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Subsidiary Structures in Multinational Enterprises: Risk Isolation, Limited Liability and Implications for Creditor Protection

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Abstract. This article discusses the reason why multinational enterprises tend to conduct their operations through subsidiaries, with an emphasis on the legal and economic impact of limited liability and internal risk allocation in a corporate group. First, this article defines organizational forms including subsidiaries, branches, and joint ventures, along with the independent legal person status and the principle of limited liability. Using a normative analysis approach, this study further explains how subsidiaries can avoid the negative influence of different jurisdictions, enabling the isolation of risks, flexibility in regulatory compliance, or convenience in investment. Meanwhile, this article also points out the risks that this structure may bring to creditors. Information asymmetry and insufficient capital lead to information imbalance, while internal asset transfer within the group and excessive control by the parent company can also damage legal fairness and creditor benefits. In view that this model for the enterprise, in the pursuit of operational efficiency, is also blurred the boundary of responsibility, this article therefore argues that it is necessary to achieve a more reasonable balance between enterprise flexibility and creditor protection by strengthening information disclosure, improving internal governance, and enhancing the transparency of guarantees.

Keywords: multinational enterprises, limited liability, creditor protection

1. Introduction

In the era and context of globalization, multinational enterprises have emerged as critical actors in the global economy. These enterprises operate by engaging in production, investment, and distribution activities across multiple jurisdictions, with their operations characterized by exceptional complexity. To effectively manage cross-border business operations, multinational enterprises often implement complex corporate structures to achieve efficient operation within a variety of different legal, financial, and regulatory environments. Among these structures, the extensive use and application of subsidiaries stand out as particularly prominent. Subsidiaries, as independent legal entities, are established in different jurisdictions. This allows for the enterprise to achieve localized operations and ensure effective control of risks. This structure has become a standard model in international business practices.

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Although the use of the subsidiary structure is very popular, it still creates a lot of legal and actual problems. The principle of the legal person independence and limited liability can reduce the risk of the multinational enterprise to some extent, but in the process of using these principles, the protection of creditors will be weakened, and it will even cause more problems when the assets of the subsidiary are limited. Most of the existing research only focuses on the economic efficiency of the corporate group structure and does not pay enough attention. In the complicated corporate group, the boundary of legal independence and economic operation is often blurred, and this problem is more obvious.

This paper uses the normative legal analysis method to study and investigate the legal basis and impact of the organizational structure of subsidiaries in multinational enterprises, focusing on the legal operation of the principles of legal person independence and limited liability. The purpose of research on this paper is threefold: first, to clarify the right legal basis of the organizational structure in multinational businesses; second, to analyze the reason of using subsidiary structure; third to analyze the risks faced to creditors, and to provide suggestions for improvement.

2. Corporate structure of multinational enterprises

Multinational enterprises generally adopt various forms of organization to establish their global organization structure. These structures are used to realize the balance of operational efficiency, legal compliance, risk control, etc. In different jurisdictions. The most common forms are subsidiaries, branches and joint ventures. These forms, in terms. Significant differences in legal status, assumption of liability and application of regulation. It is of great significance to fully understand their differences and differences in analyzing the operation method of multinational enterprises and the distribution of risks in the company group. From the actual perspective, the diversified structure arrangement of multinational enterprises is not only the inevitable choice for enterprises to deal with the complexity and complexity of the global trade environment, but also the strategic choice of enterprises to strike out the efficiency and responsibility. However, this flexibility of structure arrangement, although being able to improve the operational efficiency, also to a certain extent weaken the clarity of legal liability, especially regarding the creditor protection, which may lead to the opaque transfer of risks in the company group. Therefore, when analyzing the structure of multinational enterprises, in addition to the economic function, the possible legal and fairness issues should also be vigilant about.

2.1. Key organizational forms

Multinational enterprises typically adopt different organizational forms to build their global business structure. This structure aims to achieve a balance among operational efficiency, legal compliance, and risk control in different jurisdictions. The most common forms include subsidiaries, branches, and joint ventures. This method of classification differs significantly in legal status, liability assumption, and regulatory application.

Understanding these differences is extremely important for analyzing the operation method of multinational enterprises and the risk distribution within the company group. In practical terms, the choice of these organizational forms is by the enterprise is not only a legal technical issue but also reflects the strategic trade-offs made by the empress between the risk and control. For example, the establishment of a subsidiary can effectively isolate the legal liability of the parent enterprise, but it may increase management costs and compliance burdens. On the other hand, the branch method,

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although more directly controlling and operating, makes the parent enterprise bear higher legal costs.

Therefore, author think that the choice of organizational forms by multinational enterprises is essentially the pursuit of a dynamic equilibrium between efficiency maximization and risk mummification, and there is no absolutely optimal structure. Moreover, with the constantly tightening global regulations and the continuous improvement of cross-border law compliance requirements, this structure selection has become increasingly complex. Now, enterprises not only need their legal consideration of the home law but also have to deal the regulations of the home country, international tax rules, and potential political risks. In this context, although traditional classification of organizational types provides an analytical framework, it is no longer sufficient to fully explain the actual operation of contemporary multinational enterprises. Therefore, it is necessary to combine legal structures with corporate strategy, global governance environment for a comprehensive analysis.

A subsidiary is a company controlled by its parent company, usually achieved through majority ownership or voting rights. Despite the control relationship, the subsidiary is still legally regarded as an independent legal entity, possessing independent rights and obligations. It can enter into contracts, hold assets, assume debts, and become a party to lawsuits in its own name. The core feature of a subsidiary lies in the principle of legal independence, which means that the parent company usually does not bear responsibility for its debts. This characteristic makes subsidiaries an important tool for multinational enterprises, as they can separate business operations in different jurisdictions while limiting legal risks. In many countries, establishing a subsidiary can also meet local regulatory, tax, or market access requirements [1]. However, author believe that the independence of a subsidiary is somewhat relative in practice. Although the law emphasizes legal independence, in economic reality, the parent company often exercises high control over it through capital, management, and strategic decision-making. This tension between legal independence and economic dependence makes subsidiaries both a risk isolation tool and, in certain circumstances, a potential source of liability tracing (for example, when the company structure is abused or liability is evaded). Therefore, regarding subsidiaries as a completely independent risk barrier may be overly idealistic.

A branch office does not have the status of an independent legal entity; rather, it is an extension of the parent company in another jurisdiction. Unlike a subsidiary, the rights and obligations of a branch office directly belong to the parent company. Although branches are simpler in management and the parent company can directly control their operations, they carry higher risks. Because the parent company is responsible for all the debts of the branch, if the branch encounters legal or financial problems, it will directly affect the entire enterprise. Therefore, in high-risk or highly regulated environments, multinational enterprises rarely adopt the form of branches. From another perspective, branches are not completely lacking in appeal. In countries with relatively stable regulatory environments and lower market risks, the direct control and operational efficiency brought by branches may have advantages. Therefore, author believe that the use of branches is not an eliminated model but rather depends on the specific market environment and the risk preferences of the enterprise, and its applicability is highly.

A joint venture refers to a cooperative arrangement established from the joint involvement of two or more entities in order to achieve a specific business objective, typically accomplished through the establishment of a new legal entity. Typically, multinational enterprises prefer the joint venture form when doing business in foreign cities. For example, when entering foreign cities to obtain local resources or seek policy approval, or to share risks. Joint ventures can take the form of a company,or

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a contract and their advantages lie in sharing resources and allocating risks. However, at the same time, their governance structure is relatively complex, and decision-making power needs to be distributed among multiple cooperating parties, which may lead to conflicts of interest or differences in strategy. Enterprises give up some control in order to obtain market access or local advantageous resources, which is particularly common in countries with high industrial barriers. However, this arrangement also implies long-term uncertainty because the partnership itself may become unstable as business interests change. Therefore, although joint ventures have obvious advantages in the entry stage, their sustainability from a long-term strategic perspective often depends on the consistency of the interests of the two cooperating parties and the rationality of the design of the governance mechanism.

2.2. Legal personality and limited liability

The effective operation of multinational enterprise structures relies on two core legal principles: legal person independence and limited liability. These principles form the basis of modern company law, enabling enterprises to manage risks while achieving efficient operation. However, author believe that these two principles not only promote business development but also, to some extent, have changed the way risks are distributed. Limited liability limits investors' risks to the amount of their investment, which although encouraging investment, may also transfer risks to creditors or other relevant parties. In the context of multinational enterprises, this issue becomes even more pronounced. Enterprises can disperse risks across different jurisdictions through complex company structures, thereby enhancing the effect of limited liability. Therefore, these principles should not merely be regarded as tools for improving efficiency but also need to be carefully considered in light of the potential unfair impacts they may bring.

Corporate independence refers to the legal separation between a company and its shareholders. Once a company is established, it acquires an independent legal personality and can hold assets, enter into contracts, and bear legal responsibilities on its own. In a corporate group, this principle is particularly important as it makes each entity regarded as an independent entity. Even if the parent company has a high degree of control over its subsidiaries, legally, the independence of both remains intact. This distinction is crucial for business expansion and risk control [2]. However, author believe that this legal independence in corporate groups often has a certain formal nature. Although the law emphasizes the separation of each entity, in actual operation, the parent company usually exerts deep influence on its subsidiaries through funds, management, and strategy. Therefore, this independence in some cases may conceal the true control relationship, thereby triggering disputes over liability attribution.

Second, there is a conflict between shareholder liability and the creditor's protection. In modern company law, the principle of limited liability means which shareholders are only liable for the company's debt up to the amount of capital contributions, and their personal assets will not be subject to attachment on account of the company's debt. As for multinational enterprises, the limited liability principle allows the enterprise to have the motivation to invest and develop the enterprises and even encourages them in innovative or high-risk activities without putting the whole group in danger. However, at the same, it may also be used to weaken the creditor's protection, especially if the subsidiary's capital is not sufficient. Especially in the structure of multinational enterprises, this system can be used to transfer the risk to more vulnerable stakeholders. Therefore, it is important to find a reasonable balance between encouraging investment and protecting creditors [3].

Third, in multinational enterprises, the corporate group consists of the parent company and its subsidiaries, which form a network of multiple legally independent but economically interrelated

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entities. The parent company has usually control over the subsidiary by equity control, making strategic decisions, or supervising the management. On the one hand, the structure enables multinational enterprises to achieve the balance between centralized control and decentralized operation; however, on the other hand, it also brings tension between the legal form and the fact of the economic reality. Although each entity is independent in the legal sense, the economic reality is often performed as a unit, which raises important legal issues about the assumptions of liability and the protection of creditors. Overall, author believe that the corporate group structure is essentially a system arrangement between legal separation and economic unity. In a sense, it promotes the operational efficiency of the enterprise, while in another sense it makes the regulation by law more complicated. Therefore, it cannot solely depend on the traditional principles of corporate independence and limited liability to address the real challenges brought by multinational enterprises.

3. Why multinational enterprises prefer subsidiaries

3.1. Risk isolation and liability containment

One of the main reasons for multinational enterprises to choose the subsidiary structure is that it can realize risk isolation and responsibility control. Multinational enterprises can ensure the isolation of risks and responsibility by isolating business through different subsidiaries. It can isolate financial and other business risks of one part of the group enterprise from the whole group. The mechanism of risk isolation is based on the principles of legal person independence and limited liability. This forms a legal barrier of isolation in the group. From the perspective of strategy, the risk isolation policy makes multinational enterprises get the advantages of diversified and even high-risk business in various jurisdictions. As a result, it can avoid putting too much responsibility on the enterprise and especially in high-risk industries, such as energy, finance and technology industries.

3.1.1. High-risk business segmentation

Multinational companies use subsidiaries to segregate high-risk activities into different legal entities. For example, an enterprise may create distinct specialized subsidiaries to make high-risk investments or conduct operations in politically risky countries. If a business fails, losses are confined to the subsidiary, shielding the parent company and other subsidiaries. This segregation has a legal justification, but it is also a management technique. It helps to lift the performance appraisal and the assignment of responsibilities of different business units and clarifies risk governance by improving the attribution of risk [4].

3.1.2. Protection of the parent company's assets

The second major benefit of subsidiary structure is the fact that the assets of the parent company are safeguarded. The debts of subsidiaries do not typically accrue to the parent company because of the independent legal person status of the subsidiaries. Hence, the creditors of the subsidiaries, in general, are not able to claim the assets of the parent company. This is especially relevant to the cross-border operations due to the fact that the legal systems and implementation methods in different countries differ. The multinational enterprises are able to cushion their core assets by forming subsidiaries and ensure overall financial stability in the case of local losses.

Nonetheless, author feel that this mechanism of isolating assets also has some practical duality. On the one hand, it allows multinational enterprises with an efficient risk management instrument;

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however, on the other hand, it can also reduce the protection of creditors to some extent, particularly, in cases when the capital of the subsidiary is not enough or the risks are concentrated intentionally in a particular entity. Thus, the subsidiary form is not merely a risk control tool but can also be employed as a risk transfer tool.

3.2. Operational and regulatory flexibility

The company branches help Mult business firms keep their flexibility regarding operations and legislation. Firms that set up local branches can change their business methods to suit various countries' laws, economies, and cultures. Due to globalization, countries have varying regulations. In these cases, branches help firms maintain overall strategic control while adhering to local regulations. Branches enhance firms' capacity to localize their business and, to some degree, improve their responsiveness to ongoing legal developments. This configuration can also facilitate legal loophole exploitation by picking jurisdictions where compliance costs are low, resulting in unfairness and legal inefficiency.

3.2.1. Compliance with local legal requirements

In most jurisdictions, businesses operating in a host country which are foreign in origin, need to establish a form of presence in the host country. Such a presence can be achieved through the establishment of subsidiaries, and the main advantage of a subsidiary's establishment is that the parent company can comply with a host country's legal requirements (including licensing, taxation, and employment laws) whilst also benefiting from the host country's legal protections and policies, such as local investment subsidies, tax breaks, and other policies that facilitate a more beneficial operating environment and improve overall legal certainty. Author thinks that the legal arrangements in question demonstrate the host country's ability to control access to the market whilst also reflecting the host country's desire to attract foreign investment while also protecting local stakeholders.

3.2.2. Adaptation to national regulatory environments

Multinational enterprises set up subsidiaries to manage the different operational structures for each country they operate in. Such controlled operational structures and governance frameworks can also help meet the requirements set out in various industries, like banking, that have firm regulations. It also helps meet the requirements set out for corporate governance, operational methods, and other requirements, which helps build good relations with authorities and stakeholders. This is especially important in maintaining their license to operate in different regions, and author agree it speaks to their overall legitimacy. They're able to adapt to various heavily systems in order to remain operational, but that isn't to say the other systems aren't without their merits. The opposite can be true, and operational and structural changes can be made to circumvent regulations. This enhanced flexibility can also be viewed as a method of lessening legal restraints, which places subsidiaries in a different light and re-defines their function in an enterprise. Rather than simply existing to meet the legal requirements of the country they operate in, it allows enterprises to refine and reconfigure their approach to meet varying systems, regulating their opaqueness and enhancing the competition among an enterprise's subsidiaries.

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3.3. Investment and strategic cooperation

The subsidiaries are of importance in terms of fostering investment and strategic cooperation. They offer flexibility, and therefore, multinational enterprises are able to finance, partner with other enterprises, and shift the business. In an ever-evolving global marketplace, this shifts the focus to enterprises flexibility in terms of adjustments and new opportunities [5]. Author believes that this structural flexibility markets out of the low capital mobility regions and alters, to some degree, the pattern of inter-firm cooperation. From the standpoint of an investment, subsidiaries allow firms to achieve a multi-tiered level of cooperation with outsiders while exercising a certain degree of control that minimizes investment risks. This also can increase the complexities of a company's organizational structure and the challenges of assigning responsibilities and coordinating governance. Thus, subsidiaries represent an investment and cooperative activity, but at the same time, they can create problems of a legal and managerial nature.

Subsidiaries also allow multinational enterprises to raise external capital through selling the equity of particular business units, thus accessing funds without the dilution of the equity of the parent company. This style works especially well when venturing in new markets or on a massive project. Investors also tend to invest more in subsidiaries due to the existence of clear risks boundaries and localization of the business. Author believes that this type of financing demonstrates the strategic importance of subsidiaries in designing capital structure. Companies are able to bring external funds and retain control, and this is where risk diversification is attained. Nonetheless, such a structure can also make the company structure more complicated and introduce problems with the distribution of benefits and information transparency.

Assets divestitures and mergers and acquisitions are easier as subsidiaries make them. Businesses are able to change their form of business through acquisition and sale of subsidiaries without impacting the whole group. As an illustration, the sale of subsidiaries can hastily leave a particular market or line of business; by using subsidiaries, acquisitions can be an effective means of managing risks and enhancing integration efficiency. Nevertheless, Author supposes that such a modular construction, as much as it helps to enhance the efficiency of the transactions, can also stimulate the enterprises to make more short-term oriented strategic choices. An example is regular sales of assets that can undermine the stability of the enterprise in the long term and negatively affect the employees or the economy of the region. Thus, this flexibility is efficiency-inducing as well as it sparks an additional thought on corporate responsibility.

Subsidiaries are a good opportunity where multinational enterprises can work together with local partners. In case of an equity cooperation structure, enterprises are able to unify global experience and local resources. Such cooperation is especially important in complex culture, political, and economic markets. A balance between control and cooperation can be realized in the subsidiary structure [6]. Despite the fact subsidiaries offer an institutional foundation of cooperation, the stability of the partnership remains to be extremely dependent on the regularity of interests of both partners as well as the formulation of the governance mechanism. Thus, even subsidiaries are not able to get rid of the threat of conflict in cooperation entirely; they offer a rather manageable system.

4. Risks for creditors in subsidiary structures

4.1. Information asymmetry

One of the principal risks to creditors for the corporate structure in a subsidiary company is information asymmetry. Nonetheless, in a group of multinational companies, knowledge about

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finances, internal connections and allocation of risk is rarely evenly spread across members. Internal management and its parent company typically have rich data while external creditors often struggle to get binders of information. The presence of this information asymmetry may induce creditors to make decisions based on limited or inaccurate information, thus misrepresenting the credit risk faced by the subsidiary. This problem becomes particularly severe within complex company groups, which consequently damages market transparency and the reliability of credit assessment.

4.1.1. Misperception of group responsibility

The creditors have a common misconception that their subsidiaries are funded by the parent company or the whole group. This image is due to the consistency of the brand and the point of identification in the minds of people. Nevertheless, on the basis of the principle of the independence of legal persons, the parent company is not typically responsible of the debts of subsidiaries. Creditors may not fully appreciate this legal fact and overestimate the security. Creditors can hardly claim anything but limited assets of a subsidiary when it becomes bankrupt, therefore, losing. This cognitive bias, as Author see it, demonstrates a great lack of contact between the form and the reality of the market. Even though the law is very clear on different entities, multinational enterprises tend to work under one brand and a general image, which unconsciously enhances the anticipations of the creditors towards group responsibility. Thus, this misconception is not purely on the laxity of creditors but also a combination of organizational structure of the enterprise and the market presentation. More technical inspection reveals that this divide also brings about normative concerns: is it right to wholly offload risks to the comparatively disadvantaged information-less creditors? Therefore, the principle of legal person independence, alone, might be inadequate to attain substantive fairness, and more attentive group responsibility consideration should be made in some situations [7].

4.1.2. Complexity of corporate group structures

Typically, modern multinational companies operate in different jurisdictions and have complex layers of subsidiaries, including holding companies, intermediate companies, and various special purpose entities. This complexity impedes creditors from understanding the true state of the financial affairs of their counterparty, in addition to obfuscating the integration of capital and the potential risk circulation within the group. When these companies face potential insolvency in multiple jurisdictions, creditors find it extremely challenging to locate assets, determine accountability, and enforce their claims. Author believes that the complexity of these structures is, to a degree, intentional. It is a by-product of the complexity that comes with a growing enterprise. Such multi-layer companies can further divide and isolate business risks and optimize regulatory/legal liability exposure, which fortifies and enhances the business's risk mitigation capacity. This, however, comes at the expense of transparency and increases external stakeholders' informational disadvantage. Consequently, the complexity of these structures promotes enterprise operational flexibility, while increasing the challenges faced by legal s to apply the law and by regulators to enforce their regulations. Author believe that from a prescriptive standpoint, the traditional approach to disclosure and company law will be a futile approach, and that the solution will necessarily involve more robust cross-border and regulatory cooperation at the level of frameworks and guidance.

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4.2. Thin capitalisation and asset transfer

Creditors face many risks, especially regarding the subsidiary's self-capitalization and within-group asset transfers. It appears Multinational Enterprises may decide on purpose to self-capitalize their subsidiaries and then oust substantial parts of the asset base to other companies in the group, thus minimizing the creditor's claims on the assets. While these arrangements might be legally permissible, the flexibility for enterprises to conduct their business is countered by the risk of undermining creditor protection and the fairness of the arrangements. Author considers these arrangements to be the first conclusion on the potential abuse of the limited liability in fact. It is one thing for a business to structure itself in a way that is able to isolate the risks, and while no one would argue that is bad, it is another thing when those arrangements are used to subvert creditor protection, and then the arrangements, designed to leave no trace of rationality, lose their legitimacy. This is more than simply a technical legal issue; it touches on the core of company law's value and the balance it seeks to achieve between fairness and efficiency.

4.2.1. Insufficient capitalisation of subsidiaries

When the subsidiary is involved in a high-risk business, the problem becomes even more critical because it can be established with a limited amount of capital, i.e. it does not have enough to cover its debt. A lack of capital also risks the inability of creditors to get their full repayment in the case of bankruptcy. Limited liability secures shareholders and can also promote the passing of risks to creditors. This issue is usually more pronounced in the structure of multinational enterprises as enterprises are able to further enhance this effect via cross-border arrangements. As such, Author does not think that the requirements of formal capital regulation can alone act as a barrier to protecting creditors, that more substantive review criteria must be used to guard against abuse.

4.2.2. Intra-group asset transfers

MNEs frequently realize optimization of tax or operational change by means of internal transfers of assets within the group. But in case of transfer of assets out of a subsidiary that is experiencing a financial crisis, the creditors interests might be jeopardized. Such conduct can in the extreme amount to asset stripping the transfer of core assets prior to bankruptcy. This action weakens the validity of the company form and can be a violation of the principle of the independence of legal personality. Author thinks that internal asset transfer in a group indicates the conflict between the adaptability of the company form and the legal framework. Though these arrangements are commercially justifiable, their validity is doubted in cases where they are made to avoid debts or undermine creditors. Hence, such actions cannot be accepted as just a normal business practice but must be more sharply examined by the law in certain situations in order to avoid the exploitation of the limited liability mechanism.

4.3. Excessive control by parent companies

While subsidiaries are structurally autonomous, they are frequently managed directly by their parent company, illustrating a discrepancy between legal and economic considerations. Excessive parent company control can lead to subsidiary decisions that favor the parent, leaving creditors with increased risk. The parent company benefits economically while shifting responsibilities to the subsidiary, which disrupts the child entity's autonomy. This indicates that with a certain degree of

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control, the subsidiary's formal independence should warrant an equitable description of the parent company's legal responsibilities within that context.

In most corporate groups, subsidiaries are not only legally independent but are in fact under control of the parent company. The parent company might have a decisive influence on the major decisions like financing, strategy, and appointment of management. This situation of formal independence, real control can give creditors a false impression and make them overestimate the risks by being overconfident about the apparent independence of the subsidiaries. Author thinks that this contradiction of structure is the essence of the corporate group system, which is the lack of consistency between legal form and economic reality. The principle of legal persons independence, which presents a clear outline of the limits of liability in the legal domain, in reality, makes creditors depend more on economic stability of the enterprise as a whole, rather than on the independence of a particular entity. Thus, this institutional structure, although increasing the flexibility of the enterprise, can also undermine the creditor to make risk judgments.

Limited liability coupled with independence of legal persons and control by parent companies creates inherent concerns of fairness. There is the risk of excessive risks to the creditors, and the advantages of the company structure are largely concentrated on the shareholders. This imbalance has raised controversies on whether the existing laws are sufficient to safeguard creditors. There are scholars who propose the implementation of the system of lifting the corporate veil or group liability in some situations, yet they must be employed carefully not to weaken the economic effectiveness of the corporate system. Normatively speaking, Author thinks that the solution of the issue is to find the balance between efficiency and fairness. On the one hand, over-intervention can erode the practical benefits of the corporate form; on the other hand, the reliance on the formal independence of the legal person alone might not deal with the unfair distribution of risks in reality completely. Thus, the definition of the responsibility of the parent company will have to be considered more finely in particular circumstances.

5. Governance and policy recommendations

5.1. Enhancing information disclosure

Considering the risks posed by information asymmetry in the subsidiary structure, an increase in information disclosure can be an important step towards better creditor protection. Accessible and transparent data enables creditors to make more rational decisions and less misjudgment concerning risks. Meanwhile, efficient information disclosure system may also contribute to the improvement of the market constraints, making multinational enterprises take the responsibility of their structure and financial conduct. Because multinational enterprises tend to disseminate information using complicated structures, in practice creditors are at a severe information disadvantage. Thus, the use of contractual mechanisms or self-discipline in the marketplace might not be adequate to close this gap. But the efficiency of this action can also be restricted by the real enforcement ability. When the disclosure rules are not based on the same standards or are not enforced sufficiently across the borders, then their real impact can be significantly diminished.

5.1.1. Transparency of corporate group structures

The multinational enterprises are to be obliged to provide clear and full information about the company group structure, the relationships of the parent company, subsidiaries and intermediate holding structures, and the equity and control structure. Improving the disclosure of the structure

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assists creditors in gaining a clearer perspective of how risks and responsibilities are allocated throughout the group, lowers the amount of confusion that is brought about by complicated hierarchical structures and eliminates the possibility of hiding liabilities by obscuring entities. Author believes that such transparency requirement not only increases the degree of disclosure of information, but also it is a direct answer to the problem of structural obscurity of the company group. Because multinational enterprises tend to accomplish the risk dispersion and the isolation of liabilities by a multi-level structure, in case of lack of disclosure, external stakeholders in fact have problems with the accurate evaluation of the real risks. Nevertheless, the efficiency of this requirement is also related to the robustness of regulatory enforcement and the level of cross-border coordination. Formal disclosure requirements can be insufficient to address the real issue of information asymmetry and therefore transparency regulations must be coupled with other more binding compliance procedures in order to work

5.1.2. Disclosure of financial conditions

Subsidiaries should be structurally transparent and accurate and timely financial disclosers, including financial statements and other disclosures relating to assets, liabilities, or contingent liabilities. Enhanced financial disclosure will enable creditors to assess the subsidiaries' solvency more accurately and limit behaviors, such as the lack of adequate capitalization and asset stripping, which are more easily concealed in an environment of poor financial disclosure. Financial transparency, to some extent, provides a protective value. Historically, a poor post-event correction mechanism is a financial transparency mechanism that limits the likelihood that a risk will be accumulating in the pre-event phase [8]. Still, disclosure and transparency, by themselves, will not be effective if the information provided is not accurate and consistent. Inconsistencies and inaccuracies can still lead to unmitigated risk and can even be exacerbated by an entity's discretionary accounting treatment or by jurisdictional information gaps. Therefore, author believe financial openness rules should be paired with international accounting rules, effective auditing, and proper regulation to provide genuine protection to creditors.

5.2. Strengthening internal compliance and financial governance

Multinational companies must improve internal governance as much as external disclosures. Multinational companies must strengthen internal governance as much as external disclosures. The subunits of a multinational company may also facilitate its external disclosures. The subunits of a multinational company may hold a significant amount of external data, which can be disclosed to the public. The subunits of a multinational company may also be dealing with external entities that do not control the information being disclosed, which may be related to the parent entity. Adequate internal, control, and compliance systems are governance systems that are designed to control and minimize the risks of improper, unregulated, and uncontrolled activities prior to their occurrence. This is more critical for multinational enterprises, where decentralized operations and complex organizational structures create significant risks related to inconsistent policies, improper conduct, and financial mismanagement. The internal compliance system is the line of defense for risk management, and as a consequence, the internal control and compliance systems are a multinational company\'s first line of defense against external controls and regulations. The internal control system must reflect the internal policies and structure of the control systems. This is not only a system design issue but also a cultural and accountability challenge [9].

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Multinational enterprises need to come up with an integrated internal risk management system to identify, monitor and manage the risks of all its subsidiaries. This encompasses risk assessment systems, internal audit systems as well as compliance inspection systems. With an effective risk management system in place, potential excess debt, operational risk or infractions are identified at a very early stage, thus securing not only the interest of the enterprise, but also the interests of the creditors indirectly as a result of increased stability [10]. Author believes that the greatest benefit of this risk management system is the ability to put risk control up front instead of using remedies after the event has taken place. Internal monitoring mechanisms are usually more immediate and targeted than external supervision, particularly in a multinational structure because of the long information chain and vast disparities in regulatory environments.

Intra-group transactions should be closely monitored to avoid intra-group abuse like transfer of assets or unjustified pricing. The parent company and its subsidiaries should develop clear policies in order to make sure that transactions between the parent company and subsidiaries adhere to the principle of independent transactions. Open and uniform intra-group transactions contribute to the prevention of the transfer of assets outside the reach of creditors and the increase in trust in the company structure. Nonetheless, practically speaking, author feel that the challenge in controlling the intra-group transactions is that they are highly controllable. The intra-group transactions can have both commercial rationality and structural adjustment roles and therefore it is not simple to determine the fairness of intra-group transactions. Such rules can be hard to transfer-of-interests without proper auditing and independent supervision mechanisms. Thus, the success of internal governance will be determined by the quality of implementation and enhancement of accountability.

5.3. Improving transparency of guarantees and commitments

The other significant direction of reform is to increase the transparency of internal guarantees and financial obligations in the company group. Creditors frequently make judgments on the basis of presumed support by the parent company, and such presumptions are not necessarily legally binding. Thus, it is important to clarify such arrangements in order to minimize misunderstandings and safeguard creditors. Author thinks that the gap between the perception and the legal reality is the key to this issue. Market participants tend to have judgments on credit risks based on the perceived strength of the group; however the law may show that the parent company is not liable under very stringent conditions. In this way, creditors may easily be subjected to unanticipated risks without any other factor other than this cognitive bias. Yet, even enhancing transparency could be insufficient in order to address the issue fully as even when information is disclosed, creditors might not be capable of properly evaluating its legal status or real feasibility.

Lastly, proactive steps by creditors to secure their own interests should also be undertaken, which includes, among others, promotion of due diligence, familiarity with the legal position of their subsidiaries and securing of their rights through contractual means like guarantees, mortgages or restrictive clauses. Despite the great significance of legal reforms, creditors awareness and contract protection are also key aspects of risk management. With adequate information, creditors are in a better position to manage multinational companies with their complex structures. Thus, the inequity of risk allocation is also influenced by the differences in creditor capabilities themselves. Nonetheless, there are controversies in this leaning on the responsibility of creditors approach too. When the due diligence requirements of creditors are given excessive prominence, it can actually add to the load to which the unfortunate party will be subjected, thus undermining the risk balance, which the company law was initially designed to effect.

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6. Conclusion

The overall subsidiary structure is a pervasive trait of MNEs, which originated mostly from the demands of risk management, regulatory adaptation and strategic flexibility. While this corporate structure can promote enterprise efficiency, it also creates risks for creditor protection. Low levels of effectiveness of existing legal protection mechanisms can be attributed to information asymmetries, a lack of capital, and excessive parent company control as indicated in this article. Hence it needs to be bettered, by such as increasing information transparency internal governance control and clarity in the division of responsibilities throughout the group. Future studies may provide a better understanding of how legal reforms and comparative law can meet the requirements of overcoming these challenges to realize a more balanced corporate governance regime.

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