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Corporate governance of a multinational enterprise: Firm, industry and institutional perspectives

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**Corporate Governance of a Multinational Enterprise:
Firm, Industry and Institutional Perspectives**

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Abstract

We introduce the topic of this Special Issue of the *Journal of Corporate Finance* on corporate governance of a multinational enterprise with a particular emphasis on the theoretical and empirical gaps in prior finance and international business studies associated with corporate governance problems and the effectiveness of governance solutions in the context of diverse institutional settings. We integrate analysis of the accepted articles with existing research on international corporate governance and global strategy. Overall, the work in this area continues to emphasize the importance of institutions, legal environment and culture in all aspects of global enterprises. We conclude the article with suggestions for future research in this rapidly expanding and important area of global business.

Introduction

The last decade has witnessed significant growth in both policy and research devoted to the corporate governance of multi-national enterprises (MNEs). While corporate finance and

international business research fields continue to evaluate the challenges facing MNEs in foreign product and capital markets, scholars are also analyzing the underlying corporate governance challenges, especially when MNEs operate under different formal regulatory frameworks and in varying informal normative and cultural institutional contexts. There is an urgent need for a comprehensive analysis of MNE governance with a focus on the complex interface between firm-level governance mechanisms and these diverse institutional contexts. The various legal, economic, cultural and political institutions have profound impacts on MNE organization including decisions related to capital structure and global business strategy such as cross-border M&As, non-market strategies, and performance (Cumming, Filatotchev, Knill, Reeb and Senbet, 2017). This Special Issue of Journal of Corporate Finance extends our understanding of governance issues in MNEs to embrace corporate finance, strategy and performance dimensions together with contextual issues related to national and global institutions. Its objective is to address theoretical and empirical gaps in prior finance and international business studies associated with corporate governance problems and the effectiveness of governance solutions in the context of MNEs.

With this introduction to the Special Issue, we contribute to a stronger integration of research on international corporate finance and global strategy. We argue that both fields offer substantial novel perspectives, models, and theories to each other that have the potential to enrich our theoretical understanding of relevant phenomena in the context of corporate governance. In their seminal review of corporate governance research in finance, Shleifer and Vishny (1997, p. 773) provide the following definition of corporate governance: “Corporate governance deals with the agency problem: the separation of management and finance. The fundamental question of corporate governance is how to assure financiers that they get a return on their financial

investment.” This agency theory-grounded, closed-system approach has subsequently been developed further by “law and finance” theorists who suggested that the workings of governance mechanisms are far from being universal, and they may be shaped by the structure of macro-institutions such as national regulations and laws. More specifically, La Porta, Lopez-de-Silanes, Shleifer, & Vishny, (1997; 1998; 2000) suggest that legal origin is influential in a nation’s protection of outside investors, which the authors suggest is largely the purpose of corporate governance. Though legal tradition (“common law” and “civil law”) succeeds in explaining many cross-sectional differences in corporate governance models adopted by firms around the world, critics argue that these broad categories overlook the true complexity of a nation’s system of institutions. The influence on capital market mechanisms of national culture, formal and informal institutions, a core element in international business research for a long time, has only recently entered the world of finance literature – yet, with a substantial impact (Karolyi, 2016). Bearing in mind that MNEs are global firms that operate across national borders in global product and capital markets, a complex interface between the firm, its governance mechanism and multiple institutional environments represents a core focal area of this Special Issue.

The call for papers for this Special Issue welcomed both theoretical and empirical papers exploring different aspects and dimensions of corporate governance of MNEs. Ten papers were accepted for a paper development workshop in Atlanta in August 2017, and eight of those papers appear in this Special Issue. Taken together, these papers provide a novel contribution to corporate governance research by focusing on international dimensions of corporate governance and the implications of macro-level, institutional factors on the governance processes and outcomes across national borders.

This introduction to the Special Issue is organized as follows. The next section discusses country and institutional aspects of corporate governance. The section thereafter discusses a complex interface between corporate governance, business strategy and formal and informal institutions. The third section looks more specifically at the integration of global corporate governance considerations in debt markets. The last section offers concluding remarks and suggestions for further research.

Country and institutional impacts on firm governance

This Special Issue provides a chance to reflect on the importance of the national and institutional environment on the activities of MNEs. The institutions, laws and culture of countries have long been recognized to play important roles in economic development within those countries. For example, North (1990, 1991) analyzed how formal or informal rules and customs of countries were key in the development of productive economies throughout history. More recently, La Porta, Lopez-de-Silanes, Shleifer, and Vishny (e.g., 1998, 2000) established a line of research focused on the legal origins of a country and how that origin impacted economic growth. They argue that countries whose legal systems are based on English common law support stronger protection of investor and creditor rights and that these legal protections encourage development of financial markets characterized by better corporate governance standards than those in countries with a legal system based on civil law and the Napoleonic code.

This emphasis on the role of institutions and culture in the analysis of economic growth is omnipresent in research on economic development of financial markets. Stulz (2000) argues that underlying financial structures (e.g., the system through which payments are made or the transparency of information in financial transactions) are key to financial development, as

measured through stock market or GDP growth characteristics. Doidge, Karolyi and Stulz (2007) confirm in empirical tests the importance of country characteristics, including the enforceability of investor rights and transparency of information, in determining firm-specific corporate governance. They show that firm governance ratings are tied more strongly to their country environment than to their own firm characteristics and that the relation between firm characteristics and governance ratings is weakest in less-developed countries. Thus, they suggest that the lack of country-wide protections leads to an environment in which firms do not benefit from good firm-level governance. Claessens and Yurtoglu (2013) extend the analysis of the importance of country characteristics in determining firm governance standards in their survey on corporate governance in emerging markets. Confirming the analysis of Doidge, et al., they review research showing that firm-specific corporate governance is most effective in countries with strong governance and investor rights. However, both Doidge, et al., and Claessens and Yurtoglu suggest that firm-specific governance standards can ultimately improve a firm's access to investors even when the country's governance system is weak.

An important strand of the institutional perspective on corporate governance is focused on the drivers and outcomes of national and international governance rules and regulations and MNE's compliance (and non-compliance) with them. Bartram (2018, this issue) considers how governmental development of one type of financial market can expand corporate opportunities for firms and economic growth in a country. He explores the question of how nonfinancial firms around the world use derivatives. Corporate usage of derivatives is generally assumed to be based on a need for hedging uncertain or risky cash flows. Alternatively, they can be used as a means to speculate in the underlying assets. If used for speculation, regulatory bodies might take a stricter view of their usage. Bartram, however, finds little evidence that firms use derivatives

for speculative purposes. In his analysis of more than 6500 firms from 47 countries, he finds that firms on average use derivatives primarily to reduce volatility in their cash flows, especially volatility caused by exchange rate or interest rate risk. While he finds that the overall use of derivatives does not depend on country-level corporate governance or access to derivative markets, he does find that reduction in risk is larger in countries with easier access to derivatives. He concludes, therefore, that policymakers in developing economies could help to lower the riskiness of firms' cash flows through pursuing strategies that encourage the development of local-currency derivatives markets. Thus, country initiatives to develop one type of financial market could lead to overall economic growth.

From another perspective, Akhtar, Akhtar, John and Wong (2018, this issue) study “bad behavior” by firms across the world. While many compliance issues have been studied in specific countries, Akhtar et al. extend this research to an analysis of charges of tax evasion against MNEs in the Financial Times Top 500. Akhtar et al. use this international cross-section to not only examine the related wealth effects of tax evasion charges (they report slightly negative wealth effects at announcement but no long-run performance declines) but to also consider how internal corporate governance and country-specific characteristics impact the probability of undertaking tax evasion activities and the wealth impacts of those activities. From the internal firm governance perspective, factors such as stronger shareholder rights, higher proportion of female board membership and higher institutional ownership are all associated with lower probability of tax evasion, consistent with these groups generally being supportive of appropriate corporate behavior. They also report that country characteristics are important to the probability of tax evasion occurring. More specifically, MNEs are more likely to commit tax evasion in countries with higher corruption levels. These findings generally confirm findings in

studies of US firms. In addition, Akhtar et al. are able to identify important changes in international law and OECD guidelines that have had a deterrent effect on tax evasion. Their results suggest that firms are responsive to increased penalties and that policymakers would be able to change the probability of tax evasion through stronger enforcement. This research again emphasizes the importance of country governance standards and institutions for economic growth and stability.

Firm-level governance undoubtedly impacts overall profitability and growth of the corporate sector. However, the research on MNEs also confirms the importance of the environment in which a firm operates in framing and distinguishing its decision-making. The role of institutions, whether formal rules or cultural standards, in determining economic activity from the earliest human interactions, to the development of long-distance trade in the mid-20th century, to today's globalization is increasingly recognized. The overall consensus is that every firm's interactions with investors, customers, competitors and regulatory bodies and its decisions on maximization of the firm's goals is inevitably a function of and reaction to the legal and political environment in which it operates. There is also a growing recognition of the importance of other types of institutions. In the following section we discuss a complex interaction between the MNE's governance and business strategy in a richer context of formal and informal institutions.

International business strategy, firm-level governance and CSR

From a theoretical point of view, most of the empirical literature on corporate governance in MNEs has been rooted in agency theory and is concerned with linking different aspects of corporate governance with the firm's internationalization decisions and performance. The

assumption is that by managing the principal-agency problem between shareholders and managers, firms will operate more efficiently and perform better. The central premise of this framework is that managers as agents of shareholders (principals) can engage in self-serving behaviour that may be inconsistent with the shareholders' wealth maximization principle (Filatotchev and Wright, 2011).

In the context of MNEs, internationalization strategies are associated with information asymmetries and substantial risks, especially when firms invest in emerging markets with relatively less developed legal and business environments. As a result, the specific FDI decisions may also be related to the risk preferences and decision-making horizons of managers and the other main shareholder constituencies as suggested by agency theory. Given that the firm's degree of internationalization is an important determinant of the complexity it faces, FDI strategy will depend on the ability of the parent to deal with information asymmetries and potential agency conflicts associated with overseas ventures. Therefore, FDI decisions should also depend on the firm's governance characteristics, such as the distribution of ownership and control (Fama, 1980).

These theoretical arguments suggest that institutional differences between the MNE's home and host countries may create significant information asymmetries and agency costs associated with global business strategies. Therefore, firm-level governance mechanisms, such as ownership structure, board composition, and internal and external control mechanisms should have material impact on the MNE's internationalization strategy and performance. Within economics and corporate finance, for example, a substantial body of research has focused on the governance roles of dominant block-holders, especially in the environment of emerging and less developed economies (Claessens et al., 2000). In the context of MNEs from South-East Asia and

elsewhere, family owners and other block-holders have been identified as an important governance constituency that may shape strategic decisions, including internationalization (Claessens et al., 2000).

More recent studies have shifted emphasis towards “softer” governance factors, such as political connections of board members. Schweizer, Walker and Zhang (2018, this issue) explore whether and how political connections affect the likelihood of completing a cross-border M&A deal for Chinese publicly listed, but privately-owned enterprises and the resulting firm performance. These authors propose a political connection trade-off theory and find that Chinese firms with politically connected top managers are more likely to complete a cross-border M&A deal than firms with no such connections, but that this comes at the cost of negative announcement returns and subsequent lower accounting performance. These findings support the idea that politically connected top managers engage in “political empire building” behavior at the cost of shareholders’ wealth.

These diverse in terms of their theoretical focus and empirical setting studies share one common heuristic lens – they suggest that internationalization exposes the MNE to significant uncertainties, and its governance structures define how the firm responds strategically to address these uncertainties and take advantage of global business opportunities.

Chen, Zhang and Hobdari (2018, this issue) demonstrate an additional consideration that can increase uncertainty for firm activities. They find that in cross-border acquisitions made by US firms, the various blockholders of the acquirer take different stances with respect to the acquisition. They distinguish between family blockholders, banks and mutual funds and find that banks are more likely to cooperate with family blockholders because of their long-term banking relationships with the firm while mutual funds are more independent and thus more likely to exit.

By basing their research about the decisions of various blockholders in the setting of cross-border acquisitions, the authors illustrate important considerations MNE firms must react to in their business and financial decisions and lend support to the controversial nature of many cross-border acquisition programs.

Recent studies suggest that the very exposure to different institutional environments may affect the MNE's governance characteristics themselves. Conyon, Hass, Vergauwe and Zhang (2018, this issue), for example, investigate the relationship between foreign experience and CEO compensation using a sample of large UK firms from the FTSE 350 index from 2003 to 2011. The authors find that foreign CEOs and national CEOs with foreign working experience receive significantly higher levels of total compensation compared to those without. Moreover, the foreign CEO pay premium is stronger in firms that are more globalized. These results show that executive incentives are attributable to the specialized foreign expertise and foreign networks of CEOs, which stem from foreign experience rather than broader general managerial skills.

More recent sociology-grounded research suggests that governance is a product not only of coordinative demands imposed by market efficiency, but also of rationalized norms legitimizing the adoption of appropriate governance practices (Bell, Filatotchev and Aguilera, 2014). More specifically, institutional theorists predict that regulative, normative and cognitive institutions put pressure on firms to compete for resources on the basis of economic efficiency. However, institutional pressures may also compel firms to conform to expected social behavior and demands of a wider body of stakeholders. In other words, the ability of organization to achieve social acceptance will depend on, in addition to efficiency concerns, the ability of its governance systems to commit to stewardship management practices, stakeholders' interests, and societal expectations.

These theoretical arguments may have far-reaching implications for corporate governance in the MNE context. In a recent paper, Krause, Filatotchev and Bruton (2016) observe that institutional characteristics of foreign product markets influence the structure of boards of directors of U.S. firms active in these markets. They argue that allocating greater, outwardly visible power to the CEO will build the firm's legitimacy among customers who are culturally more comfortable with high levels of power distance. Scholars rarely conceptualize boards as tools firms can use to manage product markets' demand-side uncertainty, but the results of this study suggest they should. Clearly, cognitive institutional characteristics of foreign product markets can also have an effect on a MNE's governance, even if the firm is incorporated and headquartered in the United States.

Goergen, Chahine, Wood and Brewster (2018, this issue) extend these arguments by looking at issues related to institutional impact on corporate social responsibility (CSR) aspects of MNEs. These authors ask questions: Are MNEs more socially responsible, and where is this more likely to occur? Are firms less responsible in emerging or transitional economies, and what impact does the dominant national corporate governance regime have? The authors explore the association between public listing and the existence of a CSR code within specific institutional settings and assess whether MNEs are any different to their local counterparts, based on an internationally comparative survey. They find that listed firms as well as firms from civil law countries are more likely to have CSR statements. MNEs are also more likely to have CSR statement, independent of their country of origin.

Therefore, prior research in general, and papers in this Special Issue in particular, suggest that the inter-relationship between firm-level governance characteristics of MNEs and their home- and host-country institutions is more complex than it was previously understood. Indeed,

governance factors generally shape the MNE's strategic responses to different institutional settings they operate in, as well as their performance outcomes. At the same time, institutional factors may have an impact on the MNE's governance *per se*, and global firms constantly adjust their governance characteristics strategically when they target different product and factor markets overseas.

Institutions and the governance role of debt

Today an extraordinary percentage of the world's financial capital flows across international borders (Schularick, 2016). There are several reasons why firms are looking to raise capital resources outside of their home markets. For example, the increasing integration of global capital markets in recent decades has made it easier for firms to raise both debt and equity in foreign capital markets. A number of regulatory and institutional developments have contributed to this "financial globalization" (Azzimonti, De Francisco, and Quadrini, 2014; Stulz, 2005). These include the establishment of stock exchanges in several major financial centers requiring lower levels of transparency of listed firms as well as changes in regulations in many countries that give investors the opportunity to invest in foreign equities (Bekaert, Harvey, and Lundblad, 2003). In addition, listing in a foreign market can result in access to more liquid markets, debt capital at lower costs and better terms, and a wider investor base than they would have in their home capital market (Claessens and Schmukler, 2007).

Research in finance, strategy, and international business has largely focused on the challenges that organizations face when attempting to source equity capital abroad and how those costs can be mitigated through better corporate governance practices (Miletkov, Poulsen, Wintoki, 2014). However, the largest component of the international capital market is the bond

market (Lau and Yu, 2009). Between 1991-2005, one-third of all capital raised through debt issues was raised in markets other than the firm's home market (Gozzi, Levine, and Schmukler, 2010). While researchers such as Fan, Titman and Twite (2012) have shown that a country's legal and tax system and other institutional considerations such as the level of corruption play an important role in capital structure decisions in within country analysis, little attention in finance, strategy and international business research has been devoted to understanding why firms choose to source debt in foreign capital markets, whether firms incur additional costs when attempting to issue debt in foreign markets, and the conditions that factor into the success of foreign bond offers.

Both equity and debt involve agency costs associated with monitoring, enforcing, and constraining decisions (Jensen and Meckling, 1976). Research in finance has explored the existence of stockholder-bondholder conflicts which primarily manifest in terms of wealth appropriation and risk shifting. In contrast, bondholders have no voting rights but can still exercise control through monitoring and restrictive covenants. In countries like Japan and Germany, the monitoring function is predominantly carried out by debtholders (i.e., banks). Hence, capital structure decisions have important governance implications.

A growing body of comparative corporate governance research suggests that governance practices are "embedded" within the wider context of formal and informal institutions, such as laws, regulations, and cognitive expectations of the governance participants (Cumming, Filatotchev, Knill, Reeb, and Senbet, 2017). For example, Buchanan, Netter, Poulsen and Yang (2012) show that differing shareholder proposal rules in the US and the UK result in significant differences in the number and types of proposals in each country, with UK proposals generally being more expensive for shareholders to make but also potentially more successful at changing

firm behaviour. It seems reasonable to conclude that the institutional differences between the firm's home country and host capital markets also have governance implications given that agency costs and governance properties of debt may vary across different capital markets.

One reason for the popularity in raising debt abroad is that firms stand to raise debt at lower overall costs and with lower compensation being paid to underwriters (Petrasek, 2010). Yet despite the growing popularity, a growing body of research shows that foreign firms are at a disadvantage compared to local firms in foreign debt markets. Indeed, there is extensive evidence that firms suffer from home bias when they try to source debt outside of their home market (Fidora, Fratzscher, & Thimann 2006; Burger & Warnock 2007). Atilgan, Ghosh, and Zhang (2010) found that not only do cross-listed bonds have lower initial ratings, but they are also less likely to be upgraded and take longer to be upgraded compared to U.S. domestic bonds with similar issuer and issue characteristics. Hence, it is likely that firms must evaluate the costs and benefits associated with sourcing debt abroad.

In this Special Issue Gu et al. (2018, this issue) point out that there has been considerable research in the field of international business on the additional costs that a firm faces while entering and operating in foreign markets. These additional costs that a local firm would not incur are referred to as liabilities of foreignness (LOF) (Zaheer, 1995). The authors investigate whether LOF is a function of distance between the home country and the host capital market, and rely upon multiple conceptualizations of distance to capture the extent to which distance may contribute to LOF in among firms sourcing debt abroad. Their results show that firms are increasingly looking to source debt in foreign bond markets, and that distance increases the costs that firms face when sourcing debt abroad. The authors' key argument is that, other things being equal, differences in macro-level, socio-economic environments in home and host countries

affect the extent of the firm's liability of foreignness in global debt even in the situations when fix-claim investors have fairly comprehensive understanding of the firm's business model and the associated growth prospects. They also contribute to the understanding of economic significance of socio-economic distance by differentiating among the effects of various dimensions of institutional distance between the firm's home and host countries in the context of international debt markets.

Also in this Special Issue Mullner and Dorobantu (2018, this issue) point out that most research on the governance of international investments has focused only on the equity side of these investments. As such, this research has largely overlooked the fact that cross-border investments involve large shares of debt and that creditors play a critical role in financing and governing foreign investments. They study syndicated debt as a governance instrument in 5,928 large infrastructure investments and find that international loan syndicates strategically increase geographic distance between partners as a means of governing investments in host countries with high political risk. The authors discuss how expanding across geographic distance allows syndicates to tap into non-redundant sources of political, social and economic leverage (i.e. external leverage).

Future research

We hope that this Special Issue will help to build the foundation for greater understanding not only of performance outcomes of different governance mechanisms in the context of MNEs, but also of a complex interaction of firm-level governance characteristics with meso- and macro-factors such as the firm's industry and institutional environments. Our review of the state-of-the-art research in finance and international business, as well as papers in this

Special Issue suggests that the structure and processes of corporate governance are embedded in formal and informal institutions, and MNEs by the very nature of their global operations are exposed to a diverse range of institutional pressures in their home and host countries that ultimately shape their governance settings and, subsequently, business strategy and performance.

The recognition of sometimes conflicting demands imposed by regulatory, normative and cognitive institutions points to a number of promising avenues for future research. For example, Krause et al. (2016) provide evidence that whereas governance activists view CEO power as illegitimate, customers in product markets characterized by high cultural power distance view CEO power as a legitimizing force. In support of this “demand-side” argument, the authors found that firms selling primarily to high-power-distance countries conferred more power on their CEOs. It remains unknown, however, whether informal, cultural institutions abroad affect the MNE’s governance configurations when the firm must simultaneously build legitimacy with stock market investors. It also remains unknown whether investors value the MNE’s compliance with demands associated with normative and cognitive legitimacy in foreign markets or if their valuations of firms follow agency norms exclusively.

The recent accumulation of research examining the differences between the institutional environments of emerging and developed economies suggests firms need to employ specific strategies to acquire capital market resources outside of their home markets, and that these strategies may be function of the institutional characteristics of the host country. For example, certain governance signals, such as stock-based executive compensation is so prevalent in the U.S. that it has achieved a “taken for granted status” (Sanders and Boivie, 2004: 171) whereas this form of governance signal may be less accepted in other host capital markets. Likewise, large investment banks are relevant social actors in the US capital market and could conceivably

confer legitimacy to foreign firms seeking capital on US exchanges. On the other hand, the value of other capital market intermediaries may be more salient to firms attempting to secure financial resources in other capital market contexts. Similarly, Miletkov, Poulsen and Wintoki (2016) show that foreign directors are especially beneficial to firms operating in countries with lower quality legal institutions. As these examples suggest, it is important to recognize that the ability of governance signals and endorsement to improve the performance of foreign equity and bond offerings may be contingent on both home and host institutional environments. Therefore, the impact of the institutional environment of a country on the likelihood of success of foreign offerings is certainly a promising avenue for further research.

In addition to understanding the role of governance signals, a growing body of research in the finance area suggests that there are information spillovers from product markets to capital markets. Evidence in support of product market spillover to capital markets is provided by Frieder and Subrahmanyam (2005) who found that individual investors prefer to invest in stocks with easily recognized products. Further, studies have found that a firm's advertising expenditures is related to number of both individual and institutional investors as well as liquidity for its common stock (Grullon, Kanatas and Weston, 2004) and higher stock valuation (Chemmanur and Yan, 2009). A study by Keloharju, Knupfer and Linnainmaa (2010) found that investors are more likely to purchase and less likely to sell shares of companies they frequent as customers. Extending this line of research to evaluate the extent to which a firm's success in product markets enhances its success in foreign capital markets is another area of future research. Indeed, given that firms face disadvantages when competing abroad in both product and capital markets an investigation of their interactions would constitute an important area for future research. Research should also investigate the range of benefits, beyond the immediate financial,

that firms derive when source financial resources outside of their home markets. Indeed, there may be specific situations where sourcing debt abroad may actually prove beneficial to the long-term survival of the firm, or to help foster a comprehensive capital raising strategy.

Mulherin, Netter and Poulsen (2017) highlight the importance of cultural factors and the institutional environment in research on international mergers and acquisitions. For example, Ahern, Daminelli and Fracassi (2015) compare the success of cross-country acquisitions as a function of the cultural distance between the acquiring and target countries. They find that greater cultural distance significantly reduces the probability of mergers cross countries and lower synergy gains if mergers do occur. Further emphasizing the importance of the institutional environment, Dinc and Erel (2013) show that in countries with strong nationalist leanings, it is more difficult for a foreign firm to gain government approval of a cross-border acquisition. Mergers and acquisitions are some of the most significant actions taken by firms and research in this area is increasingly recognizing the importance of institutional factors in cross-border transactions and much research remains to be done to more fully understand the role of the institutional environment in the globalization of industry through mergers and acquisitions. Holderness (2016), for example, adds a caveat to existing international analysis, arguing that usage of aggregate country-level data can be misleading when applied to individual firm behavior and cross-country analysis must be performed carefully to avoid incorrect inferences.

Foreign debt offerings hold the potential for finance, strategy and international business researchers to address a wide array of research questions, and especially those related to the governance properties of debt. For instance, it is widely recognized both among practitioners and researchers that decisions regarding the capital structure of a firm can have significant implications for a firm's long-term success. There is a long tradition of research on the relation

between capital structure and corporate strategy. Although the implications of equity ownership and more specifically that of institutional ownership, blockholder ownership, and insider ownership on firm decisions have been studied extensively, there seems to be little research on the implications of different types of debt. Debt holders monitor firms they lend to and influence firm decisions in order to ensure that debt is repaid. Therefore, there is an increasing recognition in the literature that debt is heterogeneous. For example, David, O'Brien and Yoshikawa (2000) showed that relational debt has characteristics that provide appropriate governance compared to transactional debt which imposes strict contractual constraints.

The increasing integration of capital markets adds a new dimension to the complex problem of choosing an appropriate capital structure. Firms today have access to debt markets outside their country of origin and bond issues in foreign markets are becoming increasingly common. Although the cost of debt may be a prime consideration in making these choices, we believe that the decision to access foreign capital markets involves much more than simple comparisons of cost of debt in different markets. Given the wide variation in disclosure standards and monitoring intensity across capital markets, a consideration of institutional differences is critical in understanding both firm decisions with regard to where to access debt markets and subsequent implications for a firm's strategic choices.

While we have listed a number of interesting areas in which researchers can evaluate the success of foreign debt offers, there are certainly many more worth considering. Indeed, much of what is known about capital raising activities of firms has been confined to equity markets. Foreign bonds can provide a rich context in which scholars can further understand capital raising activities of firms, factors that impact market choice decisions, and how firms can overcome home country disadvantages.

In terms of research methods, cognizance needs to be taken of the data and methods adopted to address this research agenda. Bigger datasets are now available compared to the first wave of comparative governance studies. Much recent research, especially in finance, has involved the building of global datasets but has been accompanied by little theorizing or analysis of cross-country differences. The richness of these global datasets would seem to us to offer many so far unexploited opportunities for the examination of between institution effects. However, many recent editorials and commentary pieces have cautioned researchers against searching for publishable significant empirical results, what has become known as “p-hacking,” without grounding their research on strong theoretical foundations and appropriate methodological procedures. For example, Campbell Harvey (2017) in his American Finance Association address states, “with the combination of unreported tests, lack of adjustment for multiple tests, and direct and in-direct p-hacking, many of the results being published will fail to hold up.” (p. 1). The editors of the *Journal of International Business Studies* (Meyer, van Witteloostuijn and Beugelsdijk, 2017) discuss best practices “with respect to conducting, reporting, and discussing the results of quantitative hypothesis-testing research.” (p. 535). Large international databases invite researchers to correlate country-specific variables with firm product-market, governance or investment characteristics without careful analysis of why the correlations are being studied and the validity of those correlations. In addition, Karolyi (2016) notes the “fragility” in many of the cross-country institutional measures. It is important to question data reliability and comparability given the differences in collection, reporting and interpretation across countries and to ensure that research projects have a strong theoretical and conceptual foundation.

To conclude, this special issue highlights promising avenues for future corporate governance research for scholars in many fields, including, finance, economics, accounting and international business. In this article, we have summarized the findings of the papers presented in this special issue and outlined an agenda for further research on the governance aspects of MNEs with a particular focus on institutional dimensions. While there have been important global developments in terms of internationalization of product and capital markets, systematic research on the governance aspects of the MNEs remains under-developed. We have identified a number of important themes that will both help our understanding of the field and also should provide an evidence base for policy-makers and regulators at both national and international levels.

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