governance related risks and weaknesses.

It provides the opportunity to derive recommendations for actions individually for each subsidiary and it improves the acceptance for the management model if the different local functions are closely involved.

As from now, the first two parts of the management model have been introduced, I will complete the model in the next subchapter with the standardized measurement and evaluation methodology.

6.3.3 Part 3: Standardized measurement and evaluation methodology

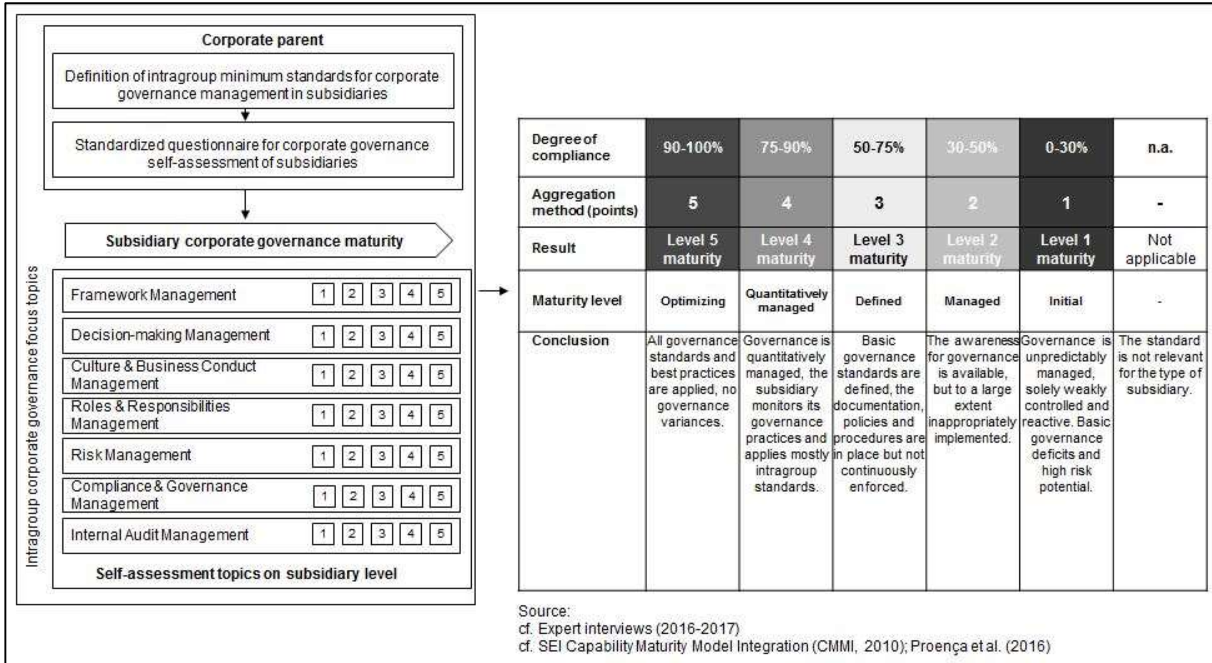
A regular governance maturity assessment enables the parent to gain a better understanding of how the subsidiaries manage their local corporate governance within the intragroup context. While the results of the assessment itself can already be used as a crucial intragroup governance management instrument, a regular self-assessment further demonstrates to external stakeholders (e.g., supervisory authorities) the management awareness for a consistent further advancement of the intragroup corporate governance.
Therefore, intragroup (minimum) standards on how the different governance focus topics have to be managed on a local level and with the help of which instruments are a basic prerequisite.[324] All consolidating group functions have to define, within their ordinary governance role for their area of responsibility, the intragroup governance standards that have to be met by the subsidiaries and monitor their local implementation (e.g., the parent's consolidating risk management function is responsible for monitoring the subsidiary's risk management functions). A CoC should be mandated to consolidate the multiple results of the monitoring activities to secure a comprehensive overview of the subsidiaries, to assure a regular management reporting and to guarantee a continuous further development of the model.
Intragroup minimum standards for the instruments and governance focus topics form the foundation to secure a common understanding and clarify the expectations of the parent's management body towards its subsidiaries. Only if standards and instruments are defined, transparent and implemented, they can be regularly measured and evaluated.

Practical implementation in an intragroup context
The implementation stage of the standards and instruments can be regularly measured and evaluated by a self-assessment with a standardized questionnaire. Such a self-assessment approach enables the parent to get a comprehensive 360-degree view on the corporate governance maturity of each financial services subsidiary. It has to be ensured that all minimum standards are covered within the questionnaire to assess the degree of compliance with the intragroup minimum standards. Depending on the coded average values of the provided answers (either yes / no / not applicable) it is possible to get an aggregated indication of the maturity level of each subtopic, which in sum provide a comprehensive overview about the subsidiary's corporate governance maturity.

[324] The management of subsidiaries via minimum standards is often applied approach within multinational companies. The foundation for the definition of the minimum standards are usually the home country requirements of the multinational group (cf. Clark & Brown, 2015).

The self-assessment of the subsidiaries has to reflect the current as-is situation. The risk has to be avoided that the reported self-assessments rather reflect a desired future oriented target state than the current situation, which would lead to an inaccurate overview within the parent entity.

As the overview in Figure 29 on the next page illustrates, it is possible to draw different conclusions from the reported results of the subsidiaries self-assessments. Depending on the calculated degree of compliance (average sum of the provided answers), it is possible to classify the maturity levels and severity of the identified deficits to draw appropriate consequences for required management actions. I point out that it is also possible to include an additional weighting of the different sub measures e.g. in accordance to their risk potential or their importance for the entire group.[325] However, for simplification reasons, I recommend to aggregate the results in a first step via the calculation of the average sums and to ignore an additional weighting of the relevance according to a risk-based approach. I apply the well-known and internationally accepted maturity classifications (level 1-5) of the Capability Maturity Model Integration (CMMI), which is a group of reference models for different areas, but especially used for the identification of organizational strengths and weaknesses and the identification of respective improvement measures (CMMI 2010, Proença et al., 2016).



Degree of compliance	90-100%	75-90%	50-75%	30-50%	0-30%	n.a.
Aggregation method (points)	5	4	3	2	1	-
Result	Level 5 maturity	Level 4 maturity	Level 3 maturity	Level 2 maturity	Level 1 maturity	Not applicable
Maturity level	Optimizing	Quantitatively managed	Defined	Managed	Initial	-
Conclusion	All governance standards and best practices are applied, no governance variances.	Governance is quantitatively managed, the subsidiary monitors its governance practices and applies mostly intragroup standards.	Basic governance standards are defined, the documentation, policies and procedures are in place but not continuously enforced.	The awareness for governance is available, but to a large extent inappropriately implemented.	Governance is unpredictably managed, solely weakly controlled and reactive. Basic governance deficits and high risk potential.	The standard is not relevant for the type of subsidiary.

Figure 29: Practical self-assessment approach for intragroup corporate governance management.
Source: Own illustration.

In cases where subsidiaries fulfill the aggregated minimum standards (e.g. >90%), it is expected that there is no maturity gap to internal and external requirements and that there is no need for management action. A fulfillment of e.g. 75-90% of the defined minimum standards indicates that governance is quantitatively managed and that the subsidiary monitors and proactively manages its governance practices, which lead to small governance variances of the centrally defined standards and can be

[325] Possible indications about relevant issues that should be taken into account to evaluate the criticality of the instruments are debated in subchapter 6.3.1.

adequately solved by the locally responsible subsidiary function. A degree of conformity between e.g. 50-75% indicates that the basic standards are defined and the required documentation, policies and procedures are implemented, but not continuously enforced. This bears a moderate risk potential and may have negative effects on the management of the affected focus topic and requires the attention of the local management body to define appropriate countermeasures. The maturity level 2 (fulfillment of e.g. 30-50% of the minimum standards) implies that the awareness for the topics is available, but the intragroup instruments and defined standards are to a large extent inappropriately implemented. Consequently, there is the likelihood that the respective governance focus topic cannot be adequately managed and needs the attention of both, the local management and the consolidating group function. Governance areas with the maturity level 1 (e.g. 0-30% compliance with the governance standards) bear a high risk potential and imply critical governance maturity gaps. Those identified deficits require immediate attention of the parent´s senior staff (e.g. divisional head) and imply the necessity to send e.g. governance specialists from the parent to secure prompt implementation of the defined intragroup standards and perform adequate local training activities. In such cases the governance focus topic is unpredictably managed, only weakly controlled and reactive, and it indicates basic deficits and bears a high-risk potential. Taking into account the various natures of the subsidiaries, diverse business models and different levels of national laws and regulations, there also has to be the opportunity for the subsidiaries to signal that the requested minimum requirement is not applicable for them.

This assessment methodology enables the parent to create a holistic group-wide overview of the corporate governance maturity of their subsidiaries. Furthermore, this approach ensures that the parent's management body receives a consolidated and fact based overview of the overall corporate governance maturity situation of its wholly owned financial services subsidiaries. At the same time, it provides the management body with the needed transparency of the situation in their particular area of responsibility on subsidiary level. It also enables the risk owners to gain a holistic oversight of key topics in their action scope and respective need for action.

After the introduction of the last element of the corporate governance management model and its practical measurement and evaluation, I will discuss the introduced corporate governance model in its entirety in the following subchapter.

6.3.4 Evaluation of the corporate governance management model

The introduced management model illustrates an adequate approach how parents can evaluate, manage and steer their subsidiaries and simultaneously get a **holistic overview** of the intragroup corporate governance maturity of the group. Furthermore it also helps parents to derive conclusions about the effectiveness of the intragroup governance instruments, their effects on local level and whether and how they are applied within the subsidiaries.

The transparency about all the defined focus areas itself can already function as **early warning indicator** of where efforts need to be intensified. The model is also crucial to derive and prioritize the relevant imminent management measures on group level, with a risk-based approach. The gathered in-

formation from this model also provides a relevant information source for the annual corporate **audit planning** among the subsidiary network.

The management model can be further applied for **the intragroup target setting** and is an appropriate instrument to demonstrate the areas of improvement over time via the regular reporting of the made self-assessments. This approach enables the organization to identify and prioritize needs for action, depending on the severity of the identified governance deficits or local variances. This model can be used as a fixed component in the yearly evaluation process and target setting of the subsidiary's management bodies to balance e.g. a too strong focus on sales or financial KPIs which could favor misguiding behaviors.

While the applied **self-assessment approach** of the subsidiaries increases the acceptance of the overall results and fosters the comprehensive understanding, it also bears some risks. There is no doubt, that if the same functions that are responsible for the respective focus topic or the implementation of the particular instrument on a local level, are also responsible to report results, this practice increases the likelihood to get reported results, which may tend to not reflect the current situation. Thus, it is required that there is a clear communication about what is expected from the subsidiaries within the particular assessment topic. Regular on-site visits to make plausibility checks can mitigate this risk, but also a high likelihood that the corporate audit department checks the reported results. Intra-organizational trust is of great importance and should be regularly promoted by the top management and fostered by adequate training activities. However, there is no doubt that, if the subsidiary is willing to ignore the intragroup standards there will be enough possibilities to do so in future.

Another benefit of this model is the availability of a proper documentation. This model can be applied as **documentation proof** to verify that the members of the parent´s management body fulfill their duty of care obligations for their subsidiaries against external supervisory authorities, the investor base and other external stakeholder groups.

The introduced management model is agile and carefully **balances the field of tension between centralization and decentralization**. This approach provides enough flexibility to consider group-internal and external interests and integrates local specifics regarding culture, regulation, the subsidiary specific business model, the local business environment and other relevant externalities. The model follows a geocentric approach, which involves a careful customization to address local context, while operating within established uniform standards in a group framework to realize synergy effects where necessary and needed. Uniform minimum standards enable the subsidiaries to execute good corporate governance practices and avoid organizational failure in a proactive way while fostering the intragroup knowledge transfer. However, it has to be taken into account that minimum standards solely define the basic requirements that have to be met, but that, especially for subsidiaries in major markets, the fulfillment of minimum standards is simply insufficient. In rather immature markets, merely the fulfillment of the set minimum standards can be challenging and should be kept in mind.

Moreover, I outline that this management model helps to enable, **support and strengthen the first line and second line of defense** and helps to better understand the intragroup governance mechanisms and appropriate governance management instruments.
Another advantage of this management model is that it incorporates crucial, but even today, often ignored elements related to **IT security and governance, information protection or business model specific compliance and governance issues** (e.g. consumer protection), which are becoming increasingly critical in many countries. Any non-compliance within those areas could lead to high financial penalties and reputational damage on local level as well as for the entire group.

Due to the earlier outlined situational dimension of the corporate governance, it is crucial that every organization does not just blindly implement this management model without a **critical pre-assessment** of their organization about other additional topics that bear high risk potential. Such identified topics should additionally be taken into account and any non-relevant topics should be removed to avoid a perfunctory picture, which does not reflect the realistic situation of the subsidiary network.

In this context, I highlight the formerly debated premises to consider the **principle of proportionality**. This secures that the intragroup governance arrangements are consistent with the individual business model, risk profile and reflect the global presence to make sure that the objectives of this governance management model are effectively achieved and sufficient. Appropriate indicators that provide guidance are e.g. the size of the consolidated balance sheets and of the individual subsidiary, the legal construct of the corporate group and its consolidating parent entity, the geographical presence and the size of the local subsidiaries or the fact whether the parent or the subsidiaries are listed at the stock exchange or not. Moreover, the type of business license and authorized business activities and services, the underlying business model and thereof derived strategy, the nature and complexity of the performed business activities, the customer base (e.g. retail, corporate, public), product complexity and organizational structure have to be taken into account. Moreover, the risk strategy, the defined risk appetite and the risk profiles or the outsourced activities and existing IT systems can provide indications for the appropriateness of the model design and its implementation (cf. EBA, 2017d; 2017e). For instance, if an automotive financial services organization is ranked by the European Central Bank as a *'Group of Institutions'* or is classified as a '*significant institution*' (due to its balance sheet sum), this may imply that the parent has to put much greater emphasis on their risk management and other internal control functions.[326] Organizations that only act as financial intermediaries may have to concentrate more on the business frontline compliance (first line of defense activities).
I point out that this model so far aims at **wholly owned financial services subsidiaries.** Nevertheless, it can be also adjusted to e.g. joint ventures or listed subsidiaries, but, taking into account the corporate governance definition of this dissertation, it should not be blindly applied to other organizational forms.

[326] The European Central Bank lists five 'groups of institutions': Monetary financial institutions, investment funds, financial vehicle corporations, payment static relevant institutions, insurance corporations (cf. ECB, 2018). 'Significant institutions' are defined in Article 131 of the Directive 2013/36/EU: Globally systematically important institutions and other systematically important institutions and, other institutions determined by the national authority or national law, based on assessment of the organizations size and internal organization, their nature and scope and complexity of their business activities (cf. European Parliament, 2013).

The different instrument clusters illustrate the broad instrument heterogeneity. While there is no doubt that each of them is important to secure the intragroup governance, I also define relevant selection criteria on how corporate groups can identify suitable instruments to achieve the desired effects.
This management model should not be recognized as opponent to existing approaches, but rather as supplementing element to bridge existing intragroup governance management variances and to connect the dots to get a holistic overview of the governance maturity. Even today, most of the corporate parents solely manage their subsidiaries via centrally defined targets, yearly budgeting, quarterly financial reporting or the balance scorecards. The herein introduced management model provides an additional management and steering instrument. The model focuses not solely on one isolated topic, but rather takes into account the complete intragroup complexity and draws a comprehensive picture to assure a 360-degree view. While this reduces the overall risk potential and management liability, it contributes to the intragroup value creation in terms of a greater innovation capacity, sustainability, organizational performance and finally an increased competitiveness, in a long-term perspective.

6.3.5 Results of the group examination

In the course of the applied Delphi methodology and on the basis of the gained results of the second interview round, I decided to perform another group discussion among the experts to discuss the final management model. I was able to coordinate a workshop with five of the experts of the first two interview rounds that lasted in total around one hour.
The group discussion confirmed the introduced management model and suggested evaluation approach. One expert addressed some concerns about the size of the questionnaire; while the others found that this is actually rather beneficial to understand in detail the underlying governance mechanisms and possible management instruments.
The expert group made clear that it is important to take into account the principles for corporate governance of the Basel Committee for Bank Supervision and the latest EBA Guideline for internal governance. The experts outlined the necessity to make sure that whistleblowing and project governance topics are addressed. Particularly one expert mentioned that it is beneficial that the risk management topics specifically reflect the risk types which are important within the automotive financial services business, even if they are not congruent with the suggested risk allocation promoted by the scholars.
In line with prior interviews, the expert group highlighted again that the achievement of the desired effects largely depends on the social dimension, such as the corporate culture, business conduct and risk culture, integrity topics and leadership issues. For example expert 5 summarized "...*I think another increasingly important topic is the management of the soft topics – the corporate culture, business conduct and risk culture, integrity topics and leadership. Those are for me the main reasons of many corporate failures in the past and require much more emphasis to secure the effectiveness of the governance mechanisms than in the past*."
Particularly one expert recommended to define some indications for multinational groups on how to use this model and outlined that it would be beneficial to give some statements about the overall effectiveness in practice. I confirmed this and outlined that there is a detailed explanation on how to apply

this model. I accepted that it would be beneficial to test the model among subsidiary networks, but emphasized that this would go far beyond the current scope of this research project and would require a long-term study among multiple subsidiaries that is not yet possible.

By now, the overarching goal of this dissertation, the development of an appropriate corporate governance model for financial services subsidiaries has been achieved. In the next chapter, I will go one-step further and I will debate in sum my drawn conclusions for major success factors and challenges for the intragroup corporate governance management of subsidiaries.

6.4 Success factors and challenges for the corporate governance management

Based on the gained knowledge within the literature review and the qualitative research made for this dissertation, I summarize and conclude in this section the lessons learned regarding the identified success factors and challenges of the intragroup corporate governance management in multinational automotive groups.

In complex multinational corporate groups, it is of great importance to have a **tripartite organizational structure** to secure lucency, a clear separation of duties from the parent´s management body, a divisional manger (e.g. Head of Financial Services) and the local subsidiaries. In group structures with different business models it is a major challenge that the financial services business in particular is strongly regulated and supervised by external bank authorities. In certain areas it even has to fulfill in stronger requirements than their corporate parents themselves. This underlines the necessity for tailored management approaches. Despite this, until today there are only fragmented principles defined which provide guidance for how the intragroup corporate governance should be adequately managed.[327]

In multinational groups there are **multiple management systems** in use that altogether aim at securing intragroup governance. While some instruments are comparatively easy to implement and enforce, there are others, such as the cultural control management instruments, which require time to develop. Even if all those instruments are in place, there is no guarantee that they will have the wanted effects. The effectiveness of the instruments largely depends on their implementation, the management of their interdependencies and the awareness of the local senior management.
The previous examinations demonstrated that for some topics a more central and for other topics a more decentral management approach fits best. Multinational groups respond to this and use a mix of different methodologies, tools and instruments. Although this favors opacity, it is the only approach for parents to secure a holistic management of their subsidiary networks.
Especially for topics with a high-risk potential for the entire group, management liability, or topics with a high criticality for the automotive brand and its reputation, it is considered as appropriate to provide strong guidance, monitoring and control of the subsidiaries out of the parent’s headquarters.

[327] Some general guidance for intragroup governance management provides e.g. the BCBS (2015) and the EBA (2017a).

The **diverse nature of financial services subsidiaries** is a key challenge and makes a single approach for governance management impossible. One of the major strains are the diverse subsidiary structures that may lead to problems if the governance practices of the corporate parent and the subsidiary to not fit together. The blinkered implementation of different governance structures may prevent both, the subsidiary and the group as a whole of achieving their objectives. This could create considerable risks and a superficial compliance culture.
Another major driver of complexity is the heterogeneity among subsidiaries. The complexities arise out of different owner structures (e.g. wholly owned, mixed-ownerships/joint ventures, listed subsidiaries), which largely depend on the individual growth and expansion strategy of the corporate group (e.g. M&A, Greenfield, joint ventures), the market environment, economic and political risks, taxation as well as regulation issues in the respective target countries. In some jurisdictions only foreign bank subsidiaries are allowed, in other jurisdictions branches are also allowed and in others again, banks have to be listed and have to follow the stock market regulations with clear rules for corporate governance. As opposed to branches, many host countries prefer subsidiaries, as they are locally registered legal entities and are supervised by their local authorities and ultimately under the applicable host country regulations. Branches are usually regulated and supervised by the authorities in their home country, although some regulators already started to introduce different concepts. Embedded in such different market forces, it is difficult for multinational groups to secure lucency and to allocate suitable management approaches to take into account all the various externalities affecting their subsidiary networks.
Closely related to this are challenges, which arise from the different **sizes and levels of complexity of the subsidiary networks**. Most multinational groups have hundreds of heterogeneous subsidiaries in numerous countries and the sheer number is simply too complex for them to oversee. Many of them struggle to secure up-to-dateness and compliance with both, locally binding governance requirements and group-internal governance requirements. Such complexities and inter-relations significantly contribute to risk, as governance and its monitoring gets more difficult.

The **different stages of development of legal and regulatory frameworks for corporate governance** around the world also hinder implementing one single management approach for all subsidiaries to secure oversight. The deviating provisions can be only met if they are largely managed by the subsidiary itself in the respective host country. Nevertheless, in order to secure a certain level of alignment and transparency the parent company should carefully **define, implement and monitor** designed **uniform standards** that have to be met, as long as they do not contravene local laws and regulations. Even if this means that there will be subsidiaries which have to meet even stricter requirements than their local supervisory authorities expect of them, it helps to mitigate the overall risk potential for the group, increases its organizational alignment and efficiency and leads to greater lucency.

The **different levels of board autonomy and independence** between the different countries are also a challenge for a group-wide internal governance management. In many countries, there are clear tendencies of the regulators to prefer greater board autonomy and independence.
Many supervisors favor autonomous and independent boards, which is a field of tension and dilemma. The parent´s management boards have a clear obligation to define, control and manage the group-wide risk and business strategy. At the same time, those are clear tasks and duties of the subsidiaries, and it is often critically questioned by local authorities how subsidiary boards can influence this intervention in favor of the local organization and their independency. What kind of level of centralization is too much and how is it balanced with the local responsibilities? The achievement of the right balance between central control and local autonomy is challenging and has to be carefully designed, which in turn makes one single approach for the management of corporate governance among the entire subsidiary network critical.

Different business models also lead to much greater complexity within the intragroup corporate governance management. Multinational groups have different business divisions with different business models and require an **either more centralized or decentral approaches,** which make a single group-wide governance management very complex. Different business models culminate in different governance structures and practices. Decentralization often means more independent governance structures, with e.g. autonomous boards, independent directors, own strategies and risk management approaches. Centralization is usually associated with close alignment of the subsidiary and the parent´s headquarters as well as predefined governance measures. Even if this concept is in many cases preferred by the parent, it is often criticized because the subsidiary's management bodies only execute the instructions from their parents and focus solely on implementing their decisions. The executives of the parent companies are usually nominated as chairs, which makes an independent judgement questionable. They have in most cases only limited local market expertise and no understanding of the local culture, language, or business environment. Consequently, it is a challenge within a group wide corporate governance approach to observe the differ expectations of the supervisors and those of the parent´s management body and the local subsidiaries. For the most multinational groups the local management bodies are recognized as instrument to secure that their centrally defined measures are implemented and considered. In contrast to this, the national regulators expect from the subsidiaries that their governance practices follow the same standards as autonomous companies. Even if subsidiaries never act completely independently, it is a challenge to define individually which measures improve the subsidiary governance and risk management in a group context, while also meeting the regulator´s expectations of home and host country. Parents will never support a complete standalone governance in its subsidiaries, as each member of the parent´s management body has also to fulfill legal duty of care obligations regarding the subsidiaries.

Even if it is outdated, it is simply true that a ***'one size fits all'* approach** is not possible. Due to this reason many corporate groups follow **the subsidiarity principle**. This means that the corporate parents define central governance standards for certain governance key topics, while for other topics a clear local responsibility is defined. The prior debate made clear that it is a crucial success factor to

follow the **principle of proportionality** and **a general risk-based approach** to identify the most critical focus topics out of the parent´s perspective.

Another crucial success factor is the stringent implementation of the **Three Lines of Defense** as a comprehensive and flexible management instrument to clarify the different roles and responsibilities of the different functions and its intragroup segregation. Even if this concept also has some weaknesses, it is still beneficial, highlights the independent control and supervisory function and combines it with the subsidiarity principle.

A problem of the intragroup governance is that situations may arise, in which the local management bodies are challenged in regard to their loyalty towards the corporate parent. In practice, there can be **conflicts of interest between the parent company and the subsidiary**. In some countries, the company law clearly defines that the members of the management body have to make their decisions in the best interest of the subsidiary or even of its shareholders. Consequently, there can be situations where the subsidiary management bodies have to act against the interest of their parent company if it would affect the subsidiary in a negative manner.
Such conflicts can arise within the human resources management, when e.g. the corporate parent is responsible for the hiring process in the subsidiaries and decides centrally about the nomination of local executives or key function holders, which might be more loyal to the parent than to the needs of the subsidiary. It is challenging to define the boundaries for loyalty and to balance between the subsidiary as part of the multinational group and as an independent entity with obligations, which can also follow contradictory interests. To create this awareness, there should be regular trainings for the executives on how to handle situations with such conflicts of interests.

Another critical issue is that in particular bank subsidiaries have **numerous stakeholders,** which have key roles for the economy. It is necessary to question, within the design of subsidiary governance management, to whom such bank subsidiary boards have to own their loyalty. Banks in general are highly regulated due to their economic and social role and also have to consider various other stakeholder interests (e.g. government, debt holders and depositors): The management bodies of bank subsidiaries have a legal obligation to consider their stakeholders interests equally to the interest of their corporate parent. There are limitations regarding the level of protection, and the subsidiary's management bodies carefully have to balance between the various interests and require guidance for their decision-making procedures.
Equally, the consideration of other social movements (e.g. trend to whistleblowing) and stakeholder groups which are not an ordinary part of a corporate governance system (e.g. media) becomes increasingly critical within the intragroup decision-making and requires clear alignment procedures to mitigate the increased risk of reputational damage.

Another critical aspect is the **subsidiaries boards' role within the strategy definition**, as this is generally seen as one of the most important functions of the highest ranked management organ. In corporate group structures, it is defined by the management body of the parent company and has to

be implemented by the lower hierarchy levels. Strategy implementation has far-reaching implications for many management tasks, such as e.g. risk planning, staffing or investment decisions.
Even if from a legal perspective the subsidiary management body is the highest ranked management organ, its action scope within the group structures is comparatively low. The parent´s management body usually requests the subsidiary management bodies to implement their defined strategic policies but not to create their own strategic initiatives, which is often contrary to the regulator´s views who prefers a local strategy setting within the subsidiaries. Another critical issue is that members of the subsidiary management bodies often lack experiences in strategy formulation, because they are usually rather operationally orientated within their daily business. Despite this, there is no doubt about the necessity that the parent maintains control of the group strategy to avoid misalignment and misinterpretation within lower hierarchies. This implies the challenge for subsidiary management bodies concerning their expected role within the strategy formulation. I argue that the subsidiary's management bodies can overcome this challenge if they are proactively engaged within the strategy development on group level (e.g. via feedback loops), to secure that it is sound and practical in a local context and that they are not only recognized as pure execution functions.

The **target setting process** and its **target evaluation** of subsidiaries is closely linked to the above-mentioned strategy topic. In many multinational groups the increased global competition resulted in a prioritization of profitability and financial performance targets. Even though this was a major reason for the latest financial crisis, companies have still defined merely insufficient **and partly high-level compliance and governance** targets as adequate corrective measure. Even if this is getting ever more important for supervisory authorities, organizations are still struggling to implement appropriate target schemes and transfer them to the individual compensation packages of their senior staff that incentivizes such behaviors. There are obvious concerns that too much emphasis on compliance and governance topics could also result in losing business. However, it should be of great interest of all executives to reduce their management liability and minimize reputational risks of the entire corporate group. For this purpose, the developed management model provides great value to demonstrate how parents can incentivize good corporate governance practice.

The **expectations towards independent directors** to put greater emphasis on integrity, objectivity and independency within the corporate control, are another challenge within subsidiary governance management. Many new or revised hard and soft law initiatives are putting a greater emphasis on those topics. Independent directors have to steer potential conflicts of interest, identify potential excesses of the management, safeguard interests of minority shareholders, and require in-depth local market knowledge and specialized skills towards the subsidiary while also having diplomatic skills to manage conflicting issues between the corporate parent and the subsidiary. In some national regulations, it even seems that they should take over a certain pseudo-regulatory responsibility and steer the bank according to a regulator´s perspective. The fulfilling of all such requirements is difficult and in fact unrealistic – especially regarding the ordinary case of one or at the most two independent directors in the subsidiary boards. However, as the independency and objectivity of such directors in subsidiaries is a much-discussed issue, I argue that in a subsidiary context, the focus lies not on the formal inde-

pendence but rather on the capacity of the directors to challenge decisions in an objective manner. Corporate groups can solve this challenge by defining clear selection and nomination procedures for such independent directors.

Another challenge in this context is that **subsidiary boards have to meet the national legal and regulatory requirements for the design and composition of boards** (e.g. regarding board size, nationality, fit and proper test, independency, directors' profiles) that are initially defined for standalone companies in the host countries. The subsidiary boards have to fulfill such requirements even if they seek a different director's profile from those of independent entities. Subsidiary management bodies have to primarily focus on compliance with the group strategy and intragroup policies, ensure effective controls and risk management on a local level and also require implementation competencies. The corporate parent would never nominate directors, which challenge their centrally developed arrangements or favor the interests of the subsidiary over those of the parent when conflicts arise. On the contrary, some countries require local representatives in the boards to secure market proximity. This makes it difficult for parents to send expatriates to the subsidiaries, which are a crucial intragroup governance management mechanism and essential for the intragroup knowledge transfer or which are in some cases simply required to overcome the lack of experienced managers in the host country location.

An often-underestimated factor is the **collaboration between the different boards** within the hierarchical group structures. It is crucial that there is a clear segregation of duties, regular formal and informal alignment between the chairs of the boards and a balanced, collaborative partnership on eye level based on trust. It is essential to consider that **intragroup reporting relationships** also influence the behaviors of the board members. In many cases, the subsidiary management board members have reporting relationships to other managers within the group network, which may have to decide, e.g. as member of the supervisory body, about their personal performance evaluation or variable remuneration. This could result in biased positions in discussions or inhibit communication of concerns in an open and trustful manner. It seems appropriate to make regular evaluations of the environments of both, the boards on subsidiary and parent level, and to implement an intragroup nomination policy and interests of conflicts policy to avoid such constellations. All appointed boards within the group have to regularly analyze if their board composition is best suited to address their needs. Regular training activities for the board members and new candidates regarding subsidiary governance challenges help to ensure that they have a clear understanding of their roles.

Particularly the **intragroup decision-making systemization** with aligned committee landscapes is a crucial governance instrument. While there are often predefined **expert committee landscapes** to increase alignment and prepare the intragroup decision-making, this is also associated with a lot of administrative efforts. However, it can be critically questioned how beneficial such expert committees are, if they usually have neither official decision-making competencies nor much leeway regarding the design within the group framework. Despite this, they are a crucial governance instrument to improve the decision-making quality, even if their composition and the competencies have to be clearly defined.

Sub committees of the subsidiary's supervisory body (e.g. audit, remuneration, and risk or nomination committees) are also critical bodies that have to be taken into account. Like the expert committees, such committees should increase the quality and transparency within the decision-making. However, it is still a matter of debate if such sub committees generate additional value. Even though many of the topics – like the remuneration or nomination of local board members - are decided within the parent and imply that such committees are obsolete, a local audit and risk committee with certain independency could add value. They can support the consideration of the corporate parent´s interests, even if they often feel confident that they can fully execute their obligations via the existing reporting and control mechanisms.

Another critical issue is the **selection and nomination procedure** of the **external auditor.** The parent usually prefers the same external auditor within their subsidiary network to secure a better alignment and consistency. Contrarily however, the selection and nomination of the external auditor is a clear responsibility of the supervisory body or, if implemented, the audit committee, and has to be decided independently from the parent. Due to the different meeting schedules and the fact that in many countries, such as India, official representatives of the supervisory authorities participate in meetings of the supervisory body, it can be challenging to manage an aligned nomination procedure of the subsidiaries and the parent. Parents prefer global presence of the audit firms among their subsidiaries, combined with diverging national regulations for the rotation of the external audit firms; it requires great alignment efforts and indicates only a very small pool of recurring applicants for the external audit activities. This can also be critically questioned from an external point of view.

Also, **regular evaluations of subsidiary boards** can play a crucial role to create awareness and contribute to greater group-wide subsidiary governance. Although subsidiary board evaluations are only legally required in some countries, it is an effective tool to assess the board´s governance practices. Subsidiary board evaluations should target the internal functioning, but also the group internal and external framework conditions, as well as the communication towards the parent or authorities. Yet, the results should not be shared with e.g. the public or the supervisory authorities, to avoid too optimistic evaluations that may not reflect the real situation.
Parents should promote such evaluation approaches predominantly as internal tools within their subsidiaries. If subsidiaries are required to execute internal evaluations and if they only have to disclose that they have executed them, it will support them to better identify governance weaknesses. A right "*tone of the top*" communication of the parent´s management body can support the subsidiaries and their boards to take the evaluations seriously.

Another key driver is the implementation of a **group-wide internal control and risk management framework** that secures clear responsibilities, appropriate and independent risk management, compliance and internal audit functions with the required authority and resources. It has to be carefully balanced between the central oversight and local accountability. Consolidating control functions on parent level have to secure a group-wide transparency and understanding of risks, which has to be complemented by adequate control measures and local control functions within the subsidiaries.

The effectiveness of risk analysis and control relies largely on local knowledge and involvement. The subsidiary management bodies should contribute to internal control and risk management by securing that the central risk policies are modified and group requirements are contextualized. In addition, they have to ensure that the ultimate responsibility and accountability for risk management and control stays on subsidiary level. The local management bodies have to announce dedicated compliance and risk officers and should develop their own (compliance) risk assessment that relies on both, local and group-wide information, and that shares the results with their consolidating counterpart function within the parent.

To additionally foster a bottom-up approach within corporate governance management, there should also be appropriate **internal alert procedures** in place. Employees should have the opportunity to report governance and compliance breaches e.g. via an anonymous whistle-blowing hotline. To be effective, it has to be ensured that the persons who report breaches are appropriately protected from any negative consequences (e.g. discrimination, unfair treatment). The multinational group has to make sure that no person engages in victimization of those employees. Equally, I argue that there should also be intragroup measures, which protect reported employees from any negative effects, even if the investigations can prove that there was fraudulent behavior.

Another crucial key element is a **group-wide governance network** between the governance functions of the subsidiaries, to encourage best practice sharing and information exchange. A regular target-oriented **communication and training** of governance topics is of great importance. While this helps to mitigate the intragroup opacity within the subsidiary network, it improves alignment and consistency and thus reduces the agency costs for the parent. Even if this seems to be obvious, it requires continuous efforts from the parent to implement platforms to foster the intragroup collaboration and to avoid silo thinking.

Moreover, the integration of the **appropriate (IT) infrastructure** is another, so far ignored, or at least undervalued enabling element to secure an efficient and effective intragroup management. All in all, this key driver serves as both, the basis as well as crucially binding element for a professional management and monitoring of corporate governance among decentral organizational units.

Joint corporate core values and a **mutual understanding of leadership** are also critical, but often underestimated aspects of a successful corporate governance management. Multinational companies have to balance a common group-wide corporate culture and supplement it with specific elements of the subsidiaries and the national cultures of the host countries. However, the sharpening of a common corporate culture cannot be delegated top down and requires supportive leadership styles among all hierarchy levels. On the one hand, a common corporate culture provides guidance and can close existing governance gaps. On the other hand, a value orientated leadership concept with the right "*tone at the top*" is a prerequisite for promoting values like integrity, trust or transparency as a fundament of an integrated and pro-active, bottom-up driven corporate governance approach and indispensable for the effectiveness of the introduced management model in the previous chapter 6.3.

An **intragroup system for the governance tracking** of the subsidiaries helps to monitor local governance practices and secures a group-wide standard. This supports assuring that subsidiaries consider group internal governance policies as well as local host country governance requirements. Web based solutions can provide real time information, reduce complexity and help to meet the expectations of the supervisors. That is why a **Center of Competence** on parent level can help to professionalize the internal corporate governance coordination.
A *Chief Corporate Governance Officer* as permanent member of the parent's management body is not recommended to secure its collective responsibility. Despite this, the implementation of a mandatory corporate governance officer within subsidiaries seems to be an appropriate support for their local management bodies to fulfill their governance duties and responsibilities.

Furthermore, another critical aspect is that it is **difficult to quantify the corporate benefits** of subsidiary governance. To increase the acceptance of subsidiary governance, it is crucial for managers to at least understand that governance practices are the prerequisite for the fulfillment of their compliance duties. From a group-wide perspective, it is a major enabler for organizational excellence, creates values and fosters trust, which in sum underpin the group´s overall competitiveness.

Corporate governance management challenges for the supervisory authorities

For the sake of completeness, I outline that my prior work also provides some implications on **how the supervisory authorities can contribute to improve the intragroup governance management**.
Many of the applicable legal and regulatory requirements for subsidiaries are initially designed for their parent organizations and standalone institutes, which are not very effective without adopting them in regard to the individual subsidiary's context. Regulators should follow either the principle of proportionality or a risk-based approach to define requirements, that take into account the subsidiaries nature, size, business model complexity, risk and the parent's context and additionally, which are already promoted by e.g. the latest EBA guideline for internal governance (2017a).
Moreover, as my analysis showed, it seems beneficial to follow a mixed approach of mandatory regulations and voluntary principles to governance, based on the local context and legal culture. I found that there are tendencies of over-regulation, thus regulators should avoid bureaucratic burdens and rather focus on a selective, but therefore effective and efficient governance regulation. I argue that it would be more beneficial to have less, but therefore better-designed regulation initiatives that are enforced by an efficient and comprehensive supervision.
There should be a close dialogue between the supervised entities and the supervisory authorities to help clarify their expectations and support the formulation of more effective governance regulations to avoid poorly designed ineffective regulations. Moreover, this has to be supplemented with a better exchange between the authorities of the home and host countries, to ensure a better view on the individual subsidiary, and the economic ties within the corporate group as a whole. However, a better communication, information exchange and dialogue between the authorities within the host country should also be strengthened to further enhance the quality of the supervision.

As another major purpose of this research project I have identified multiple challenges and success factors in subchapter 6.4, which have to be taken into account within the intragroup corporate governance management. For reasons of clarity, the following subchapter 6.5 illustrates a brief overview of the main results.

6.5 Overview of the main results

After the research questions are adequately answered yet, I illustrate in this subchapter 6.5 a short tabular overview with the key findings of this dissertation. The following Table 6 provides for the focus topics a systematic comparison between the recent view of the scholars on the left, and the results of the expert interviews in the right column:

Corporate governance understanding	
- Most scholars either follow a shareholder or stakeholder perspective, only few researchers follow a broad comprehensive view - CG is often recognized from the perspective of one single research discipline (e.g. law, management etc.)	- Clear commitment to a comprehensive perspective - Different topics, mechanisms, processes and social dimensions of corporate governance (CG) are recognized as package - Consideration of stakeholder and shareholder elements - Industry specific and company-individual definition is crucial to ensure its effectiveness - Leadership, integrity and corporate culture play a key role for the acceptance in the daily business
Corporate governance phenomena	
- Most scholars base their research on existing theories, which have shortcomings to explain the complexities of the real world - Existing theories explain the CG phenomena solely from one single perspective - Most research applies to a large extent quantitative research methods to explain the CG phenomena	- Perception that scholars have limitations to explain the multi-dimensional CG phenomena - Inter-human relationships (and e.g. integrity topics) are crucial key drivers, difficult to regulate from outside of the organization → HR development and recruiting of the right people is of great importance - Intercultural differences are often not considered
Relevance of subsidiary governance	
- General assumption that CG generates additional value for the firm and the society - Indications that intragroup corporate governance improves competitiveness, innovation, sustainability, leadership and organizational performance - Only fragmented research about corporate governance of subsidiaries available → intragroup corporate governance research is still underrepresented	- Intragroup CG is mainly driven from external pressure - CG primary perceived as legal obligation - CG is recognized as risk insurance, not only as crucial enabler for relevant key drivers (i.e., more profit, competitiveness, innovation readiness etc.) - There is a high management attention, because this topic is directly linked to their management liability → governance tracking and documentation plays a crucial role - Professional CG of subsidiaries gets increasingly important → Prerequisite for the corporate parent to comply with CG standards and to fulfill its legal obligations

Corporate governance regulation	
- Different national and international legal and regulatory initiatives to improve CG of stand-alone entities - Comparative research on the one and two tier board systems in multiple contexts - Since the financial crisis, there are numerous initiatives aiming to improve CG in stand-alone banks - Intragroup subsidiary governance is still ignored to a large extent (except e.g. in the revised Basel guidelines for CG in banks)	- Existing standards are often theoretical and address technical issues (e.g. number of board members), but ignore practical questions related to the daily business - Problem that national and international standards are often vague and in some cases even contradictory in terms of group governance (e.g. tax regulations, retention periods) - Corporate governance of subsidiaries is a focus topic of regulators and supervisory authorities although clear guidance is often missing (e.g. in the case of risk culture)
Intragroup corporate governance management topics	
- Extended research of single, often isolated CG topics (e.g. remuneration, board composition, risk management, external audit etc.) - Dependencies and interrelations between CG topics and mechanisms are often ignored or inadequately considered - CG scholars currently ignore important CG topics (e.g. data governance, IT governance etc.) with high risk potential for the entire corporate group - No information about the nomination procedure of external auditors in subsidiaries	- Corporate culture, corporate core values and leadership are the underlying key fundaments for CG - Large consensus about the consideration of new topics related to intragroup CG, such as IT security, data governance, information protection, consumer protection, etc. - Particularly the elements of the framework management, roles and responsibilities and the stakeholder management in the host country are crucial → also the adequate documentation and publication are crucial focus topics - Inter-human and social dimensions in the intra-group context play a key role on how effectively the different CG topics are managed
Intragroup management bodies (parent management board, divisional head, subsidiary boards)	
- Concentration on management bodies of stand-alone entities, only fragmented research on the interaction of management bodies in a group context - Research on the intragroup governance roles and responsibilities of the middle management (e.g. divisional head) and subsidiary boards is partly non-existent or solely rare available - In many cases is uncertainty on how to interpret the role of the different organs (e.g. management and/or supervisory organ) in hierarchical intragroup constructs (e.g. in the strategy development, nomination of directors/ external auditors etc.)	- In-deep information about the different intragroup governance roles, responsibilities and interaction of the parent management board, divisional head and the subsidiary management body - The divisional head plays an important key function → although without legal mandate, but a strong organizational responsibility - Subsidiary boards have to be more formalized, proactive and independent than in the past (e.g. within the strategy development) - Strong influence of (bank) authorities within the nomination of intragroup governance key function holders → Uncertainty about how to interpret "independent" directors in a group context - Particularly in financial services subsidiaries play institutional control organs a crucial role
Intragroup corporate governance management approaches	
- No recommendations whether a central or rather decentralized management approach fits best for intragroup corporate governance management - Most scholars refer towards the Three Lines of Defense Model, despite the fact that scientific investigations are rare	- A common group-wide definition of CG builds the basis - Difficulty to adequately address the specifics of the different tier systems within one management approach and to consider the different levels of regulation in the home and host countries - Three-fold management approach in multinational groups

- Consensus that intragroup governance tracking is needed, but without further recommendation for the implementation - No research about how to integrate new technologies	(strategic, operative and subsidiary governance dimension) is usual practice in multinational groups - CG management follows the subsidiarity principle with a risk-based approach and group-wide (minimum) standards - Parents adopt the Three Lines of Defense Model for the management of their subsidiaries - Multinationals tent to centralize topics in the parent's headquarters, which have a group-wide relevance, and decentralize topics where close market proximity is (legally) required - Parents manage certain key topics rather content wise, in other areas with a high variance between the markets, they focus rather on the management itself (e.g. via predefined core processes) - Communication and training activities are intragroup key drivers for the effectiveness of CG management measures→ intercultural issues are often neglected - A intragroup governance network for best practice sharing and knowledge exchange between the different governance functions is beneficial - Intragroup decision-making procedures and its administration are from utmost importance - Governance tracking and control mechanisms are crucial, but it is difficult to set appropriate targets to avoid misguiding incentives
Intragroup corporate governance management instruments	
- Only limited and in some case even no research regarding intragroup management instruments available - No research regarding selection criteria of appropriate management instruments available - Research from related disciplines (e.g. Malmi & Brown, 2008, management control systems) serves as general foundation - No research about intragroup sanction mechanisms	- Identification of various management instruments which play a crucial role (e.g. intragroup management via outsourcings, blue prints, standards, tools and IT infrastructure, decision-making committees etc.) - Identification of selection criteria for instruments - The effectiveness of instruments depends to a large extent on the prevailing corporate and leadership culture - Consensus that sanction mechanisms that are linked towards the individual remuneration are most effective
(Intragroup) organizational issues	
- Focus on the management and supervisory bodies and its sub-committees (audit committee, risk committee etc.) - No information on the intragroup organizational setup to adequately manage intragroup corporate governance. Solely selected information regarding e.g. the setup of the compliance, risk or audit function	- In financial services organizations are strong governance structures and processes largely predefined by the external legal and regulatory frameworks - Rejection of a chief governance officer on board level, to make sure that corporate governance is a common task - Recommendation for a CoC for CG to support the divisional head to fulfill his governance obligations - Recommendation to install on subsidiary level governance officers and other expert functions as local management support functions - Isolated recommendations to implement corporate governance committees

Intragroup corporate governance management model	
- A coherent management model for the intragroup corporate governance of financial services subsidiaries is non-existent –> solely isolated models for specific topics (e.g. Three Lines of Defense Model, COSO Model etc.) are available - No overview about the relevant CG topics that have to be managed on subsidiary level from a parent perspective - No or solely scattered research on how those CG topics can be adequately managed by which instruments	- Large consensus that a comprehensive overview with the relevant focus topics in a coherent management model is currently missing, but much needed - Request for a cross-functional and coherent management view of all relevant topics in one holistic model - Identification of CG topics which are not explicitly involved in existing CG standards (e.g. business model specific compliance topics, IT security, expert functions, project governance, outsourcings, stakeholder mgmt.) - The intragroup tracking of corporate governance is difficult → Measurement and evaluation of intragroup corporate governance maturity via self-assessment approach is recommended

Table 6: Tabular overview of the main results.

Source: Compiled by the author.

This tabular overview provides a shot overview about the most crucial key findings of this dissertation and the added value of this research project. As from now the defined research questions have been studied in detail and finally adequately answered, I will close my research project with a final conclusion in the following chapter 7.

7. Conclusion

In this last chapter 7, I start with drawing major conclusions based on the main results of this dissertation in subchapter 7.1. I hereafter provide implications for practice and science in subchapter 7.2, and close this dissertation in subchapter 7.3, with some final forward-looking ideas for further fields of research that go beyond this dissertation.

7.1 Summary of the main results

The overall objective of this dissertation was to analyze the corporate governance management in multinational corporate groups with wholly owned financial services subsidiaries and to provide appropriate action recommendations for its management. I investigated the group-internal corporate governance mechanisms, relevant key topics and appropriate governance management instruments in the context of the automotive financial services industry. While financial services subsidiaries play a distinctive role for the business models of car manufacturers to support their vehicle sales, many of them struggle to appropriately integrate them in their traditionally grown group constructs and simultaneously meet the continuously tightened multiple requirements of the bank regulators. So far, the intragroup governance management of financial services subsidiaries is insufficiently studied and only provides scant empirical evidence – while at the same time enjoying a burgeoning interest of multinationals and financial institutes. Given the scarcity of information and lack of clear consensus, it is one major overarching goal of my dissertation to provide guidance at this point, enhance the corporate governance debate in this particular field of management research and close existing research gaps.

This dissertation has developed an advanced corporate governance understanding that goes beyond the sole separation of management and control or the pure financial driven perspective. I expand corporate governance beyond the stewardship and leadership topics and promote a more situational, dynamic and inclusive interpretation, which takes into account leadership systems, managerial control, ownership rights, decision-making structures, processes and legal and regulatory elements. I also consider the rising trend among mangers to put a greater emphasis on the interests of their stakeholder groups (e.g. customers, media, regulators) that are not ordinarily considered in the execution of their governance duties and have no direct ownership of the organization. The prior research has shown that based on the higher probability of whistleblowing or rapid public reporting of corporate fraud on social media, governance topics have become increasingly relevant in the managerial decision-making. In sum, I demonstrated that executives have started to shift their attention from pure profit orientation towards a more sustainability-driven perspective, taking into account not only the profit, but also the people and environment.

While this advanced understanding recognizes corporate governance as a package of multiple determinates, whose effectiveness largely depends on different formal and informal forces, this dissertation has also shown the great complexities that arise to manage it. I have not focused on the traditional agency conflict but shifted my attention on the intra-organizational architecture as well as its alignment and collaboration, by also taking into account internal and external social processes within a multina-

tional intragroup context. This issue has previously not been investigated in such a depth and breadth (cf. Tihanyi et al., 2014). To respond to the specifics and complexities of the financial services business and its strong external requirements, my findings have shown that multinational groups usually implement a **tripartite approach** (i.e. strategic, operational and subsidiary governance dimension) to coordinate the intragroup corporate governance.

At its core, this research contributes to gain a **better understanding of the roles of the executives and the management bodies** in the various organizational processes, the design of the internal governance framework, policies and other practices as well as their role in governance and external processes, including social and regulatory changes and stakeholder engagement. This research also provides substantial insights regarding the role of the middle management (divisional head), the subsidiaries senior staff, and the boards on subsidiary level for the intragroup governance legitimacy judgements and their role as ambassadors of the parent's management board to secure the implementation of a functioning intragroup internal governance framework. At the same time, this research project provides crucial indications on how the middle management and subsidiary boards manage to transfer the set objectives and ideas of their top managers to their local organizational contexts and external environments around the globe.

Likewise, this dissertation also provides a crucial contribution to better understand how corporate governance can be adequately managed in relation to external environmental processes, such as the continuous changing regulatory environment and stronger stakeholder pressures within global value chains and decentral organizational units.

The global dimension of corporate governance has also been a matter of debate and provides beneficial ideas to also enhance this field of research. While the previous research focused to a large extent on the agency relationship between the parent's management body and its owners, I went beyond existing literature insights and focused on the related challenges for their organization and administration activities, arising out of e.g. the autonomous subsidiaries and its autonomous management bodies in different locations. Such constellations without any doubt leverage the organizational complexity and their managerial monitoring and had to be adequately addressed by this dissertation. Equally, this dissertation demonstrated that another challenge for multinational groups arises from their heterogeneous stakeholder groups, including an increasingly global shareholder base and their interactions with local customers, national regulators and authorities or other stakeholder groups. The pressure of such diverse stakeholders leads to different effects and levels of effectiveness of intragroup governance mechanisms, which were also a matter of debate within this dissertation.
In sum, this dissertation illustrates that the pure adoption of corporate governance guidelines - without following the **principle of proportionality** and the fact that there is **no *'one size fits all'* approach** available – not automatically results in an improved corporate governance. A '*situational dimension'* that focuses on the interaction of the multinational groups in internal and external contexts has to always be taken into account. However, the diverse nature of subsidiaries and varying local market externalities are too complex to manage them with a centralized approach from the parent's headquar-

ters. A successful intragroup corporate governance management balances group-wide standards, while ensuring enough flexibility for the local subsidiary boards to adjust them with a so-called '*glocal*' approach and with a strong emphasis on the **subsidiarity principle** within the decision-making. Moreover, this dissertation has also demonstrated that multinational groups adopt the **Three Lines of Defense Model** for their financial services organizations to manage the organizational complexity, ensure clear roles and responsibilities and reduce opacity. The often ignored **social and cultural determinates**, such as an appropriate corporate culture, integrity of the mangers and a supportive '*tone at the top'* in combination with '*walking the talk'* of the top management, are the fundaments for the effectiveness of corporate governance mechanisms. Even if those issues are difficult to assess from outside in the respective overseas headquarters, parents should put great emphasis on those topics, as they can help to bridge existing governance gaps.

To better understand and professionalize the intragroup corporate governance management in the field of tension of global alignment and local responsiveness, I developed an appropriate **management model**. It assists parent companies to reduce governance deviations and intra-organizational complexity, increases lucency, alignment and standardization across the entire corporate group and helps to gain a common understanding of corporate governance topics. It additionally provides valuable indications for the selection of the appropriate instruments to secure the desired corporate outcomes.

The model integrates the multiple intragroup **governance management instruments** that all have different purposes and aim for different things and target groups. Even so, as the analysis has shown, there are in particular six different groups of management instruments, by which intragroup governance gets managed: cultural and administrative governance instruments, outsourcing, planning and cybernetic management instruments as well as reward and compensation schemes. Whereas many of those instruments in themselves already act as independent corporate governance management system, they are most effective if they are not implemented in a stand-alone manner, but rather jointly as part of a comprehensive intragroup corporate governance framework.

In addition, the introduced management model with its **general management** and **internal control dimension** enables the subsidiary's management bodies to improve their own governance practices and helps them to identify governance deficits within their local organization. The introduced model is a comprehensive management control tool and encourages both, parent and subsidiary companies to better understand intragroup governance mechanisms. Moreover, it also provides guidance for parent companies to coordinate and manage their heterogeneous subsidiary landscapes. Hereby, this dissertation also considers comparatively new governance topics, such as information protection, IT security or the handling of customer data across borders, which received none or solely limited attention among corporate governance scholars so far.

The introduced management model enables parents to gain transparency of the governance maturity of their subsidiaries, draw conclusions of the effectiveness of the used intragroup governance instruments, define relevant focus topics and derive appropriate management actions to mitigate the overall risk potential for the group as a whole. In sum, with its holistic approach the introduced management

model overcomes the shortcomings of the recent corporate governance research as outlined at the beginning of this dissertation.

In contrast to past research, that has concentrated on **investigating the isolated effects** of multiple governance mechanisms on company performance, the results of this dissertation go beyond and analyze the combinations of the different mechanisms. Despite the fact, that direct attributional effects of corporate governance mechanisms are difficult to make visible and transferable in practice, the empirical research clearly showed positive implications. I was able to demonstrate that better intragroup governance has beneficial effects on the organizational performance, the innovation capacity and sustainability efforts and leads to a better competitiveness.

Simultaneously, the results of this dissertation highlight that there is still much **effort needed** to further enhance the subsidiary governance **from also a regulators point** of view. So far, in many countries the supervisory authorities do not differentiate whether the local entities are stand-alone companies or part of a corporate group with a powerful parent in the background. This leads to certain challenges for the affected companies, their senior managers and management boards, as there is still uncertainty concerning how to interpret external regulations in the intragroup context.

The outcome of this dissertation provides a fundamental contribution to enhance the intragroup governance management and deepens the understanding of its related mechanisms. By applying the Delphi methodology and numerous open guided interviews with subject matter experts, this research project was able to answer the related research questions in the necessary breadth and depth to secure a comprehensive management model. I feel confident, that the gained results are beneficial for the entire corporate governance community as the following subchapter 7.2 will illustrate.

7.2 Contribution for practice and science

This thesis provides valuable information for practice and science. From a research point of view, this dissertation, with an in-depth investigation of the group-internal corporate governance management, contributes to a better understanding of dedicated mechanisms and practices as a proper foundation for further studies in this comparatively new field of interdisciplinary research.

The past showed that the isolated view on selected governance topics of many scholars and national regulators to improve corporate governance have been insufficient and have so far had only little success, as prominent company scandals and recent management failures still illustrate. In this context the dissertation provides a crucial contribution to overcome this shortcoming of the current corporate governance discussion and introduces an urgently needed management approach which is '***connecting the dots'* to secure a comprehensive view on corporate governance** as an inherent part of general management. I address the critique of academics (cf. e.g., Tihanyi et al., 2014) that many scholars extensively study one particular topic (e.g. remuneration, board structures, risk management) of corporate governance in isolation and ignore examining it in a broader context to consider recipro-

cal effects, underlying dimensions and other relevant direct or rather indirect mechanisms that lead to different effects.

In contrast to others, who form their argumentations on abstract theories with obvious problems to reflect the reality and have only limited value to enhance the corporate governance management in the real world, I went beyond prior research and demonstrated, on the basis of expert interviews, that the reality is often more complex than the underlying assumptions of those scholars often indicate.

This research project also illustrated that the term corporate governance is still in development. I provide an important state of the art contribution for an **advanced understanding of intragroup corporate governance mechanisms**, **relevant focus topics and suitable management instruments**. This dissertation provides valuable insights about the role of the top management, middle management and local senior staff for the effective implementation of corporate governance in multinational groups. While this broader view contributes to the scholars' ability to gain a better understanding of intragroup governance mechanisms, it also stimulates the research discussion concerning this focus topic that has so far received too little attention. Until today, those existing gaps in comprehension avoided an efficient and effective intragroup management approach for many governance mechanisms.

In addition, this dissertation addresses the recent limitations of many corporate governance related research publications, because it **bridges the gap between the theoretical perspective and the practical experiences** by following a qualitative research approach with open guided expert interviews. In this dissertation I comply the request of several scholars (cf. e.g., McNulty et al., 2013; Zattoni et al., 2013; Mat Yasin et al., 2014) to provide more qualitative research to overcome the current shortcomings that cannot be sufficiently investigated with quantitative methods. The applied Delphi methodology provided valuable outcomes to gain a better understanding of the relevant focus topics and respective governance mechanisms that had priorly never been investigated before with the help of this methodology and its related breadth and depth. The unique combination of a theoretic perspective of the latest scientific research results and a supplementing dimension, that makes the implicit knowledge of the numerous corporate governance experts explicit within one management model, creates much value for affected stakeholders.
The promoted situational and holistic interpretation of corporate governance in combination with the chosen qualitative research approach forms a solid foundation for the identification of future research projects and creates new ideas for corporate governance academics, to critically reflect their currently applied approaches with the use of this new perception of corporate governance.

Concurrently this dissertation also provides important **insights for board members on parent and subsidiary level, senior managers, directors, consultants, lawyers, internal and external auditors** within financial institutes and multinational groups about their governance duties, responsibilities and dilemmas in a group context. Even if many managers in of multinational groups tend to centralize

many corporate governance topics, I demonstrated that this is not always preferable and effective; thus, I provide guidance on how to address this field of tension.

In addition, this dissertation involves crucial **information for standard setters and domestic regulators**. My research identifies and debates certain deficits within the legal and regulatory frameworks and provides indications for its further improvement to address the specifics of multinational companies with foreign financial services subsidiary networks.

To sum up, I feel confident that this dissertation provides valuable insights for both, the academics and practitioners from economic, legal and social fields. This thesis draws a comprehensive picture of the complexities and interaction forces of corporate governance management, which is supplemented with a comprehensive overview of relevant success factors and challenges. With this dissertation, I provide a solid foundation for the further enhancement of the intragroup management of subsidiaries. This dissertation is a scientifically sound contribution that can help to overcome the recent corporate governance crisis of public trust against companies in general and its top managers in particular.

7.3 Further fields of research

Even if the issue of how corporate governance affects the corporate success of large listed firms has already been investigated many times, there is still little research available that analyzes the group internal effects on the value creation of the corporate group as a whole. The focus of this dissertation were foreign financial services subsidiaries. However, multinational groups usually also own other types of subsidiary – e.g. sales subsidiaries. It would be from great interest to further study the **interrelations of such a triangular relationship** between the corporate parent, local sales and the financial services subsidiaries within one domestic market e.g. regarding the effects of the intragroup governance mechanisms or from the competition law perspective.

Moreover, there is the need for further research that **empirically investigates the introduced corporate governance management model** of this dissertation to analyze the long-term effects, which was not possible within the duration of this project.
Beyond that, it would be from great interest to study the different effects on the subsidiary governance among multinationals in different industries, with different subsidiary sizes or its implications towards different national cultural backgrounds and host country environments or other social movements.

Additionally, this dissertation showed an increasing relevance of new technologies to manage intragroup corporate governance. It would be of great value for the research community to investigate these phenomena and how **new technologies can contribute to further enhance corporate governance management.** I feel confident that in particular big data analytics, artificial intelligence and a better integration of IT solutions can provide significant contributions for a more effective and efficient corporate governance management and risk mitigation – especially in complex multinational structures. Even so, it would be of great necessity to investigate how they affect governance mechanisms.

Furthermore, it would be interesting to conduct empirical research concerning the **primary motivations for multinational companies to concentrate on subsidiary governance**. It would be exciting to study, if the main drivers are rather the increasing legal and regulatory requirements or more internally driven by the conviction that it has positive effects on their long-term corporate success and higher profits.

To address the increasing relevance of financial services subsidiaries, there will be also a great necessity in future to analyze **framework conditions or certain thresholds** (e.g. equity ratios, risk appetite, business volumes) of whether it is more favorable for multinationals to outsource their financial services business. I feel confident that in near future there will be a discussion, if it is preferable to separate the financial services business from the rest of the multinational groups e.g. towards a separate financial holding as intermediary risk buffer to address the increased regulatory burden. This research area could be of great interest for academics in the field of the corporate governance, legal and organizational development.

There is a clear tendency that ever more proposals of regulators are making subsidiary boards look more like the boards of stand-alone banks, ensuring greater localization and sovereignty within the strategy setting and control in the subsidiary itself. Because of this, there is a need for greater in-depth research regarding the **independency of subsidiary boards** in hierarchical relationships with their parent companies, and potential escalation procedures in case of dissent between the local boards and their parents.

This dissertation has found that, especially within the last years, compliance has become more and more popular. Yet, there is no clear picture that clarifies the **interdependency between compliance and corporate governance.** It seems to be an interesting question to study, whether compliance is a prerequisite for securing corporate governance or whether corporate governance secures compliance. Apart from that, it would also be of great interest to measure the consequences of a firms' damaged reputation on the intragroup governance mechanisms.

I feel confident that there have to also be more studies that encourage the national regulators to improve their **legal and regulatory frameworks for cross-border companies** with complex organizational structures and different subsidiary characteristics. How can they better collaborate and align their domestic initiatives to enhance a globally efficient and effective supervision of globally acting financial services organizations?
Having said that, it would of be further interest to analyze the power of multinationals and their executives in some countries to change local institutions or even legal and regulatory environments, which are more preferable for them (e.g. by modifying the corporate governance systems towards their foreign home countries). Consequently, I derive that in future it will be interesting to examine studies that explore whether the different corporate governance systems rather converge or diverge in a global context.

Simultaneously, I found that there is more research needed to better understand the **social dimension and their effects on corporate governance mechanisms**. For example, as already outlined, multinationals and consequently their executives have to deal with multiple stakeholder groups. Therefore, it would be interesting to investigate how the different levels of reputation (e.g. among employees, suppliers, regulators, investors etc.) influence their strategic decision-making behaviors.
When taking into account the greater emphasis of many regulators to steer the cultural dimensions in organizations, it would also be of great interest to explore the role of external regulation and authorities on the effectiveness on those governance mechanisms.

Overall, I also encourage scholars to apply more **qualitative research studies**, as I feel confident that this will provide another much-needed contribution to a better understanding of the multiple corporate governance phenomena and will help to explore the still unsolved issues mentioned above, or even go beyond them.

7.4 Outlook

In recent years, domestic and international regulators and their stringent enforcement approaches have forced multinational groups to enhance their intragroup governance. Over the last years, it seems that both, multinational companies and regulators have started to understand the pivotal role of subsidiaries regarding their corporate governance practices, reporting and their efforts to manage their risks. Another small notice that indicates that this trend will continue is that several countries started initiatives to oblige listed companies to disclose how they manage risks that are associated with their subsidiaries. Such regulatory requirements already changed the perception of corporate governance, leading it away from a pure business unit centric view towards a rather holistic view, with a stronger emphasis on the legal entity perspective.

In many multinational groups, there has historically been no real awareness about the risk potential of their subsidiaries and the associated costs and efforts of managing and overseeing them until something went wrong. Nowadays, this has changed, as there is an increased legal risk for the board members, senior staff and other directors, which include personal exposure to legal and regulatory breaches or unauthorized approvals within subsidiaries. Based on this knowledge, it must be stated that there will be even higher awareness for intragroup governance mechanisms in near future.

One can say that there is a general shift among regulators, authorities and the public, which expect more than just sound corporate governance practices on top of the listed parent to be sufficient. Today there is no doubt that subsidiary governance forms the foundation to fulfill respective corporate governance standards as entire corporate group. Regulators, investment analysts, investors and even employees want to know more about how the parent companies monitor and entrench sound intragroup corporate governance concepts. In future corporate parents will have to increasingly justify how they manage and control intragroup governance mechanisms.

However, only the future will show whether the increased attention for intragroup corporate governance will also result in more sustainable corporate governance practices and fewer corporate scandals.

Yet, as this thesis illustrated, the corporate governance research in general and the subsidiary governance research in particular is under a continuous development. Even if there has been a lot of progress within the last years, there will also be enough room for improvement in future. In a retro perspective, the corporate governance discussion in the past was largely influenced by the financial crisis and was rather reactive than proactive. Driven by the developments mentioned above, I feel confident that subsidiary governance will raise even more attention among the academic community in future. Thus, this dissertation provides a valuable scientific contribution for the improvement of corporate governance among subsidiaries.

In sum, all the debated interrelated trends within this dissertation have shown a number of areas of new inquiries, and I am convinced that these research studies will broaden the scope of further research on governance topics. The matter of financial services subsidiary governance is a global topic with profound implications in many directions. In future, there will surely be more to tell about this crucial subfield of corporate governance and there will also be an ongoing debate about the concept of what governance and what exactly it should be. The different parties involved in the organizational management and oversight will provide many opportunities for scholars of different disciplines to shape the dialogue and to provide new ideas on how firms can better serve the needs of their societies.

My expectation is that this dissertation will contribute its part to the discussion of what constitutes good subsidiary governance and will likewise advance the foundation for upcoming discussions among academics, practitioners, regulators and supervisors.

8. Appendix

Appendix 1: Validation phase: Interview guideline

Expert name: __________________ **Place and Date: _______________________**

Introductory words of the interviewer

- Short Introduction of the dissertation project
- Clarification, if audio-recording is ok
- Pointing out that all pieces of information are handled anonymously without any personal or company details
- Timeframe: 25 questions / around 60-minute interviews

Part A: Introduction

1. General information and personal background

1.1. What is your professional **background**?

1.2. What is your current **position** in the company?

1.3. What **experiences** do you have regarding corporate governance and financial services subsidiaries (particularly in automotive group corporations)?

2. Corporate Governance in multinational automotive companies with financial services subsidiaries

2.1. Could you please highlight in a few words the **importance of subsidiary governance**?

2.2. From your point of view, what are the **focus areas** that are addressed within corporate governance in financial services subsidiaries?
(e.g. *risk management, internal audit, remuneration, leadership, strategy, organizational alignment and decision making, company culture etc.)*

Part B: Intragroup corporate governance management of financial services subsidiaries

3. Strategic governance dimension

3.1. In your opinion, which role does the **Executive Management Board** (e.g. “Vorstand”) play for corporate / subsidiary governance in multinational companies?

3.2. What do you think are the **key governance tasks/ responsibilities** of the Executive Management Board?

3.3. What do you think are appropriate **oversight and steering instruments** for the Executive Management Board to manage (**internal/ external**) corporate governance in the multinational organization?

4. Operative governance dimension

4.1. According to your experience, which role does the **Senior Management / Divisional Head** (e.g. "Bereichsleiter") of the financial services division play for corporate / subsidiary governance?

4.2. What do you think are the **key governance tasks / responsibilities** of the Senior Management (and their Center of Competence CG)?
(e.g. development of governance instruments, implementation of company-wide CG standards, consulting for subsidiaries, governance steering)?

5. Subsidiary governance dimension

5.1. In your perspective, which role does the **local Management Team** play for subsidiary governance in the host country?

5.2. According to your experience, could you please describe a suitable **approach for the governance management** of decentralized subsidiaries?
(e.g. management from distance, subsidiarity principle)

5.3. What do you think are the **key elements (success factors)** to ensure effective subsidiary governance?
(*e.g. system management, mission management, integrity management, stakeholder relationship management, risk management, audit management*)

5.4. What do you think are the **benefits of subsidiary governance**?
(*e.g. innovation, competitiveness, organizational performance, leadership)*

5.5. Based on your experience, where are the **limits for a centralized management** of the decentralized (legal independent) subsidiaries?

5.6. Could you give me some examples of effective **sanction mechanisms** (from headquarters) in case of governance breaches in the subsidiaries?

5.7. What do you think of the **identified management dimensions**?
(Are there any topics which should be supplemented / excluded? Any improvement suggestions?)

5.8. What do you think of the suggested **evaluation approach**?

6. Corporate governance organization, communication and implementation

6.1. From your point of view, **how** should corporate governance in the financial services divisions be **organized**?
(e.g. special HQ department for FS business, CoC, local governance mangers, separation between HQ and subsidiaries)

6.2. Based on your experience, what is **important** to consider for an effective **governance communication**?

6.3. What are the most important **success factors and challenges** for the **implementation** of subsidiary governance?

Part C: Closing

7. Closing questions

7.1. What do you think are **further important aspects** for corporate governance management of decentralized finance subsidiaries? (*e.g. pre-definition of company-wide minimum standards necessary?)*

7.2. What **further advice** would you give automotive financial services divisions who would like to professionalize their corporate governance management?

7.3. In your opinion, **why** has **corporate governance become more important** within the last years?

7.4. Based on your practical experience, what are other **typical practical challenges** for corporate governance?

On behalf of Prof. Dr. Kunz and me, thank you very much for participation!

Appendix 2: Validation phase: Cover letter and introduction of the research project

Dissertation Project: Corporate Governance Management in Automotive Multinationals: Development of a Corporate Governance Management Model for Financial Services Subsidiaries

Dear Prof. Dr. xxx,

as a consequence of several company scandals, increased regulation and growing manager liability – many top managers ask themselves how to professionalize the corporate governance management within their decentralized financial services subsidiaries around the world.

Therefore, this dissertation project between the BMW Group Financial Services and the University of Augsburg: Chair for Controlling investigates possible ways how to close this governance gap. The objective of the research project is to develop a corporate governance management model for financial services subsidiaries of automotive multinationals with decentralized structures.

Therefore, in a first step the current state of research regarding corporate governance areas and its professional management was analyzed. As well, the author identified a suitable intragroup corporate governance management (for details please refer to the appendix). The intragroup corporate governance management exits out of a strategic, operative and subsidiary governance dimension. Those dimensions are coordinated by different instruments from the headquarters to overcome the governance gap between the headquarters and the local subsidiaries due to their geographical distances, cultural and legal differences in the host countries. In this context, also potential key drivers and challenges for the governance management were identified. By now, the identified results and drawn assumptions should be verified and complemented with your support and professional experience within this field.

Therefore, the interview will cover the following corporate governance topics: **Strategic governance, operative governance, subsidiary governance, corporate governance organization, governance communication and implementation.**

Based on the results of the theoretical research and the additional expert interviews it will be possible to identify supplementary corporate governance related key drivers and challenges to develop an intragroup corporate governance management model. Furthermore, it will be the basis to define recommendations for actions for governance communication and implementation in automotive multinationals with decentralized financial services subsidiaries.

With the participation on the expert interviews you are making an important contribution for the further development of the corporate governance management in the automotive industry and the applied science in this new field of study. Therefore, I will gratefully acknowledge for your willingness to participate on the interviews and to share your knowledge with me. If you are interested, I will send you an abstract with the results after completing the research project (expected in winter 2019).

Obviously I can guarantee that your shared information, answers and market insights will be kept confidential and are only used and published within this dissertation project. It will not be possible to draw any inferences out of the research project or written dissertation to your person or your company, due to the fact that all provided information will be handled anonymous.

For any further information feel free to contact me or the responsible mentoring professor at the University of Augsburg:

Chair for Controlling
Prof. Dr. Jennifer Kunz
Universitätsstraße 16
86159 Augsburg, Germany
E-Mail: Jennifer.kunz@wiwi.uni-augsburg.de

Best regards

Matthias Heitz
Matthias Heitz
E-Mail: Matthias.heitz@bmw.de or Matthias.heitz@student.uni-augsburg.de
Phone: +49 152 54057570

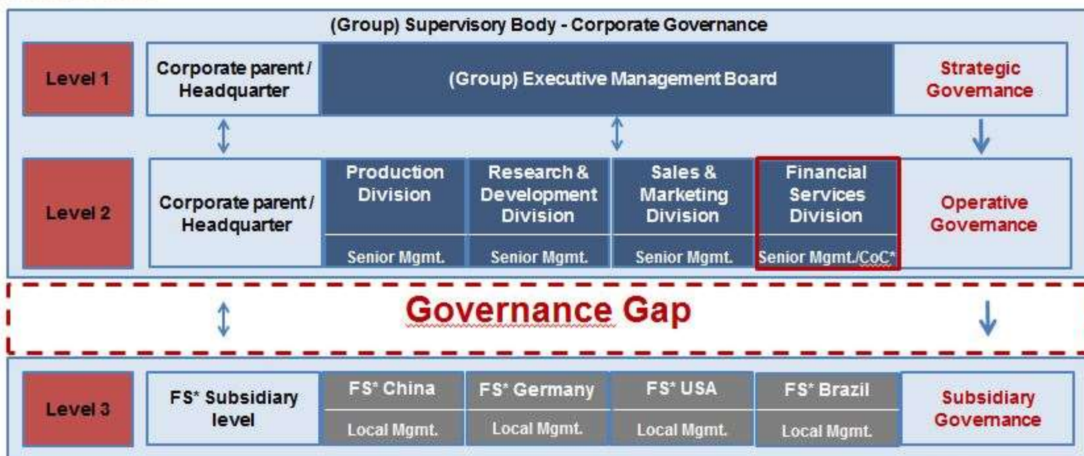
CORPORATE GOVERNANCE MANAGEMENT OF FINANCIAL SERVICES SUBSIDIARIES.

A JOINT RESEARCH PROJECT BETWEEN THE BMW GROUP AND THE AUGSBURG UNIVERSITY.

BMW GROUP
Segment Financial Services

Universität Augsburg University

MULTI-LEVEL CORPORATE GOVERNANCE MANAGEMENT IS REQUIRED FOR THE AUTOMOTIVE FINANCIAL SERVICES BUSINESS.

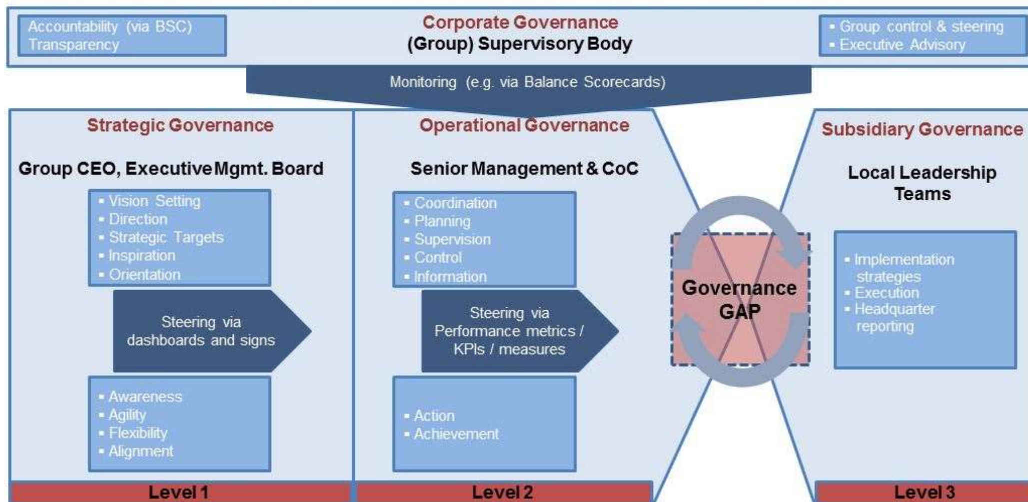


*FS: Financial Services
*CoC: Center of Competence Corporate Governance

Dissertation Project Matthias Heitz

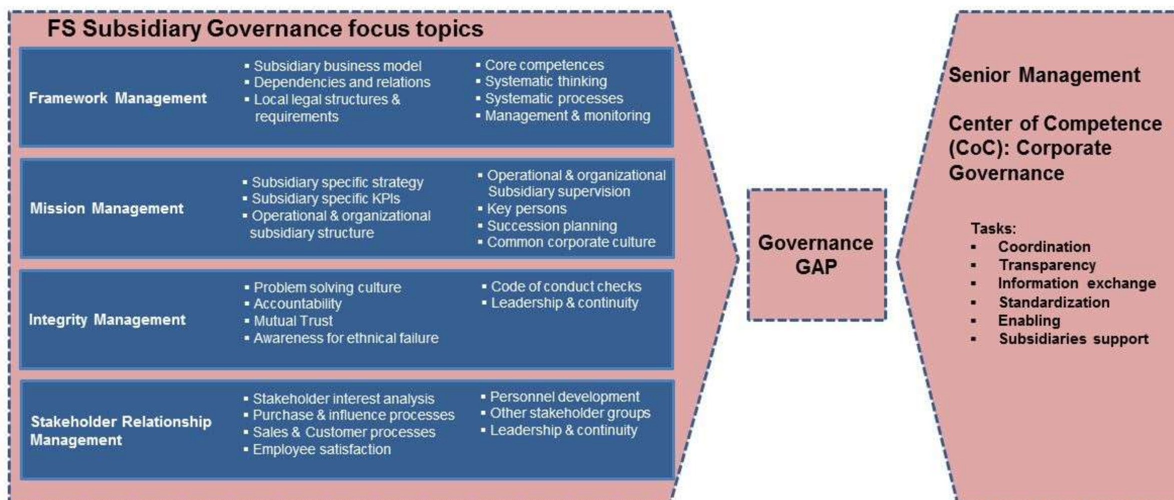
Page 2

LEVEL 1 & 2: THE HEADQUARTER SETS THE FRAMEWORK CONDITIONS AND EXECUTES THE OPERATIVE CORPORATE GOVERNANCE MANAGEMENT IN THE FS BUSINESS.

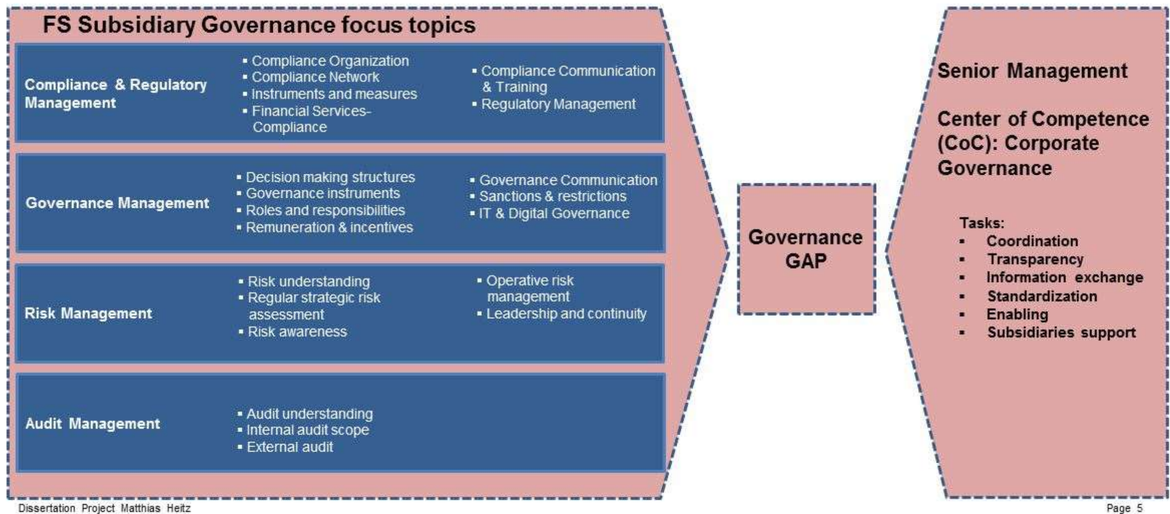


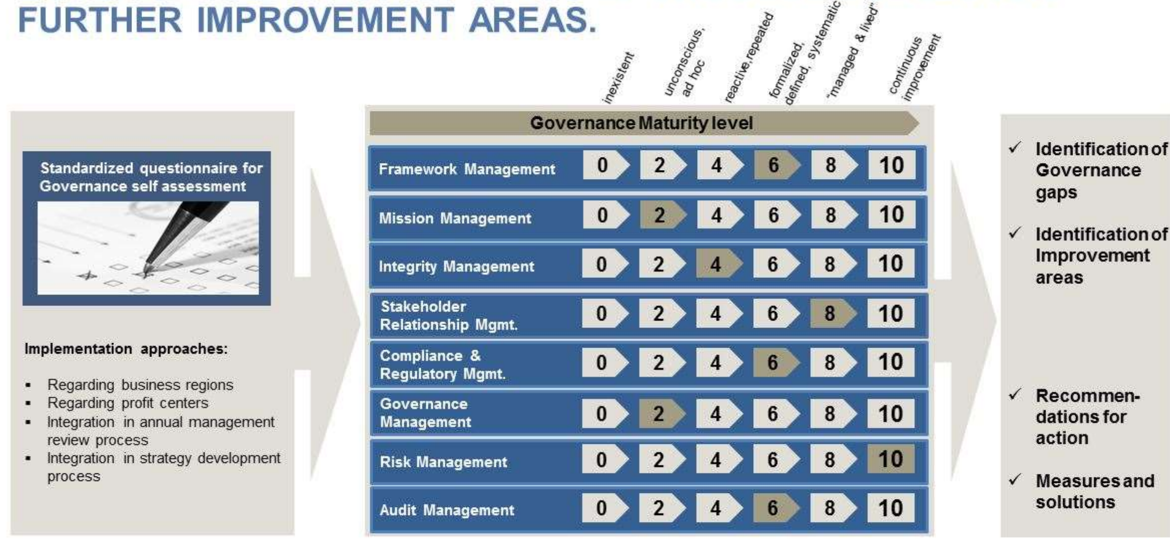
Dissertation Project Matthias Heitz   Page 3

LEVEL 3: EIGHT GOVERNANCE DIMENSIONS HELP TO CLOSE THE GEOGRAPHICAL, LEGAL AND CULTURAL GOVERNANCE GAP BETWEEN THE HQ AND FS SUBSIDIARIES.



Dissertation Project Matthias Heitz   Page 4


LEVEL 3: EIGHT GOVERNANCE DIMENSIONS HELP TO CLOSE THE GEOGRAPHICAL, LEGAL AND CULTURAL GOVERNANCE GAP BETWEEN THE HQ AND FS SUBSIDIARIES.
FS Subsidiary Governance focus topics
Compliance & Regulatory Management
▪ Compliance Organization
▪ Compliance Network
▪ Instruments and measures
▪ Financial Services-Compliance
▪ Compliance Communication & Training
▪ Regulatory Management
Governance Management
▪ Decision making structures
▪ Governance instruments
▪ Roles and responsibilities
▪ Remuneration & incentives
▪ Governance Communication
▪ Sanctions & restrictions
▪ IT & Digital Governance
Risk Management
▪ Risk understanding
▪ Regular strategic risk assessment
▪ Risk awareness
▪ Operative risk management
▪ Leadership and continuity
Audit Management
▪ Audit understanding
▪ Internal audit scope
▪ External audit
Governance GAP
Senior Management
Center of Competence (CoC): Corporate Governance
Tasks:
▪ Coordination
▪ Transparency
▪ Information exchange
▪ Standardization
▪ Enabling
▪ Subsidiaries support
Dissertation Project Matthias Heitz
Page 5

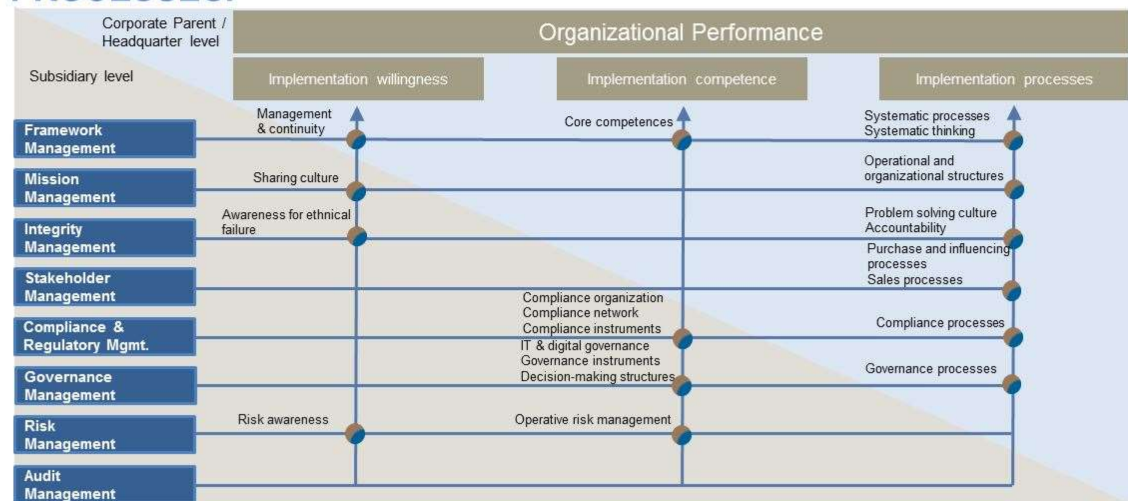

A GOVERNANCE SELF ASSESSMENT IDENTIFIES THE GOVERNANCE MATURITY LEVEL OF THE SUBSIDIARIES AND FURTHER IMPROVEMENT AREAS.
inexistent
unconscious, ad hoc
reactive, repeated
formalized, defined, systematic
"managed & lived"
continuous improvement
Standardized questionnaire for Governance self assessment
Implementation approaches:
▪ Regarding business regions
▪ Regarding profit centers
▪ Integration in annual management review process
▪ Integration in strategy development process
Governance Maturity level
Framework Management 0 2 4 6 8 10
Mission Management 0 2 4 6 8 10
Integrity Management 0 2 4 6 8 10
Stakeholder Relationship Mgmt. 0 2 4 6 8 10
Compliance & Regulatory Mgmt. 0 2 4 6 8 10
Governance Management 0 2 4 6 8 10
Risk Management 0 2 4 6 8 10
Audit Management 0 2 4 6 8 10
✓ Identification of Governance gaps
✓ Identification of Improvement areas
✓ Recommen-dations for action
✓ Measures and solutions
Dissertation Project Matthias Heitz
Page 6

A PROFESSIONAL GOVERNANCE MANAGEMENT OF FS SUBSIDIARIES REDUCES GOVERNANCE GAPS AND SUPPORTS SUSTAINABLE COMPANY SUCCESS.

Reduced Governance GAP

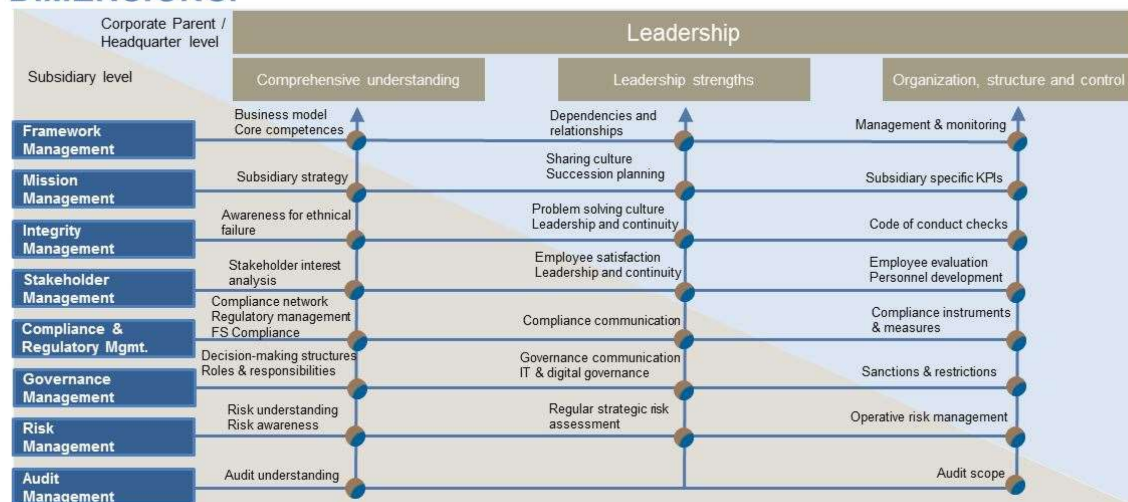
Dissertation Project Matthias Heitz Page 7

EXAMPLE 1: ORGANIZATIONAL PERFORMANCE DEPENDS ON THE IMPLEMENTATION WILLINGNESS, COMPETENCES AND PROCESSES.



Dissertation Project Matthias Heitz Page 8

EXAMPLE 2: LEADERSHIP COMPETENCE DEPENDS ON SEVERAL INPUT FACTORS FROM THE DIFFERENT GOVERNANCE DIMENSIONS.



Rolls-Royce Motor Cars Limited

Matthias Heitz
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Matthias.heitz@student.uni-augsburg.de

Educational Background

Matthias Heitz made an apprenticeship as banker and studied Business Administration (B.A.) with the major in finance & banking at the Corporate State University Baden Wuerttemberg (Stuttgart), Germany.
Furthermore, he holds a First Class Honours Degree in International Accounting (B.A.) from the University of Glamorgan (UK) and was awarded as a high potential WiWi Talent in 2014. Meanwhile his studies he worked at the DZ Bank, Volksbank Reutlingen and the DZ Privatbank in Singapore.
Between 2013-2015 he made his master's degree (M.Sc.) in Business Administration: European Business Consulting at the University of Applied Sciences in Munich. In his master thesis Mr. Heitz developed an market entry model for full service leasing providers in the BRIC markets. While his studies he participated several international conferences about financial services and emerging markets.
Since August 2015 he participates at the BMW PhD Program and researches in collaboration with the University Augsburg (Prof. Dr. Jennifer Kunz) about the corporate governance management of financial services subsidiaries in automotive group corporations.

Know How

- Corporate Governance in multinational companies
- Business Development & Consulting
- Project Management
- Innovation Management
- Financial Services in Emerging Markets
- Automotive Financial Services
- International Accounting

Publications

Financial Services in Emerging Markets: Strategies and Challenges related to Micro Insurance, SIFICO Finance Conference Mumbai, February 2015.

Professional Experience

DZ Bank and Volksbank Reutlingen eG
Mr. Heitz worked for 4 years in finance and banking in Stuttgart, Frankfurt and Reutlingen. His thematic priority was corporate banking, private banking and business development. As well, he participated several projects regarding corporate planning, product development and the implementation of Basel 3 regulations.

DZ Bank Singapore Ltd.
In Singapore Mr. Heitz supported the local management team in terms of business development, operations and compliance related issues. His projects included business forecasting, competitor analysis, market entry strategies for Asia and the implementation of a local investment strategy.

Simon Kucher & Partner Strategy & Management Consultants
Mr. Heitz supported international projects related to marketing, sales, pricing and market entry out of the office in Munich. Particular for clients of the automotive, health care, telecommunication, energy and consumer goods industry.

BMW Group
Matthias Heitz wrote his master thesis in a joint research project between the University of Applied Science of Munich and Alphabet International (a BMW Group company). Since August 2015 participates Mr. Heitz in the PhD Program of the BMW Group in the Financial Services Segment. Herby he develops a corporate governance management model for financial services subsidiaries in a joint research project with the University of Augsburg (Prof. Dr. Kunz).

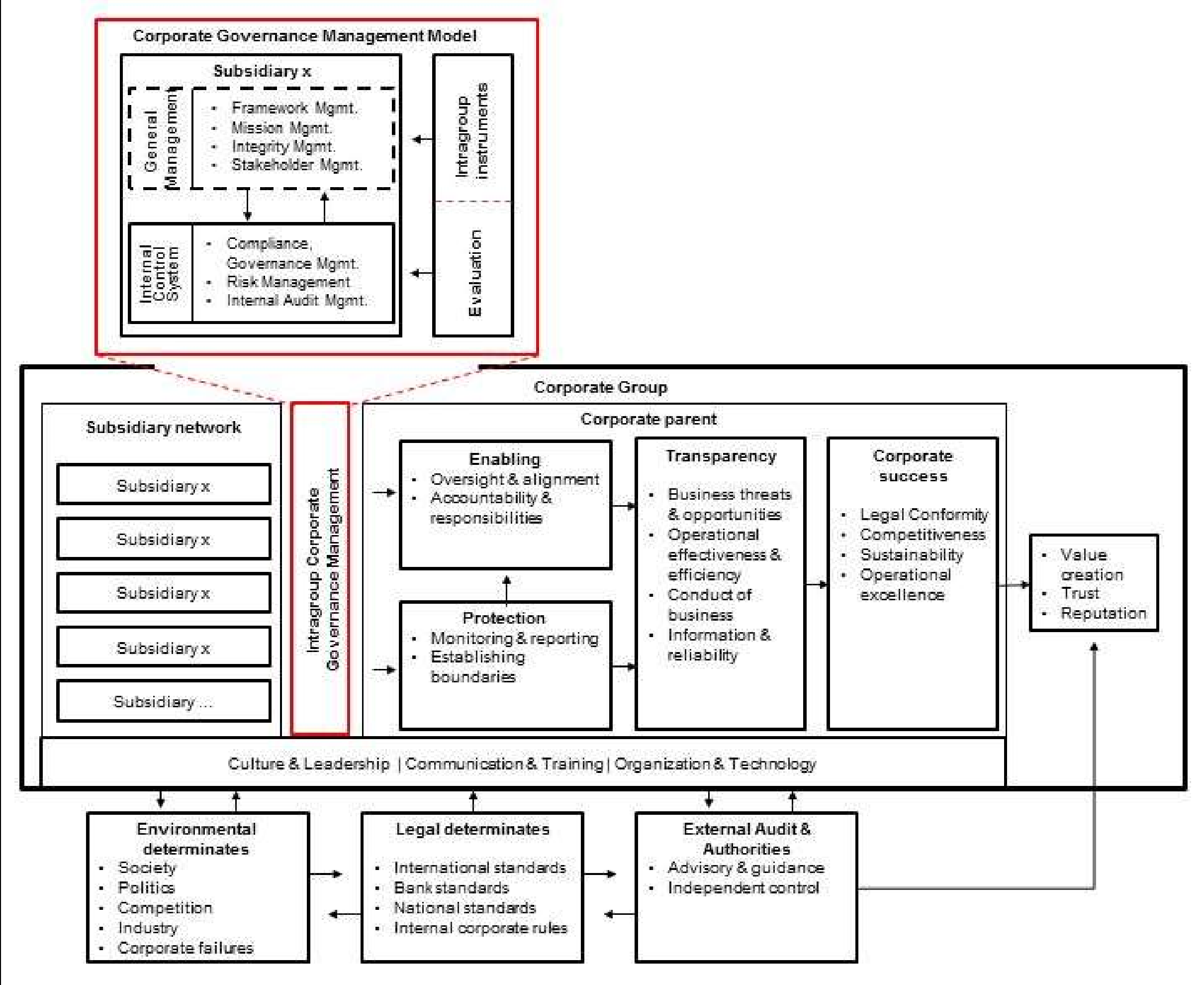
Selected Research projects
- Development of a management concept for the successful management of a Singaporean subsidiary.
- Innovation roadmap for managers to implement innovation tools.
- Development of a Post Merger Integration (PMI) Concept for the Hungarian companies in German medium-sized family businesses.
- Development of a market entry model for full service leasing providers in BRIC markets.
- Financial Services in Emerging Markets: Driving Growth through Financial Service Innovation: Strategies and Challenges for Financial Service Providers.

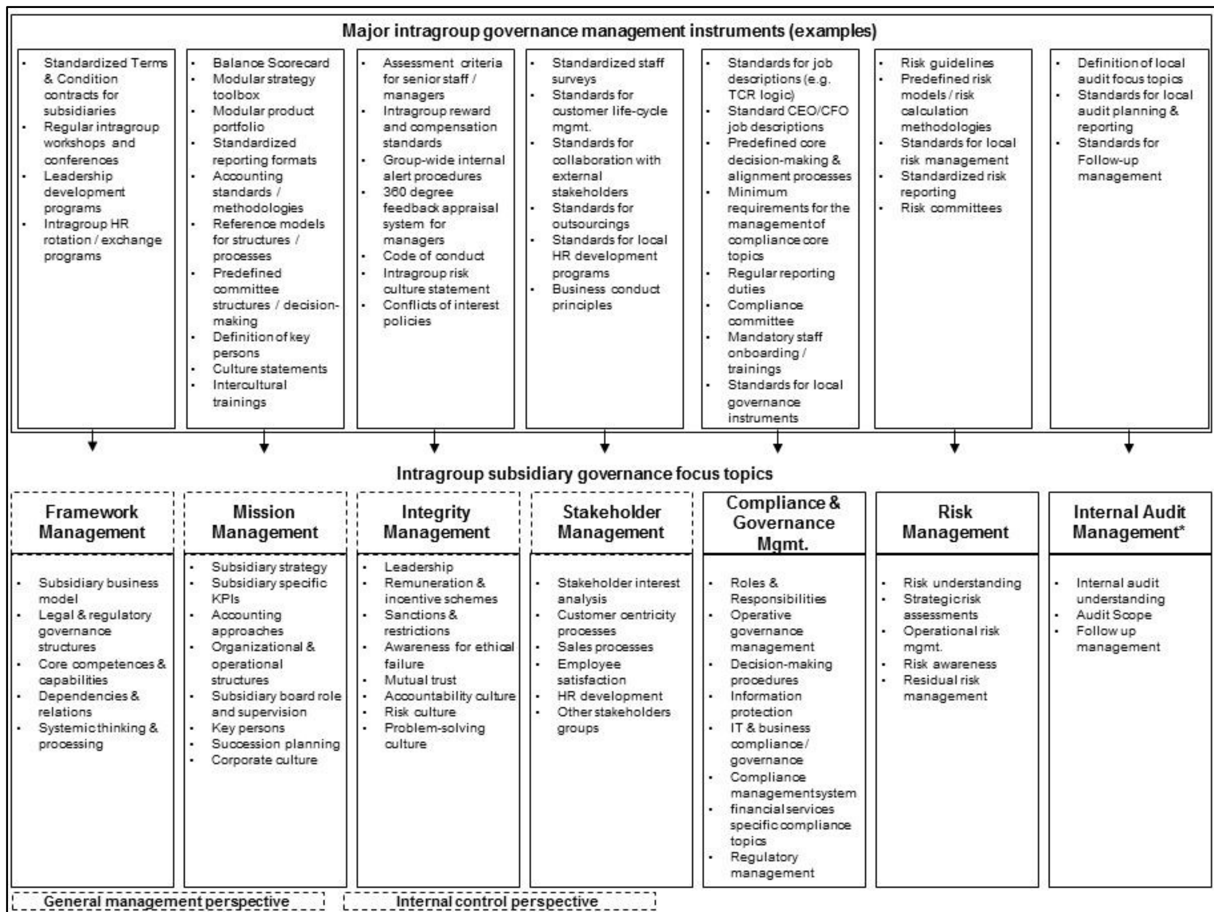
Appendix 3: Professional background information of the interviewed experts

- Expert 1: Corporate Governance Expert, OEM, Financial Services Division, CEO Support for Corporate Governance & Compliance, 10.08.2016, personal meeting in Munich, 60 minutes
- Expert 2: Senior Compliance Manger, OEM, Financial Services Division CEO Support for Corporate Governance & Compliance, 11.08.2016, personal meeting in Munich, 60 minutes
- Expert 3: Project Manager International Compliance Rollout Financial Services, OEM, Financial Services Division, 11.08.2016, personal meeting in Munich, 60 minutes
- Expert 4: Head of International Risk Management, OEM, Financial Services Division, 17.08.2016, personal meeting in Munich, 90 minutes
- Expert 5: Lawyer, Auditor, Tax Advisor, Director, “Big Four” Audit Firm, Governance & Assurance Services, Telco, 70 minutes
- Expert 6: Head of the Supervisory Board Office of a bank subsidiary, OEM, Financial Services Division, CEO Support for Corporate Governance & Compliance, 24.08.2016, 90 minutes
- Expert 7: Head of Corporate Governance and Compliance Coordination, OEM, Financial Services Division, CEO Support for Financial Services, 24.08.2016, personal meeting in Munich, 80 minutes
- Expert 8: Senior Partner, Audit Firm and Corporate Governance Consultancy, Switzerland, 29.08.2016, Telco, 80 minutes
- Expert 9: Senior Manager for Corporate Governance, “Big Four” Audit Firm, 30.08.2016, Telco, 90 minutes
- Expert 10: Managing Director Europe, Audit Firm and Corporate Governance Consultancy, 06.09.2016, Telco, 60 minutes
- Expert 11: Partner, Auditor and Tax Advisor, Audit Firm and Corporate Governance Consultancy, 06.09.2016, Telco, 60 minutes
- Expert 12: Partner for Audit, Governance & Assurance Services, “Big Four” Audit Firm, Former Managing Director of the German Institute for Internal Audit, 07.09.2016, Telco, 90 minutes
- Expert 13: Managing Partner, Global Consultancy for Corporate Governance & Financial Services, 12.09.2016, Telco, 70 minutes
- Expert 14: Director, Financial Services Risk Consulting, “Big Four” Audit Firm, 17.09.2016, Personal meeting in Munich, 95 minutes
- Expert 15: Senior Manager, Center of Competence Corporate Governance, Corporate Governance Consultancy, 26.09.2016, Telco, 70 minutes
- Expert 16: Academic Director Center of Competence for Corporate Governance of a leading Business School, CEO of several bank and investment companies and finance subsidiaries, (Former) Supervisory Board Member of several DAX companies, Co-Founder and permanent member of the German Corporate Governance Commission, permanent member of the International Corporate Governance Network (ICGN), permanent member of the Global Governance Knowledge Group of the International Finance Corporation (IFC) / World Bank, 28.09.2016, Telco, 60 minutes

- Expert 17: Governance Manager, OEM, Financial Services Division, CFO Support for Financial Services China; 06.10.2016, Personal meeting in Munich, 60 minutes
- Expert 18: CEO and CFO of a leasing subsidiary, Former CFO of Financial Services Region North America, Former Head of Accounting and Controlling at a bank subsidiary, OEM, Financial Services Division, 13.10.2016, Personal meeting in Munich, 145 minutes
- Expert 19: Head of Governance Structures, OEM, Financial Services Division, 17.10.2016, personal Meeting in Munich, 45 minutes
- Expert 20: CFO of a Financial Services subsidiary in Russia, OEM, Financial Services Division, 17.10.2016, Skype Meeting, 90 minutes
- Expert 21: Managing Partner, Audit & Governance Financial Services, “Big Four” Audit Firm, 19.10.2016, Telco, 55 minutes
- Expert 22: Member of the Board of Management of a OEM, Chairman of Financial Services Division, CEO of a Financial Services Holding, 03.11.2016, Personal Meeting in Stuttgart, 70 minutes
- Expert 23: President Financial Services Americas (Canada, USA, Mexico, Brazil); Former Vice President for Business Development, Strategy, Marketing and Compliance, Financial Services, Former CEO / President of a Financial Services subsidiary in UK / Canada / Brazil, OEM, Financial Services Division, 30.11.2016, Personal Meeting in Munich, 70 Minutes.
- Expert 24: Head of Group Supervisory Board Office, OEM, 06.12.2016, Personal Meeting in Munich, 60 minutes

Appendix 4: Verification phase: Corporate governance management model draft





Major intragroup governance management instruments (examples)
Standardized Terms & Condition contracts for subsidiaries
Regular intragroup workshops and conferences
Leadership development programs
Intragroup HR rotation / exchange programs
Balance Scorecard
Modular strategy toolbox
Modular product portfolio
Standardized reporting formats
Accounting standards / methodologies
Reference models for structures / processes
Predefined committee structures / decision-making
Definition of key persons
Culture statements
Intercultural trainings
Assessment criteria for senior staff / managers
Intragroup reward and compensation standards
Group-wide internal alert procedures
360 degree feedback appraisal system for managers
Code of conduct
Intragroup risk culture statement
Conflicts of interest policies
Standardized staff surveys
Standards for customer life-cycle mgmt.
Standards for collaboration with external stakeholders
Standards for outsourcings
Standards for local HR development programs
Business conduct principles
Standards for job descriptions (e.g. TCR logic)
Standard CEO/CFO job descriptions
Predefined core decision-making & alignment processes
Minimum requirements for the management of compliance core topics
Regular reporting duties
Compliance committee
Mandatory staff onboarding / trainings
Standards for local governance instruments
Risk guidelines
Predefined risk models / risk calculation methodologies
Standards for local risk management
Standardized risk reporting
Risk committees
Definition of local audit focus topics
Standards for local audit planning & reporting
Standards for Follow-up management
Intragroup subsidiary governance focus topics
Framework Management
Mission Management
Integrity Management
Stakeholder Management
Compliance & Governance Mgmt.
Risk Management
Internal Audit Management*
Subsidiary business model
Legal & regulatory governance structures
Core competences & capabilities
Dependencies & relations
Systemic thinking & processing
Subsidiary strategy
Subsidiary specific KPIs
Accounting approaches
Organizational & operational structures
Subsidiary board role and supervision
Key persons
Succession planning
Corporate culture
Leadership
Remuneration & incentive schemes
Sanctions & restrictions
Awareness for ethical failure
Mutual trust
Accountability culture
Risk culture
Problem-solving culture
Stakeholder interest analysis
Customer centricity processes
Sales processes
Employee satisfaction
HR development
Other stakeholders groups
Roles & Responsibilities
Operative governance management
Decision-making procedures
Information protection
IT & business compliance / governance
Compliance management system
financial services specific compliance topics
Regulatory management
Risk understanding
Strategic risk assessments
Operational risk mgmt.
Risk awareness
Residual risk management
Internal audit understanding
Audit Scope
Follow up management
General management perspective
Internal control perspective

Appendix 5: Verification phase: Professional background information of the experts

- Expert 1: Corporate Governance Expert, OEM, Financial Services Division, CEO Support for Corporate Governance & Compliance, 10.08.2016, personal meeting in Munich, 60 minutes, 05.10.2017, Skype Call, 25 minutes
- Expert 2: Head of the Supervisory Board Office of a bank subsidiary, OEM, Financial Services Division, CEO Support for Corporate Governance & Compliance, 05.10.2017, Personal Meeting, 40 minutes
- Expert 3: Head of Corporate Governance and Compliance Coordination, OEM, Financial Services Division, CEO Support for Financial Services, 06.10.2017, Personal Meeting, 45 minutes
- Expert 4: Head of International Risk Management, OEM, Financial Services Division,, 09.10.2017, Skype Call 40 minutes
- Expert 5: Senior Compliance Manger, OEM, Financial Services Division CEO Support for Corporate Governance & Compliance, 10.10.2017, Skype Call, 30 minutes
- Expert 6: Project Manager International Compliance Rollout Financial Services, OEM, Financial Services Division, 12.10.2017, Personal Meeting, 50 minutes
- Expert 7: Governance Manager, OEM, Financial Services Division, CFO Support for Financial Services China; 13.10.2017, Personal Meeting, 35 minutes
- Expert 8: Corporate Governance Expert, OEM, Financial Services Division, CEO Support for Corporate Governance & Compliance, 23.10.2017, Skype Call, 30 minutes
- Expert 9: CFO of a Financial Services subsidiary in Russia, OEM, Financial Services Division, 17.10.2016, 20.11.2017, 30 minutes
- Expert 10: Head of Governance Structures, OEM, Financial Services Division, 17.10.2016, personal Meeting in Munich, 18.12.2017, skype call, 40 minutes.

Appendix 6: Verification phase: Interview guideline

Expert name: ______________________________ Place and Date: ______________________

Part A: Introduction

- Short Introduction of the developed corporate governance management model
- Clarification, if audio-recording is ok
- Pointing out that all pieces of information are handled anonymously without any personal or company details
- Timeframe: 4 questions / around 30-45 minutes interview

Part B: Corporate governance management model for financial services subsidiaries

1. Corporate governance management model review

1.1. What are your **first thoughts** about the developed corporate governance management model draft?

1.2. According to your experience, do you think that **all relevant corporate governance topics are included** in the model draft? Are there **any topics missing or should be removed**?

1.3. What is your personal impression of the **overall structure / design** of the model draft? *(e.g. hierarchical structure, interlinks, dimensions, clusters, conclusions etc.).*

Part C: Closing

2. Closing question

2.1. According to your experience, are there **any additional important issues** regarding the model draft that we have not discussed yet (*e.g. topics / challenges / success factors)*?

On behalf of Prof. Dr. Kunz and me, thank you very much for participation!

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