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From Global to Local
An exploratory case study of how global strategy is balanced with the need for local adaptation in a multinational company

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Abstract

Using an exploratory case study, this thesis explores how a global strategy is balanced with the need for local adaptation in the management control system at the subsidiary level. Through the use of exploration and exploitation, the tensions inherent in Simons' (1995) levers of control framework are operationalized to shed light on how the management control system within the case company LocalTech balances the implementation of global strategy (exploitation) with flexibility for local adaptation (exploration). The analysis reveals that the management control system within LocalTech emphasises exploitation over exploration, which facilitates global strategy implementation but gives limited room for taking advantage of local opportunities. Concluding the findings, it is shown that global strategy implementation and local adaptation can under exploitative circumstances sometimes overlap.

Keywords: Management control system, levers of control, exploration, exploitation, balancing tensions, multinational company, subsidiary, strategy

Acknowledgements

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"Think globally, act locally."
Paul McCartney

1. Introduction

As more and more organisations operate on a global market, the challenge of being global while staying locally competitive is becoming increasingly significant to companies. On the one hand, as market conditions differ around the world it is important for a local organisation to be agile and adaptable to local market needs. On the other hand, the global organisation wants to exploit the competitive advantage gained from standardisation and coordination. It becomes important for a global organisation to be coordinated and integrated to achieve a global unity of effort, while leaving space for local adaptation, differentiation and flexibility (Busco *et al.* 2008). The global strategy should thus be balanced with the needs in each local market, and the control and structure of the company adjusted accordingly. Research has shown that global homogeneity in a management control system might not be achievable when the control system is implemented at a local level, since the strive for homogeneity at a global level drives heterogeneity at a local level (Cruz *et al.* 2011). If the management control system alters at a local level, the question then remains as to what becomes of the global strategy and how the tension between global strategy and the local adaptation is balanced. This study aims to delve deeper into this challenging tension, with the purpose to investigate and shed light on how global strategy is realised at a local level in a multinational company.

Hence, this thesis aims to answer the following research question: *How is global strategy balanced with the need for local adaptation in the management control system at the subsidiary level?*

In an attempt to answer the research question, an exploratory case study was made of a large, listed, multinational company, which has communicated a long-term global strategy and ambitious goals to the market in an attempt to move away from the short-term focus the quarterly reports create. This thesis focuses on a Swedish subsidiary within said multinational company and investigates how strategy and local adaptation is balanced in the local organisation. In particular, two divisions were studied, in order to provide symmetry in the material collected.

Empirical material was gathered through both interviews and artefacts. 19 interviews with TechCo employees were conducted, with a focus on employees in the two divisions as well as LocalTech management and representatives from a client facing division. Artefacts such as

internal and external documents, the corporate website and the TechCo annual report were also reviewed. To structure the findings, Simons' (1995) four levers of control were used as a skeleton framework. Furthermore, the concepts of exploration and exploitation were added, in order to shed light on how the management control system within LocalTech balances the implementation of global strategy (exploitation) with flexibility for local adaptation (exploration).

To conclude, the analysis shows a global strategy being pushed out from the global level leaving minimal flexibility on the local level. When exploring how the management control system within LocalTech handles exploration and exploitation, an emphasis weighing over on exploitation is observed. Exploration is done only to a limited extent, as the major focus of the sellers in the sales organisation LocalTech is to deliver on their relatively short-term targets rather than explorative actions. Thus, the analysis reveals a strong emphasis on global strategy implementation rather than local adaptation in the management control system within LocalTech. The findings of this study adds to the research focused on how to balance conflicting demands within multinational organisations and shed light on a case where a company balances the demands unevenly, while at the same time succeeding in making the demands overlap.

1.1 Definitions

There are certain expressions in this thesis apart from the ones brought up and defined in the theory chapter which need to be further clarified and defined. When referring to management control systems the following definition is the one used: "Management control systems are the formal, information-based routines and procedures managers use to maintain or alter patterns in organisational activities" (Simons 1995, p. 5). This means that this thesis refrains from discussing the informal structures and culture which might exist in the case company, given the focus on the management control system in the research question. In addition to this, it should be noted that this thesis views performance management systems and performance measurement systems as parts of the management control system.

Furthermore, the basis for the management control system is the intended business strategy. The concept of strategy is here defined as the creation of a unique and valuable position, involving a different set of activities (Porter 1996). This means that global strategy is seen as all actions and orders received from the global level at the local level. Thus, everything the global organisation wants the local organisation to do is a part of the global strategy, i.e. the global intention is the global strategy.

1.2 Outline

Chapter 2 will provide an overview of existing literature and further present the research gap identified. Chapter 3 will then provide the theoretical framework upon which this thesis is built. After that, Chapter 4 will describe the methodology and the critical choices made in the design of this study. Chapter 5 presents the case study empirics, which is then analysed with the aid of the theoretical framework in Chapter 6. The formal conclusions based on the analysis will then be presented in Chapter 7, followed by a discussion in Chapter 8 of the findings from a theoretical, methodological and empirical perspective, including areas for further research.

2. Literature Overview: MNC Strategy and Control

In this chapter previous research on multinational company (MNC) strategy and related management control issues will be explored. The chapter starts by exploring the link between MNC organisational structure and strategy for internationalisation. It then continues to discuss the different strategic and operating roles a subsidiary can take within a MNC. Lastly, a discussion of how global control systems are altered when implemented at a local level will be examined, before presenting the identified research gap this thesis aims to explore.

2.1 The MNC Structure is Related to Strategy

One issue that previous literature has explored is the link between strategy and management control structure. Hedlund (1986) identifies three observed strategies for internationalisation, around which companies structure their management control and international operations, leading to three different organisational structures: the ethnocentric, polycentric and geocentric structure. The ethnocentric organisation's strategy aims to exploit firm specific advantages in closely related markets, and the tie between the headquarter and subsidiary is very close (Hedlund 1986). The subsidiary is there to implement strategy, not formulate it, and controls are clearly influenced by the parent company and the parent company's home country.

A polycentric organisation instead consists of operationally independent subsidiaries. It usually operates in more countries than an ethnocentric organisation, and can, in comparison to the ethnocentric organisation, be referred to as a MNC. There is some pooling of resources within the MNC centred at the headquarter, especially with regards to financial reporting, but in general many functions are duplicated across subsidiaries. The subsidiaries as such have to take strategic decisions with regards to their markets, and the headquarter's controls are primarily based on financial results rather than influencing operational decisions.

Lastly, the geocentric organisation focuses on a strategy that emphasises global cohesiveness. Controls are according to Hedlund (1986) once again increasingly influenced by culture and the financial measures are focused on global profitability. At this point, the MNC views its competition as global, not as concentrated to each individual local market. As a consequence, the subsidiaries within the MNC can specialise in certain organisational activities and the strategies in the subsidiaries are implemented according to a global logic. A recurring theme within the accounting literature is how such a "global logic" is created, and in particular how the relationship and co-operation between the headquarter and the subsidiaries affect the potential

success of an international or global strategy. Dossi and Patelli (2008), for example, examine in which settings the performance measurement system implemented by the headquarter on the subsidiary level influences the strategic decisions taken by the subsidiaries, and thereby also how the process of developing strategies is constructed. If the control system design is shared between the headquarter and the subsidiaries, and the global pressure is high, then subsidiaries tend to use the global control system to support the initiation and implementation of local strategic decisions (Dossi & Patelli 2008). This implies that if the subsidiary is involved in the design of the control system, then it is more likely to make decisions in line with global aims, assuming the control system as such is properly designed in line with said global strategy. As showed by Hedlund (1986), the internationalisation strategy has an effect on how the control within a MNC is structured. Consequently, since the design of the control system should be built on the intended strategy (Simons 1995), determining the strategic and operational role assigned to the different subsidiaries will play a crucial role and research exploring such roles will now be further reviewed.

2.2 The Role of the Subsidiary Impacts Its Contribution to Global Performance

The basis for categorising the strategic and operational role of the subsidiary within the MNC differs between researchers, but often adheres to different characteristics of the subsidiary's local environment and relative competence in relation to the group and the group's strategy. As such, the subsidiary can take on quite different strategic roles. Jarillo and Martíanez (1990) propose three strategic roles of the subsidiary based on two basic dimensions: the geographical localisation of activities (i.e. whether R&D, purchasing, manufacturing, marketing, etc. are performed in the country) and the degree of integration of those activities that are performed in the country with the same activities in other subsidiaries of the firm, a framework which was later on confirmed and extended by Taggart (1998) (see Figure 1).

Figure 1. Framework for analysing subsidiary strategy
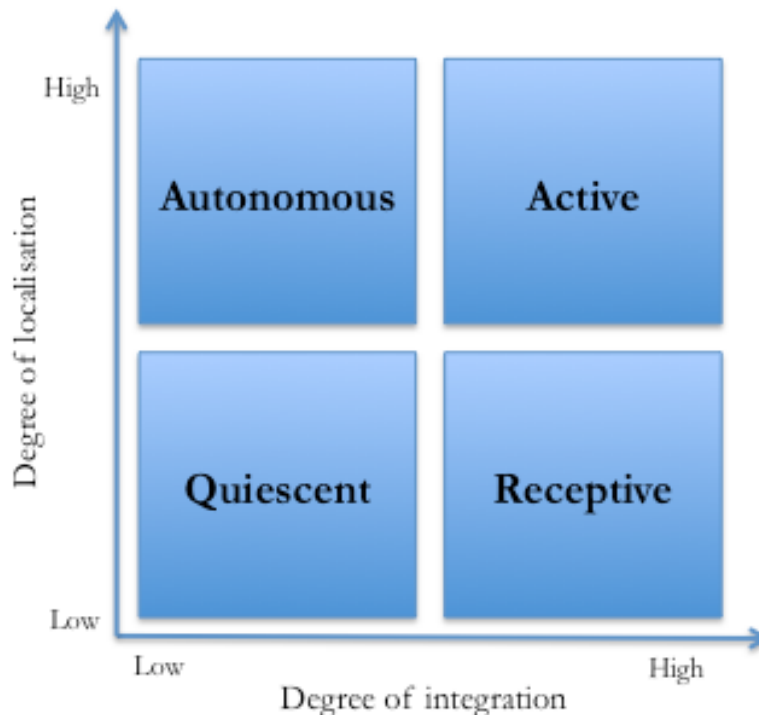
Source: Jarillo & Martíanez (1990); Taggart (1998)

If the strategic role of the subsidiary is autonomous, the subsidiary is relatively independent and carries out most of the functions of the value chain, quite similar to what Hedlund (1986) described as a polycentric organisation. If the subsidiary instead has a high degree of integration with the rest of the firm and few functions are performed in the country, the strategy is defined as a receptive one (Jarillo & Martíanez 1990), not far from the definition of a geocentric organisation. An active strategic role played by the subsidiary is in turn characterised by a high degree of integration and a high degree of localisation, where the different parts of the organisation work together in a closely tied network. The last strategic role is the quiescent one, which was added to the original framework by Taggart (1998). A subsidiary usually takes on, or is given, a quiescent role unintentionally. Instead, it is a consequence of misappropriation of changing strategic or competitive pressures, leading to the fact that such a subsidiary is much less likely to contribute to a global strategy and therefore impede the overall performance of the MNC (Taggart 1998). Bartlett and Ghoshal (1986) find a similar result, referred to as "the black hole subsidiary", when they attempt to identify different types of subsidiaries and how they develop and implement strategies through analysing data in terms of the strategic importance of the local environment and the competence of the local organisation. Identifying the strategic role

of a subsidiary, and to continuously evaluate it, therefore appears to be important so that the non-contributing form of subsidiary can be avoided.

The essence of global integration, as seen in the geocentric organisation, is to treat all subsidiaries in the same way, to have the same kind of processes throughout the MNC (Hedlund 1986). However, the strategic role of the subsidiaries can vary within the same MNC. The geocentric organisation presented by Hedlund (1986) does not oppose this, but suggests that the subsidiaries specialise in activities to serve a global market rather than a local one. This view on the global MNC is challenged by the results found by Bartlett and Ghoshal (1986), where it is indicated that the global MNC is much more successful when the local capabilities are used to its advantage. With the latter comes the challenge of balancing subsidiary integration with local adaptation of the subsidiary. Busco *et al.* (2008) conclude that a MNC constantly has to balance the tensions between a global and local setting in order to be successful. Within a MNC, relationships between different organisational parts are important, and the organisation continuously have to manage both vertical relationships between the headquarter and the subsidiary, and lateral relationships subsidiary to subsidiary (Busco *et al.* 2008). The tensions between the global and local parts of the organisation are always present, and the organisation as such has to find a way to manage them continuously through the control system (Busco *et al.* 2008). Thus, a MNC might have to differentiate between its different subsidiaries based on global strategy as well as local capabilities and environment, which undoubtedly will affect the different subsidiaries' possibility to contribute to the overall organisational aim (Ghoshal & Nohria 1989).

2.3 Global Control Systems Tend to Change When Implemented at Local Level

The subsidiary does not have to be a passive recipient in the process of determining how and with what it should contribute to the overall aim of the MNC. Rather, subsidiaries of MNCs cannot only contribute to firm-specific advantages; they can also drive the process (Birkinshaw *et al.* 1998). As previously stated, Dossi and Patelli (2008) observed that subsidiaries were more likely to adhere to global performance measurement systems if they had been a part of their design process. However, Dossi and Patelli (2008) also identified performance measurement systems being developed and implemented locally, in parallel to the performance measurement systems implemented by the headquarter. The combination of the performance measurement systems implemented by headquarters and the performance measurement systems developed by subsidiaries raise different problems in relationships between headquarters and subsidiaries and, as a consequence, can affect local economic performance (Dossi & Patelli 2008). Drawing on the conclusions presented by Dossi and Patelli (2008), if the subsidiary is part of a polycentric MNC,

which acts on relatively isolated or independent markets, a performance measurement system implemented by headquarters will likely affect the overall financial result of the MNC negatively. However, if the organisation is part of a geocentric organisation that acts on a global market, a performance measurement system implemented by headquarters will be more logic.

Thus, to have two parallel systems could have questionable benefit to the global organisation depending on structure and strategy, but research has shown that there might not be such a thing as only one single cohesive system existing within MNCs. In a single-firm case study performed by Moilanen (2008) it is found that the headquarter use accounting systems for control, but that the power of accounting is blurred and formed as it goes through the organisation's different hierarchical levels. The global level appears to emphasise control through accounting, or financial performance, and systems as such are important and believed to have a crucial role in the implementation of global strategy (Moilanen 2008), not far from the arguments presented by Hedlund (1986). The intermediary subsidiary studied by Moilanen (2008), which in the organisational hierarchy has the headquarter above it and other subsidiaries below it, tended to shift from the hard accounting language used by the headquarter and translate it into measures or language more connected to the operations. The financial numbers used by the headquarter are at lower levels still present, simply described in a language that the bottom managers can relate to. In addition, the intermediary and lower level subsidiaries put more emphasis on personal relations, trust in the individual and follow-up through personal interaction rather than through systems (Moilanen 2008). Hence, the language following accounting and targets seem to differ between organisational levels. A similar pattern is discovered by Cooper and Ezzamel (2013), when they look at what language is used to promote globalisation throughout different organisational levels of MNCs. The language at the global level is broad and visionary, and at a local level distinctly linked to the local business and practices (Cooper & Ezzamel 2013), i.e. language was used to make sense of the accounting. These findings are not far from how Moilanen (2008) observed that the language around financial targets and controls were adjusted to subsidiary levels.

Building on a slightly different approach to the relationship between the global and local than Moilanen (2008), Cruz *et al.* (2011) instead studies a joint-venture subsidiary, which has two parent companies, and analyse what happens to the global management control system of one of the parents' when it is implemented at a local level. Notably, the two parents agreed that only one of the parents control system should be implemented. As mentioned, the management control

system should be constructed in such a way that the tensions between the global and local setting are continuously managed (Busco *et al.* 2008). Therefore the conclusion that local management made the global management control systems "work for them" made by Cruz *et al.* (2011) is not surprising. However, what is interesting is that this reproduction and alteration is driven by the global management control system the parent was attempting to implement. The deviation from the global management control system is therefore a consequence of the fact that the headquarter is trying to achieve global homogeneity (Cruz *et al.* 2011). Hence, tensions between global and local are always present, and local divergence might even be driven by the global systems when they are implemented. As the literature this far shows, both global standardisation and local adaptation is crucial for company success, and in addition it seems like local adaptation to some extent might be inevitable.

2.4 How This Thesis Contributes to Knowledge

As both global standardisation and local adaptation are crucial for company success, this raises the question of how a global strategy is balanced with the need for local adaptation at a subsidiary level. Research has identified that there is a continuous challenge between the global aims and adaptation to local markets in order to achieve overall company success in a MNC. As presented by Cruz *et al.* (2011) global control systems are altered at a local level to balance both global and local demands. However, those findings only relate to whether the control system changes. Research have still to answer the question of how potential changes in the local management control system relate to the global strategy, and if the global strategy receives the same attention as adaptation to the local market in the management control system at a subsidiary level. Therefore, the aim of this thesis is to explore how a global strategy is balanced with the need for local adaptation at a subsidiary level within a MNC.

3. Theoretical Framework

In this chapter the theoretical framework is presented. As the question in this thesis concerns how the global strategy is balanced with the need for local adaptation at the subsidiary level, Simons' (1995) framework for management control was chosen to structure the analysis in this study. The framework consists of what Simons refers to as four different levers of control, and is in this thesis applied as a skeletal framework (Laughlin 1995). This means that the framework is used for structuring the empirics in the analysis, rather than as the absolute truth, which given the approach of systematic combining presented in the methodology chapter is suitable as the theory can then be extended. After Simons' (1995) framework is introduced, concepts that aid the discussion of the relationship between the different parts of the control system are presented.

3.1 Simons Four Levers of Control Framework

3.1.1 Beliefs Systems: A Company's Formal Values

Beliefs systems are the formal values a company identifies itself with, which the managers continuously enforce through formal systems (Simons 1995). These formal values are the core of the organisation, and are explicitly linked to the strategy of the firm. The role of the beliefs systems is to inspire and guide employees in the search for new opportunities, through communicating the set purpose of the company (Simons 1995). As new situations continuously occur in the environment of a company, these potential opportunities have to be explored in line with the company purpose, and sometimes there are no set rules for that. The beliefs systems help the employees to choose between the different opportunities that present themselves on the basis of the core values of the organisation. It is claimed that shared values and corporate principles throughout the MNC plays a crucial role for if a global organisation will be able to be big as well as agile (Kanter 2008). If the company has a shared base of values and principles it will guide the behaviour of the individuals in the organisation, and allow the subsidiaries to adjust to local conditions based on those values and still work toward the overall global targets (Simons 1995; Kanter 2008)

The beliefs systems should appeal to all members of the organisation, not only a specific group, and consequently the beliefs systems are on purpose often broad in its design. Many of the benefits of constructing formal beliefs systems come from the fact that they create a need for discussion and dialogue throughout the organisation, rather than the wording itself. As a consequence, it is important that the managers of the organisation act in accordance with the

formal beliefs systems. If such enforcement through action is not done, the written core values will have little to no effect on what the employees do.

3.1.2 Boundary Systems: A Company's Formal Rules and Guidelines

Boundary systems are the opposite of the beliefs systems; they balance the generality of the beliefs systems. The boundary systems operates within the domain of the beliefs systems, and are the formal set of rules and guidelines the organisation sets up to specify what the employees cannot do. In short, it limits behaviour as it focuses on what not to do. Simons (1995) argues that it is better to focus on specifying what the employees should not do, as it will most likely make up a shorter list than specifying everything the employees can do. The purpose of the boundary systems is to facilitate delegation and generate the possibility to achieve flexibility and creativity in the organisation. This is done as the boundary systems create organisational freedom within the boundary domain (Simons 1995). Logically, boundary systems are difficult to incentivise, and instead they are generally enforced through sanctions. Such sanctions have to be credible, and enforced by managers' actions, in order for the boundary systems to work.

Several boundary systems, focused on both operational and strategic boundaries are in general in place in an organisation. Hence, if the boundary systems are incorrectly defined it can lead to the wrong organisational focus and risking the long-term performance of the firm. Business codes of conduct relate to the internal and external business risks, and the codes of conduct are generally built over time as the organisation learns what behaviour needs to be controlled (Simons 1995). The codes of conduct also relate to the diagnostic control systems (see below), as with the pressure to perform comes the need for set boundaries.

Strategic boundary systems on the other hand are structured to support an organisation's set strategy and to focus employees opportunity-seeking behaviour in that direction (Simons 1995). These systems can include for example things that specify the range of opportunities the company should focus on, often executed through strategic planning, and some kind of capital budgeting system which sets such standards as minimum rate of return on investments (Simons 1995).

3.1.3 Diagnostic Control Systems: A Company's System to Achieve Targets and Goals

Diagnostic control systems are what is usually considered to be the traditional management control: feedback systems there to achieve the set targets and goals. The diagnostic controls measure outputs against a predetermined standard, which means that the systems to a large

extent works *ex post*, i.e. measures outcomes. Thus, a key characteristic of the diagnostic control systems is that they have the ability to correct deviations (Simons 1995). Examples of diagnostic control systems are budgets and profit plans.

The diagnostic control systems are crucial for strategy implementation. Here Simons (1995) states that all companies have something called critical performance variables, i.e. output variables that are important in a given strategy to make said strategy succeed. The diagnostic control systems provide the indicators to ensure that the critical performance variables are managed effectively and efficiently. What the critical performance variables are, depend both on the intended organisational strategy and which organisational level is measured and monitored (Simons 1995).

Measures within the diagnostic control systems have to balance the delicate line of not being too complete or too incomplete: "The more complete the measure, the greater the probability that it is not responsive to individual efforts or actions" (Simons 1995, p. 77). The measures in the diagnostic control systems have to be objective, complete and responsive and the goals and targets included have to be sufficiently challenging. If they are too easy the organisation will never evolve and improve performance, but if they are too difficult to reach the individual will give up and not attempt to reach them (Simons 1995).

Although diagnostic control systems require management attention to succeed, it is primarily employees who are working with them. Therefore, the different types of predetermined incentive schemes a company might have are also a part of the diagnostic control systems. The aim of the incentives is to guide the opportunity seeking behaviour of individuals to match the intended strategy and reward positive outcomes (Simons 1995). As with all measures, incentives also require a thought-through-approach, if they are constructed in the wrong way and you measure the "wrong" thing, it can lead to suboptimal behaviour among individuals.

3.1.4 Interactive Control Systems: A Company's System to Foster Strategic Renewal

According to Simons (1995) the core of management control is to balance the tension between innovation and the achievement of predetermined goals. Here the design of the management control system plays a critical role, where the interactive control systems "focus attention on strategic uncertainties and enable strategic renewal" (Simons 1995, p. 93). As with the critical performance variables, and therefore also the diagnostic control systems, the interactive control systems are based on the company's current business strategy and strategic vision. Thus, the

interactive control systems *increase* attention, in contrast to diagnostic control systems that work more to *keep* focus and attention on a certain area.

The interactive control systems are never their own unique type of control systems. Rather, many different control systems can be used interactively, and Simons (1995) defines the interactive control systems as "formal information systems managers use to involve themselves regularly and personally in the decision activities of subordinates" (Simons 1995, p. 95). The purpose of this type of control systems is to enable creative thinking within the organisation, facilitate the company's search for new solutions and to meet strategic uncertainties. The interactive control systems are there to focus dialogue and attention to the potential threats the organisation faces of not reaching the intended strategy and goals. Hence, the interactive control systems are something that engages management at all levels regularly. It stimulates a continual challenge of status-quo, and data from the systems are continuously discussed in face-to-face meetings to question underlying data, assumptions and action plans (Simons 1995).

In turn, this means that when managers use a control system interactively they signal how important they think it is for the organisation to have a behaviour that enables search within certain areas, i.e. the strategic uncertainties. Hence, the interactive control systems "guide the experimentation and learning that are necessary for new autonomous strategic initiatives to emerge and be tested in the organisation" (Simons 1995, p. 107). Logically, if the wrong interactive control system is chosen it will focus the organisational search on the wrong strategic uncertainties. Furthermore, due to the fact that the interactive control systems require involvement of managers, it is a very costly system and therefore often few, usually only one, control system is used interactively.

As the interactive control systems are not unique control systems, there are certain requirements that have to be fulfilled for a control system to be used interactively (Simons 1995). Continuous reforecasting of what the company thinks the future will look like based on revised present information, and that the system is easy to understand, are necessities. In addition, managers at several organisational levels must use the control system in question. The control system also has to collect data that relate to the organisation's strategic uncertainties and be able to initiate revised action plans.

Thus, the interactive control systems are what make Simons' (1995) framework interesting, as they structurally acknowledge the importance of an organisation to be flexible while being controlled. According to Simons' (1995), a number of tensions have to be managed, which is done through the structure of the four levers of control where the flexibility of the organisation is built into the interactive controls. How an organisation maintains flexibility while being controlled is an identified theme in the literature, and Simons' (1995) framework will now be discussed and extended based on such literature, primarily concerning the tensions inherent in (multinational) organisations.

3.2 Managing Tensions in the MNC's Management Control System

Management control systems as presented by Simons' (1995) thus have inherent tensions that the structural design of the system should balance, as the levers are there to complement each other. As such, the four levers of control have two complementary and interdependent roles of both controlling attainment of goals and enabling search for new opportunities (Mundy 2010). Of course, simply using the four levers of control will not ensure an optimally functioning management control system; there are several factors that influence the ability to balance the different levers. Additionally, Simons' (1995) framework was originally designed for a large company, however not a multinational one. Therefore, there are certain aspects concerning the tensions in the global versus local setting that have to be considered in relation to the management control system for a MNC. In order to find an answer to the research question, the discussion around Simons' (1995) framework has to be extended to incorporate the inherent tensions in a MNC stemming from the attempt to achieve a global unity of effort, while leaving space for local adaptation, differentiation and flexibility. Contradictory forces coming from multiple centres for decision-making, which is commonly the case in an MNC with interaction between the headquarter and the subsidiaries, can trap control systems (Busco *et al.* 2008).

For Simons' framework to function optimally internal consistency is important, both with regards to the same goal being communicated to all employees and to the alignment of the short- and long-term effects of the system (Mundy 2010). The balance of the levers might for example be affected negatively if one lever has a clear dominance over the others, usually an effect of historical tendencies. In addition, the levers have to be used in a logical order based on what the organisation is attempting to achieve, e.g. if change is what is strived for, then interactive control systems should be what takes the lead and the rest should follow (Mundy 2010). However, suppression of one lever by another could lead to desired fast changes, but one has to be aware that such suppression can only be temporary. The interactive control systems play a crucial role

in maintaining or changing the balance between all levers of control, as the dialogue can both improve the other levers as well as destabilise the current setting as the need for renewal is identified to meet the strategic uncertainties (Mundy 2010).

The management control system can also be used to balance the tensions between the global and local organisation within a MNC. Busco *et al.* (2008)explore how performance management systems can be used to manage tensions that characterise processes of integration: convergence vs. differentiation of practices, centralisation vs. decentralisation of decision-making and vertical vs. lateral relations. As mentioned in the literature overview chapter, the tension concerning vertical and lateral relations is concerned with the relationship between the headquarter and the subsidiary contra subsidiary to subsidiary. However, given the aim of this thesis, the two former tensions are of more interest. As identified by Busco *et al.* (2008) there is a continuous strain between converging processes and practices globally to achieve efficient co-ordination and the need for local differentiation and adaptation to local markets. The former facilitates communication and knowledge transfer throughout the organisation, while the latter is necessary to be successful on the local market. Linked to this is the tension between centralisation and decentralisation of decision-making. As global organisations want to transfer their competitive advantage across boarders, centralisation of decision-making facilitates such a process. However, as with the previous tension, a certain degree of local adaptation is needed which in turn requires a certain degree of decentralisation and local autonomy (Busco *et al.* 2008). Important to note here is that these three tensions between the global and local setting cannot be solved, they will always be present in a global organisation. Instead, the role of the control system is to manage the tensions between the global and the local continuously. As a consequence the control system has to be built in such a way that the inherent conflicts are dealt with dynamically, constantly and simultaneously addressing both sides of the tensions (Busco *et al.* 2008).

The balance between local and global is by Busco *et al.* (2008) discussed in reference to the performance management system, and it is concluded that performance management systems can support formation of new organisational arrangements and achieve standardisation and centralisation around shared strategies. Generally, performance management systems are considered to be a part of diagnostic controls. Logically, however, these tensions between global and local is something that ought to be addressed by the entire management control system. In order for the MNC to work optimally, there has to be a balance between global coordination and local responsiveness (Busco *et al.* 2008).

The inherent tensions of a MNC have thus been identified in research, and potential ways to deal with them through the management control system have been suggested. However, the concepts and frameworks described this far are fairly generic and do not have the explicit linkage to strategy aimed for in this thesis. Of course, the management control system should build on company strategy (Simons 1995), but the framework as such is focused on controls. Similarly, the tensions between the global and local setting described by Busco *et al.* (2008) are also generic. As the interest of this thesis lies in how the global strategy is balanced with the need for local adaptation in the management control system at subsidiary level, the concepts of exploitation and exploration will therefore be used to operationalize the framework and the mentioned tensions in the way described below.

3.3 Exploration and Exploitation: Balancing Global Strategy with Local Adaptation

Exploration and exploitation are used to analyse the effects the management control system has on how the subsidiary works towards predetermined (global) goals while at the same time incorporating flexibility for local adaptation. The two concepts will be used to further develop the analysis of the management control system as identified through Simons' (1995) framework. Hence, exploration and exploitation are applied in order to "measure" the balance between the global strategy and local adaptation, where exploitation is seen as an expression for global strategy implementation and exploration as local adaptation. Additionally, in order to later discuss the findings of this thesis, concepts for how exploration and exploitation could be balanced will be introduced here.

As previously mentioned, the management control system in a subsidiary has to balance innovation with the achievement of predetermined goals (Simons 1995), with the added complexity of having to adhere to both global coordination and local responsiveness. In this, it is believed that exploration and exploitation plays a crucial role. March (1991) defines exploration as "things captured by terms such as search, variation, risk taking, experimentation, play, flexibility, discover, innovation" (March 1991, p. 71), and is therefore closely related to the concept of local adaptability and divergence. Exploitation, on the other hand, is defined as "such things as refinement, choice, production, efficiency, selection, implementation, execution" (March 1991, p. 71), and as such it is interrelated with global strategy implementation. For the purpose of this thesis, exploration is therefore defined as the process involved in developing new products or processes, not previously existing in the global company, in order to adopt the company to a local market. Exploitation, on the other hand, is seen as the process of refining or

choosing between already existing resources or products, even if such choices might be a consequence of adopting the global offer to the local market. This is due to the fact that such adaptations still leave the organisation acting within a global frame, executing on the global strategy, as the organisation can choose between existing products and processes, but not add new ones.

Exploration and exploitation could interact through either ambidexterity or punctuated equilibrium (Gupta *et al.* 2006). Ambidexterity is when the organisation pursues both exploration and exploitation at the same time, while punctuated equilibrium refers to exploration and exploitation being used by an organisation at different points in time. The latter suggests that cyclical pursuit of the two is preferable over ambidexterity as it is too difficult for an organisation to pursue both at once (Gupta *et al.* 2006). However, as argued by March (1991), focusing explicitly on only exploitation at one point in time may be effective in the short-run, but detrimental in the long-run. Thus, ambidexterity, however difficult to attain, may be necessary for company success (Gibson & Birkinshaw 2004). Balance between exploration and exploitation does not equal trade-off (Gibson & Birkinshaw 2004), and there is therefore most likely a need for the organisation to manage these tensions dynamically in a similar way to the tensions between a global and local setting. As such there are two main ways suggested to manage the balance between exploration and exploitation: structural ambidexterity and contextual ambidexterity (Gibson & Birkinshaw 2004; Raisch *et al.* 2009).

Previously all focus in the ambidexterity research was on the organisation as a whole, where the structure of the organisation was seen as what enabled ambidexterity, and the individuals in the organisation due to the structure was working with either exploration or exploitation activities (Raisch *et al.* 2009). Hence, structural ambidexterity is when the organisation balance exploration and exploitation through the use of dual structures within the organisation, i.e. one part of the organisation focuses on exploration while the other part focuses on exploitation (Gibson & Birkinshaw 2004; Raisch *et al.* 2009). Later research has however suggested that structural ambidexterity is not sufficient, and instead the idea of contextual ambidexterity has been developed. Contextual ambidexterity brings ambidexterity down to the individual's level, and focuses on achieving a balance between exploration and exploitation within a single business unit, seen from the perspective that an individual can take on both explorative and exploitative tasks (Raisch *et al.* 2009). Contextual ambidexterity is therefore achieved through the creation of systems that encourage the individuals to balance exploration or exploitation, and can, at least in

part, be shaped through the behaviour of leaders (Gibson & Birkinshaw 2004). Hence, if a balance between exploration and exploitation is to be achieved through contextual ambidexterity, the four levers in the management control system will play a crucial role in balancing these factors.

In addition to the tension between the organisational level and the individual level described above, Raisch *et al.* (2009) have identified three other central tensions within the ambidexterity research concerned with how ambidexterity should be achieved: differentiation vs. integration, static vs. dynamic perspectives and internal vs. external perspectives. Differentiation is to a great extent the same as structural ambidexterity, whilst integration is closely related to the contextual ambidexterity. What is interesting is that differentiation and integration has in early literature been seen as mutually exclusive phenomena, but in later research the view has shifted toward viewing the two concepts as complementary (Raisch *et al.* 2009). Hence, the literature seem to suggest that ambidexterity should be present both at an organisational and individual level, or put differently, that it has to be obtained both through balancing the activities between units as well as within units. This view is enforced by the tension between static vs. dynamic ambidexterity. Raisch *et al.* (2009) concludes that early research focused on static ambidexterity, which had the view that organisations become ambidextrous by adopting certain configurations and organisational structures. However, later research has emphasised the need for dynamic processes, where structural and contextual ambidexterity are balanced in a continuously changing environment (Raisch *et al.* 2009). Thus, the systems should help the combining of structural and contextual ambidexterity, much in line with how the tensions between global convergence and local divergence suggested by Busco *et al.* (2008) have to interact.

Lastly, Raisch *et al.* (2009) identifies a research stream focused on the achievement of ambidexterity through internal or external perspectives. This is much related to organisational learning and it is claimed that the ability of the organisation to achieve ambidexterity is related to its ability to integrate external knowledge from customers or partners into already existing internal perspectives and processes (Raisch *et al.* 2009), which in turn enforces the importance of the interactive controls in the management control system as that is the part of the management control system that facilitates integration of new knowledge.

In sum, Simons' (1995) levers of control are used as a skeletal framework in order to structure the analysis and map out the management control system. Several tensions which the

management control system has to address and manage have been identified, both between the controlling and enabling capabilities of the control system as such, and between a global and local setting. Through exploration and exploitation, the levers of control framework is then further extended so that the balance between global strategy implementation and local adaptation can be analysed, and thereby also answer the research question proposed. The concepts of ambidexterity and punctuated equilibrium will be used further on to discuss the findings.

4. Methodology

This chapter describes and motivates the chosen methodology and design of this study. First, the general research approach is described and motivated more in depth. Then, the selection of the study object in question is presented. The focus of the study is LocalTech, a local subsidiary to a large global organisation here named TechCo. Thirdly, the data collection process through semi-structured interviews and triangulation with artefacts, followed by the data analysing process is explained. Lastly, the implications of the research design on the quality of the research are addressed and discussed.

4.1 Research Approach

Since the aim of the study was to explore *how* the global strategy is balanced with the need for local adaptation in the management control system at the subsidiary level, with a particular focus on exploration and exploitation, a case study approach was deemed suitable as previous research has found such an approach most appropriate for answering *how*-questions (Yin 2014). Evaluation of accounting and control systems requires placing them in a wider context, and therefore in-depth case studies are appropriate in such research (Otley & Berry 1994). The approach simply gives a proximity to the organisation's behaviour and facilitates the exploration of how things are done in reality (Eisenhardt 1989). More specifically, an exploratory case study approach (Ryan *et al.* 2002) was chosen, as the research question in question has not been discussed in previous research in the way attempted here. An exploratory case study can be seen as a preliminary investigation, and the purpose is to generate ideas that can then be tested more rigorously later on (Ryan *et al.* 2002). To concretise, it means that while this study has been oriented towards a certain question based on theory, one cannot have any expectations as to what will be seen, as the aim is to explore.

The case study approach is appropriate when attempting to expand existing theory, as one of its strengths is that the constant combining of theory and empirics increases the likelihood that the researchers are able to reframe and combine them in creative ways and thereby also creating new theory (Eisenhardt 1989). This does not mean that case study research has to, nor does it always, lead to new findings, but the combining of theory and empirics throughout the process facilitates discoveries. According to Eisenhardt (1989), if theory and empirics are in conflict with each other it "[…] tends to unfreeze thinking, and so the process has the potential to generate theory with less researcher bias […]" (Eisenhardt 1989).

Thus, the aim here is to attempt to contribute to theory-building in the chosen focus areas, where the study has developed over time as new discoveries have been made. The evolvement over time and the constant back-and-forth between theory and empirics are some of the main characteristics when using a case study as a method (Eisenhardt 1989). Although Eisenhardt (1989; 1991) describes the approach used for case study research as primarily based on inductive logic, we believe that using a pure inductive approach for our case study will not be entirely fruitful given the time constraint. Instead, we have chosen an abductive approach, in line with the *systematic combining* described by Dubois and Gadde (2002).

Systematic combining is a process where the theoretical framework, empirical data collection and the analysis of the case develop simultaneously (Dubois & Gadde 2002). Thus, the concept of systematic combining acknowledges the possibility that when exploring reality, the empirical findings can lead to related, but unexpected, issues that need to be further explored in forthcoming data collection. Such a process of continuously reviewing both empirical findings and theory in relation to each other has the benefit of having the possibility to expand the researcher's understanding of the two (Dubois & Gadde 2002). Given that the purpose of this study is to explore a relatively unknown phenomenon, the approach of systematic combining was deemed suitable as it gives a possibility to develop theory by applying the insights generated from the case.

4.2 Selecting the Case

The decision was made to perform a single-company case study, and a company here referred to as TechCo, and in particular its local subsidiary LocalTech, was studied. The choice was made to anonymise the case company per its request. Thus, to clarify, LocalTech is used when referring to the subsidiary, GlobalTech when referring to the global organisation above LocalTech, and the entire group is denoted as TechCo (see Figure 2).

Figure 2. The different parts of the studied organisation.
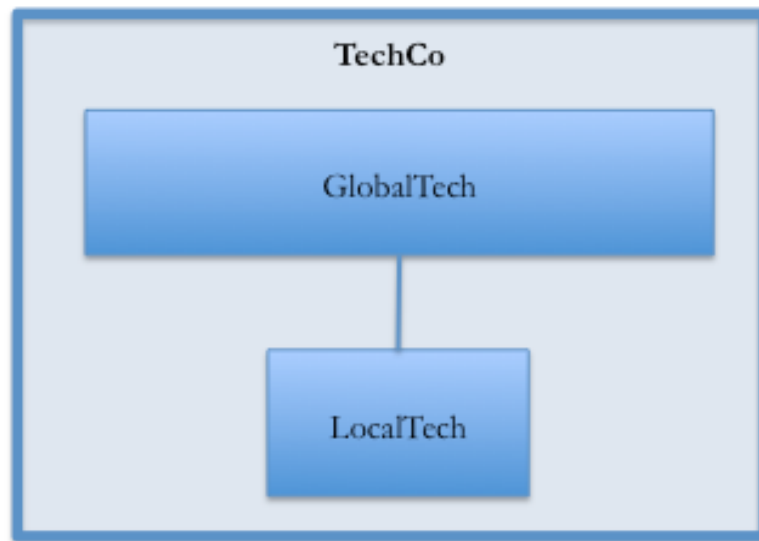
TechCo was chosen based on the fact that it is a well-known, global organisation, which has communicated a clear financial target to the market and sets their strategies accordingly. Thus, TechCo in general, and LocalTech in particular, were deemed suitable in order to study the research question at hand. ████████████████████████████████████

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Due to time constraints and the fact that the local organisation's management control system in relation to strategy and exploration/exploitation had to be studied, it was deemed preferable to focus on a single company in order to achieve a desired depth in the data collected. This is supported by the view of Dubois and Gadde (2002), where the authors claim that if the problem studied involves a number of independent variables and complex structures, the single case study is the natural choice. However, although a single company was chosen, two separate divisions within the company was the main focus of the study within LocalTech. This was done as it enables a comparison within the case, which in turn facilitates the building of theory (Eisenhardt 1989).

Within LocalTech, the two units studied were focusing primarily on sales of technology, the *Base product division* and the *Add-on product division*. These two divisions in particular were chosen, as they are able to provide symmetry in the material due to the fact that they have the same kind of processes and overall ways of doing business. Both divisions are primarily focused on sales and generating sales revenue, as LocalTech is a sales organisation within TechCo. LocalTech is comprised of divisions focusing on services and consulting as well, but as the way of conducting business in consulting compared to pure sales of products is rather different such a comparison was not chosen due to the fact that the data would be more difficult to compare. It could of course be argued that the entire aspect of making business within LocalTech will not be captured, but as the focus of this study is strategy implementation and not the business as such, it was considered appropriate to study two structurally similar divisions.

As a consequence of developments in the market, the Add-on product division is where TechCo believes the main growth will occur in the foreseeable future, whilst the Base product division is expected to remain at the same level (TechCo Website, 2014-03-30). Hence, the two units both relate to the main strategy of TechCo, and it was found an interesting case to research how the strategy was implemented and executed through the management control system in the two divisions as they are similar in processes but not necessarily when it comes to priorities within TechCo and/or LocalTech. However, as the data collection proceeded, the focus of the study shifted. Although the first aim of the study was comparing the two divisions, it was realised along the way that the really interesting research case lied in focusing on the global versus the local. As

a result, the comparison of the two divisions was no longer the main focus of the study, which will be reflected in the empirics and in the analysis.

4.3 Data Collection

4.3.1 Analytical Interviews Primary Source of Data

Data was primarily collected through analytical interviews with employees on different levels within LocalTech and the two divisions of focus. Analytical interviews are built on a semi-structured approach, where learning for both the interviewer and interviewee is the objective (Kreiner & Mouritsen 2005). Thus, the analytical interview was used to achieve a more robust data and thereby enhance the shared knowledge. According to Kreiner and Mouritsen (2005), the semi-structured interview is built on an interview guide, where the researcher has planed in advance what areas should be discussed and what knowledge the researcher wants the interview to generate. However, the interview guide is simply that – a guide. The advantage of the semi-structured approach is that it requires active listening, or hearing as it is referred to by Kreiner and Mouritsen (2005), nothing is taken for granted and current practices are always questioned. This has the effect that the "interview process changes from one of data collection to one of knowledge construction" (Kreiner & Mouritsen 2005), which is suitable in an exploratory case study approach where the aim is to explore areas where previous research is limited.

Over all, 19 interviews with 18 persons were conducted from February-April (see Appendix A). Most interviews were approximately 60 minutes, but in three cases the interview was limited to 30 minutes due to time constraints. Three interviews were conducted via telephone and the rest were conducted at LocalTech's office in Stockholm. For a general example of an interview guide used during the interviews, see Appendix B. The interview guide was slightly adjusted based on the person interviewed and their position in the organisation, and was developed along the way based on the questions the collected data raised. Follow-up questions were sent to eleven interviewees through e-mail, in order to clarify certain minor questions that arose after the primary interviews. One interview was conducted in English, and the rest in Swedish. All quotations in this thesis have been sent to the interviewee in question for approval of both the quote in Swedish and the English translation.

Six persons from the Base product division, six persons from the Add-on product division, and six persons in different management roles outside of the two divisions were interviewed. The roles outside the two units were chosen based on either their involvement or insight in

LocalTech's implementation of the global strategy, or their cooperation with both of the divisions in focus. As mentioned, access was granted to LocalTech through the company CFO, and the interviews were conducted in a "top-down" fashion. This means that many of the persons interviewed were recommended by someone higher up in the organisational hierarchy, but the type of position and role in the organisation to be interviewed was chosen by the authors, thereby ensuring that relevant actors were interviewed. The recommendations could of course have resulted in less truthful answers if the recommended employees feared reconciliation from higher levels in the organisational hierarchy, but there has been no reason to suspect that during the interview process. Rather on the contrary, the interviewed employees have all appeared to be very straightforward and vented both positive and negative considerations with the organisation. In addition, it is believed that the recommendation resulted in peoples' willingness to partake in the study, assisting honesty rather than the opposite.

The managers of the two divisions and the different management roles outside of the two divisions were entirely selected by us. Access to these persons was facilitated through the mentioning of the CFO in the contact e-mail, as well as the CFO mentioning our study to some of the persons of interest before we contacted them. The Head of the Base product division and the CEO changed in the beginning of the year, which is why it was decided to interview the two former position holders. As organisational change takes time, much of how LocalTech operates to date is based on the work of the former CEO, and therefore the former CEO was judged more appropriate to interview than the new CEO. In the case of the Base product division, both the former and the new Head were interviewed. This decision was made during the data collection process as the new Head of the Base product division was one of the first ones interviewed, and despite the fact that the new Head of the Base product division previously had been head of a brand within the division, it was felt the perspective of someone who had been leading the division for a longer time was needed.

4.3.2 Secondary Data Sources Used for Triangulation

In addition to the data collected from the interviews, artefacts in different forms have been reviewed. These artefacts have to some extent been used to verify the data collected through the interviews, a process commonly referred to as triangulation (Yin 2014). It is claimed that the use of multiple data sources in triangulation "provides stronger substantiation of constructs and hypotheses" (Eisenhardt 1989). However, an abductive approach, such as the one chosen for this study, have consequences for the use of data. More specifically, triangulation facilitates the search and reveal unknown phenomena to the researcher in an abductive approach (Dubois & Gadde

2002), rather than being used for data-corroboration. In this study triangulation of multiple sources of data have therefore primarily been used to give a more nuanced reflection of the perceived reality.

TechCo's corporate website was used to draw out the formally stated goals and strategy communicated to the market. For that purpose and in order to analyse the development and the different strategic approaches for the two chosen divisions, TechCo's audited financial statements were reviewed. Furthermore, internal documents were used to explore the design of the management control system in relation to the research question posed.

As the interviews were conducted at one of LocalTech's offices, own observations were inevitably a part of the data collecting process. For example, it was noted that LocalTech communicates corporate identity, business conduct and organisational values through large posters and framed images throughout the office.

4.4 Data Analysis and Write-up Process

In the analysis of data when using a case study approach, there are six classic analytic steps; (i) code the observed data, (ii) continuously note reflections throughout the data collecting process, (iii) sort the data to identify similarities and differences, (iv) identify patterns, similarities and differences and use that in the following data collection, (v) over time, find the generalisations possible from the consistencies throughout the collected data, and (vi) compare the generalisations with already existing theory (Miles & Huberman 1994). All these steps have been undertaken in the process of analysing the data in this thesis. In order to capture reflections, enhance the quality of the interviews and focus the questions in the right direction, all interviews were discussed immediately after they were conducted and reflections were written down and used to improve questions for the next interview.

Furthermore, all interviews were recorded and transcribed, and then entered into NVivo[1], a qualitative analysis computer software. NVivo was used to structure and code the data obtained from interviews and other sources. The data was coded into different categories, so called nodes, based on the theoretical framework in this thesis. In order to capture those matters that were found interesting, but perhaps did not fit into one of the nodes, an additional category named "Other" was added as well. Each node was then discussed and analysed in order to identify

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[1] http://www.qsrinternational.com/products.aspx

patterns and the observations were noted and compared to theory. Hence, conclusions have been drawn with the theoretical framework as a basis.

4.5 Research Quality

The choice of conducting an exploratory case study has its implications when judging the quality of the research and the results presented. Furthermore, some of our design choices have consequences regarding the same matter. The primary concern with case study research is the concept of generalizability (Dubois & Gadde 2002; Eisenhardt 1989; Eisenhardt 1991; Smaling 2003; Yin 2014), which will be addressed further down. This line of reasoning is built on a positivist notion research, where "good research" is defined in terms of validity and reliability (Merriam 1994). The validity is concerned with whether the results can be trusted based on the design of the study and the generalizability of results, whilst reliability is concerned with whether the same results would be found if the same study was preformed once again (Yin 2014). For an exploratory case study approach, the main concerns are with construct validity, external validity and reliability (Yin 2014).

Construct validity refers to finding the correct design of the study for answering the research question, in particular in relation to defining specific concepts and identifying appropriate measures to study the phenomena in question (Yin 2014). One of the risks in theory-building case study research is that too complex theory is generated, because the researcher does not know which phenomena to focus on (Eisenhardt 1989). Clearly defined concepts and measures could help mitigate this risk. Yin (2014) suggests three ways to increase the construct validity: multiple sources of evidence, establish a chain of evidence and to have a draft of the report reviewed by key informants. As previously mentioned, multiple sources of evidence have been used, and the data collected have been triangulated to corroborate the findings. By using data collected from interviews, artefacts, external and internal documents, and own observations, the attempt has been to ensure the quality of the observed patterns and conclusions in this thesis.

Establishing a chain of evidence is concerned with the possibility for the reader to logically follow how and from what the conclusions were derived (Yin 2014). This has been ensured through a clear referencing of the sources being used, as well as through using NVivo for gathering and structuring all data in one single database. To meet the last requirement of report reviewing, the thesis has continuously been reviewed by the academic tutor assigned, and in order to confirm the empirics it was sent to the CFO of LocalTech, who were the primary contact person with regards to this thesis.

However, as mentioned, the main issue discussed in relation to case study research is the matter of external validity, or more specifically generalizability. When discussing the concept of generalizability in relation to case study research, what is relevant to discuss is what is referred to as analytical generalisation (Yin 2014; Eisenhardt 1989). Smaling (2003) refers to the similar concept of analogical reasoning, and argues that this reasoning is sometimes more suitable when attempting to generalise the results in a case study. Analogical reasoning consists of six criteria (Smaling 2003). The first one is the relative degree of similarity between the cases upon which conclusions are drawn, where the argument is stronger the fewer differences between the cases there are. The second is the relevance of the similarities and differences between the cases for the conclusion, as the analogical reasoning is stronger the more relevant the similarities and the less relevant the differences are. Furthermore, the analogical reasoning is stronger if it is supported by other, similar cases. If the variation between the objects studied in each similar case is large, the analogical reasoning is further strengthened. Of course, the relative plausibility of the conclusion on its own, separated from the analogy also has an effect on the strength of analogical reasoning. Lastly, the more the similarities and differences between the cases have empirical and theoretical support, the more plausible the analogical reasoning. Hence, when analysing the empirical data collected, analogical reasoning has been applied. As a consequence, the findings and conclusions are discussed and problematized in a concluding discussion in the end of this thesis.

The reliability of the study is another issue in case study research, due to the fact that human behaviour is not static, in turn leading to a changing world (Merriam 1994). The knowledge presented might not be replicable at a future point in time, as the perceptions of the individuals included in the study might have changed. Thus, it might not be relevant to discuss the concept of reliability in case study research from the perspective of only being able to perform an identical study, but at a different point in time. Nevertheless, clarity as to what underlies the analytical results and the stated empirics has been strived for when collecting and structuring data and presenting it in this thesis, much related to the areas discussed concerning construct validity.

5. Empirics

This chapter will present the collected empirics that will later be analysed, in order to find an answer to the research question: *"How is global strategy balanced with the need for local adaptation in the management control system at the subsidiary level?"* Material collected through the interviews made will be presented, as well as other material from sources such as official and internal TechCo documents. The chapter will start off by presenting formal structural information on the nature of business and organisation of TechCo, TechCo strategy and goals, corporate values and code of conduct. Then the focus narrows down to look specifically at the local subsidiary organisation, LocalTech, in practice. Issues such as goals and targets, the global-local relationship, as well as corporate values at the local level are brought up. The focus is then narrowed down even more to look at two of the divisions within LocalTech, the Base product division and the Add-on product division. Here, overall plans and strategies for the divisions are addressed, as well as cooperation between the divisions.

5.1 The Formal Structures of TechCo

TechCo is a large, global company focusing on technology and technology related services (TehcCo Annual Report, 2013). It is a successful company in the sense that it is a large organisation that has been profitable for many years and has a strong position on many markets.

The selected focus of study, the two divisions Base product division and the Add-on product division, are not a LocalTech phenomenon but are present throughout TechCo. The studied divisions sell two different kinds of products, base products and add-on products. Base products and add-on products can be sold both separately and together in a client solution. They do not only have to be combined with TechCo internal products but can also be combined with competitors' base and add-on products. However, TechCo's products are optimised technically when provided together (Head of Add-on Division, 2014-02-27).

5.1.1 Goals and Strategies

The large global company TechCo is listed on the U.S. stock exchange. A couple of years back TechCo communicated an operating revenue and profitability goal, aiming to reach it in a specific number of years, when a new, similar goal will be communicated (CFO LocalTech, 2014-01-24). In order to reach this financial goal, a strategy has been decided on by GlobalTech, which sets the strategic direction for the company.

The global strategy includes two main parts (TechCo Website, 2014-03-30):

1. Focusing on certain prioritised areas within the industry
2. Growing within higher value business segments

In the first part of the strategy, GlobalTech has identified areas of focus within the company's industry where it is believed the future within the industry lies. To support growth in these areas, acquisitions of technology have been made. The second part of the strategy includes remixing the business towards more profitable markets in order to generate higher value business and higher margins to the company. The acquisitions made also support this part of the strategy, and in addition divestments have been made of lower value business segments.

According to LocalTech's CFO (2014-01-24) and LocalTech's Head of Marketing and Communication (2014-03-06), TechCo's CEO's largest fear and concern for TechCo is that the company will miss out on a technical shift. Both the CFO and the Head of Marketing and Communication goes on to highlight the importance for TechCo to be alert and flexible in order to deal with the challenge of staying on the cutting edge of technology.

According to the CFO of LocalTech (2014-04-09), the financial goal communicated to the market is TechCo's ultimate global target. GlobalTech looks at trends in the different markets and then assigns targets to the regional areas, in order to reach the announced financial target. As the global goal is distributed into targets for the countries, interlocks between executives are made in order to get a bottom-up perspective in the target setting as well. Before the interlocks are made, the individual countries have a process where they estimate the size of future business the coming year in the country. This estimation does not reach all the way up to the global level, but is used in the executive interlocks on a country level. The CFO of LocalTech illustrates the process from his perspective:

> "The plan is already given on a global level, we have communicated it to the market. […] it sets the global targets that are divided out. There is definitely a thought behind this, if we go back in time there were much debate and energy put into talking down your targets. Now there is a culture where you are not expected to question your targets. Instead you focus on reaching them. In this process there are a number of interlocks where we flag areas where we can do more, as well as areas where we can do less. So this dialogue exists in order to even out and redistribute, but in the end it is global targets that are distributed down." (CFO LocalTech, 2014-04-09)

5.1.2 Business Conduct Guidelines, Values and Education

In order to ensure that every employee within TechCo does business in compliance with laws and ethical practises, guidelines within business conduct are present within the company (TechCo Business Conduct Guidelines). Every employee within TechCo must once a year complete an educational assessment on these guidelines to make sure they stay top of mind.

In addition to common business conduct guidelines, TechCo also has company-wide corporate values. These bring up three main themes (TechCo Website, 2014-03-30):

1. The importance of always prioritising the client
2. The importance of focusing on innovation
3. The importance of acting with responsibility and trust towards people

The values are communicated and reinforced by GlobalTech in several different ways. For example, in a personal development plan that each employee has, the employees are assessed on how they demonstrate the corporate values when they work toward their professional goals. The values are also frequently communicated in communication from TechCo's CEO, such as newsletters, educational broadcasts, on the internal web and informative announcements (Operations Manager Add-on Division, 2014-03-18).

The corporate values were developed during an online session over several days where TechCo employees globally could take active part in the discussion. The corporate values and how to apply them in the daily work life was thus based on the input of TechCo employees. GlobalTech have organised these types of sessions on different topics a few times over the last ten years, in order to encourage collaborative innovation (TechCo Website 2014-03-30).

As an employee within TechCo, you are required to do a certain number of hours of educational activities each year. Employees decide themselves what educational activities to spend time on, and log each hour in a global computer system as time is spent on different activities. GlobalTech organises educational global theme sessions on the strategic focus areas decided on by GlobalTech. Employees are highly encouraged to take part in these sessions and the activities surrounding them, and can count the hours spent on these sessions as part of the hours needed to be spent on educational activities (Operations Manager Add-on Division, 2014-03-18; CFO LocalTech, 2014-04-09).

5.2 LocalTech – Being Local in a Large, Global Company

LocalTech is the Swedish subsidiary wholly owned by the global company TechCo. LocalTech is largely a sales organisation focusing on selling TechCo's technology and technology related services in Sweden. As previously mentioned, the explicit focus of this study is on the sales organisation of LocalTech. Except for sellers working at LocalTech, the company also has external business partners who act as resellers of TechCo's products (Brand Manager Base Division, 2014-03-20). The company is made up of a matrix organisation with a horizontal structure organised to address specific clients or client segments, including a client facing division. Vertically, divisions organised to address different types of products and services are structured. The organisation structure is illustrated in Figure 3 below.

Figure 3. Illustration of overall organisational structure within LocalTech
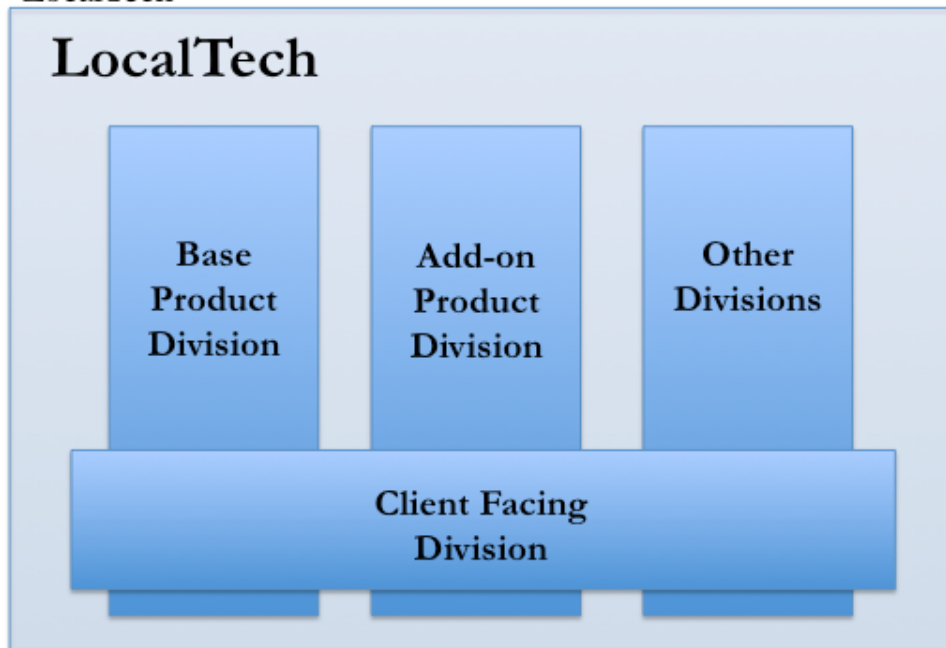
5.2.1 Goals and Targets

Since TechCo has a financial goal, the operating revenue and profitability goal communicated to the market, the targets within LocalTech are primarily focused on sales revenue. Overall revenue targets for the entire divisions and the product brands in LocalTech are decided on and communicated by GlobalTech. The targets received are experienced as non-negotiable by both the division managers and the product brand managers. After the targets reach the divisions and the product brands, they are trickled down to targets for each seller. When asking the individual sellers about their targets, they also experience limited room for negotiation in the target they are assigned. One manager within the Add-on product division says: "I cannot affect my target, it

trickles down. The actual target is a challenge that is my responsibility towards the company."
(Brand Manager 1 Add-on Division, 2014-03-06)

Several of the interviewed sellers experience limited transparency in the target setting process, and a common opinion is that the target is decided based on last year's performance and a specific additional percentage (Brand Manager 1 Add-on Division, 2014-03-06; Client Sales Person Base Division, 2014-03-18). However, the division heads report on a process where future targets are decided based on a consolidation of overall targets received from GlobalTech and the bottom-up estimation of future pipeline generated by LocalTech (the process previously mentioned by LocalTech's CFO):

> "We discuss and consolidate how much each of the customers will bring this year if we do our job right, and that needs to add up to the overall target of course. With that tool, and this alignment, and this "consulting"-approach, the seller gets a challenging but fair target." (Head of Add-on Division, 2014-02-27)

Many of the employees within LocalTech report to two different managers. The brand sellers for example report both to a manager within their division as well as a manager within their brand organisation (Brand Manager 1 Add-on Division, 2014-03-06). Each sales person is measured on how much sales revenue they bring in, which is directly linked to the amount of salary each seller receives. Each seller has his or her own individual sales plan, a plan documenting a target for the revenue the seller is expected to bring in on a semi-annual basis. A seller most commonly has one fixed part and one variable part of their salary. Depending on what type of seller it is, the portion of fixed versus variable salary differs. In the variable part of the sales plan, apart from being measured on revenue a seller can also have targets on gross profit, depending on the cost structure of the products sold. In addition, the sellers get approximately 15% of "challenges" in their sales plan, which are special targets on for example strategic areas or certain business deals viewed as important. The sellers have no targets specifically for the strategic focus areas communicated by GlobalTech. However, the sellers can receive "challenges" on these areas.

To ensure targets will be met, future pipeline is monitored closely on each level within the company. The sellers are expected to register potential business opportunities in TechCo's CRM system and then update the likelihood of the opportunity becoming an actual deal over time,

following guidelines defining the different sales stages. One manager within the Add-on product division describes this:

> "As a sales person it is important to always have a good pipeline for incoming business opportunities over the next half year up to 15 months ahead. […] Pipeline is measured every week and we have targets for how much opportunities should be in each sales stage. The closer we come to a half year ending the more should be in later sales stages." (Client Manager Add-on Division, 2014-03-11)

Pipeline is measured on several different levels, both on an individual, divisional, brand and country level. One sales person stresses the importance of accuracy when reporting pipeline:

> "I make an estimation regarding the value of a business opportunity, and it is expected that this forecast is accurate. I should have a good perception of what I am about to generate over the coming quarters. The clearer I present and the more my estimation consort to reality later on, the more praise I get. Because in the end it has to do with what TechCo is worth as a company and what shareholders expect of TechCo. Therefore the forecast is incredibly important since it goes through many different levels in the organisation all the way up to the TechCo CEO. We are not measured specifically on pipeline and it does not affect our salary, but there is an expectation to be clear and understand how much business I will generate." (Client Sales Person Base Division, 2014-03-18)

Pipeline is followed up in weekly meetings (Brand Manager Base Division, 2014-03-20; Sales Trainee Base Division, 2014-03-17; Client Manager Add-on Division, 2014-03-11). The meetings can be physical or on the phone, and participants on the meetings are sales persons and managers responsible for a certain product area or client segment. The sales persons report to their managers who in turn report to their superior, in order to achieve a consolidated pipeline view of the division and country. Focus on the meetings is to report status on opportunities in pipeline, if and when a deal is expected to close, what needs to be done to close each deal, and if the sales targets will be reached (Sales Trainee Base Division, 2014-03-17). The opportunities in pipeline are updated and progressed in the CRM system as they progress in reality, and projected target is compared to the predetermined target. The sales persons have targets on how much opportunities should be in certain sales stages during the quarter. The closer to a quarter ending

the organisation is, the more opportunities should be progressed to a later sales stage (Client Manager Add-on Division, 2014-03-11).

In addition, opportunities within the focus areas are often followed up on specifically in pipeline meetings. According to the Manager in the Client Facing Division (2014-04-07), sellers have no specific targets within the focus areas, but are expected by GlobalTech to deliver and keep opportunities in different sales stages within these areas. In practice, the sellers are working with these areas as the focus and communication from GlobalTech constantly address them. As GlobalTech has invested within these areas, the offerings are well developed and give the sellers a good chance of winning business. The Head of Marketing and Communications within LocalTech (2014-03-06) stresses the importance of the focus areas, and says that they are the areas where future business will be made. But in the end, the Manager of the Client Facing Division adds, as a seller you can generate revenue within any area as you are rewarded in the same way regardless of which area the revenue comes from.

Except for meetings where focus is on pipeline and sales, there are also meetings with focus on information sharing from managers to sales persons. The interviewed Sales Trainee in the Base product division (2014-03-17) describes meetings with the entire base division, where the base division manager informs about the current business development of the division and potential changes in the near future. There are also so called town hall meetings where LocalTech's CEO speaks to all employees of LocalTech. These meetings occur once every quarter and here important announcements are made as well as financial updates and any relevant upcoming changes and initiatives (Sales Trainee Base Division, 2014-03-17).

In addition to the sales plans, employees have their own personal development plans. The personal development plan is decided on yearly by the employee and the manager. The plan can include everything from targets concerning pipeline, what number of customer meetings a seller should have on average each week, educational programs the seller should engage in to goals for employee satisfaction, all depending on the role of the seller in the organisation combined with the personal career goals for said individual (Operations Manager Add-on Division, 2014-03-18).

If the seller does not meet his or her target and this happens more than once, he or she is put on a performance improvement plan and effort is put on increasing the seller's performance. There is less tolerance for low performance higher up in the organisational hierarchy, where managers

are relocated more frequently within the organisation if they do not perform (Operations Manager Add-on Division, 2014-03-18). One manager within the Add-on product division says:

"If you are not performing for a longer period of time there are plans with concrete activities to help the individual to reach set targets. If he or he or she doesn't improve there might be reason to discuss what is causing the problem and try to find alternate solutions in order for the person to find a role with a better fit. We for instance have a specific team that is in place to help people with this." (Brand Manager 1 Add-on Division, 2014-03-06)

5.2.2 When Global Meets Local

Many of the interviewed LocalTech employees experience LocalTech as an organisation managed top-down with hard targets and rigid processes, but at the same time having flexibility and freedom for the individual seller. To learn what targets and processes are hard limits and where there is room for flexibility is key for success in the organisation. One Base product division manager illustrates this:

"The goal is to make your target, but together with your manager you plan a way there which you can influence a lot yourself, this is where we have flexibility. The fact that we are process driven is something completely different, it makes us display what we are doing and we have extremely much processes just to book a trip to Stockholm, then you need a travel approval and so on. […] Before you learn these processes they are very cumbersome. Very. But when you learn the system it does not take that much time, and I fully appreciate why a company like TechCo needs this type of processes." (Brand Manager Base Division, 2014-03-20)

Another seller agrees with the previous quotation but adds an example of where sellers have flexibility and freedom: "[…] creative thinking around client projects or how we should position ourselves to a client is very flexible, as long as you have a good idea" (Client Manager Add-on Division, 2014-03-11). Using TechCo products, the sellers are free to design the client solution.

If processes such as for example applying for a travel approval are neglected, the Operations Manager of the Add-on product division (2014-03-18) says, sanctions such as manager reprimands, salary deductions and degradations could occur. In very serious cases, if the

employee risks the financial or legal status of the company, terminations of the employment could occur.

Moving on, the interviewees view LocalTech as a small part of a large and global company. The former CEO of LocalTech brings up the global processes implemented throughout TechCo as an example of a global integration of the company. Apart from some adjustments to local legislation, all processes within LocalTech are global. The former CEO of LocalTech says that TechCo is more efficient with global processes instead of having each subsidiary develop their own processes. At the subsidiary level on the other hand sellers also see negative aspects of the global processes on the local business. One manager in the client facing organisation brings up the example of pricing, and explains that this is done by GlobalTech, which can sometimes delay business done by LocalTech:

> "When we write an offer to a client, we do not decide on pricing, GlobalTech does. […] Whenever we need to request a special price, which we do in 99 out of 100 cases, we need to get an approval from GlobalTech first. […] This takes too long time. […] Sometimes it can take days." (Manager Client Facing Division, 2014-04-07)

The Brand Manager in the Base product division (2014-03-20) agrees with the above quotation about having to get pricing approval from GlobalTech for many of the business deals. However, this manager adds that he thinks the pricing approval is quickly received, usually within 24 hours.

Moving on, the view of LocalTech as a very small part of TechCo appears to be cemented among LocalTech employees who oftentimes during interviews express comments such as: "What happens if we close down LocalTech? Well, it is not like TechCo would crumble." (Head of Marketing and Communications Local Tech, 2014-03-06)

> "If we are being honest, TechCo's CEO could close down LocalTech and it would barely show on TechCo's bottom line. You need to realise that there is no point in fighting [GlobalTech], but do what you are told from above and adjust to the situation. But we have incredible products so it's just to get going." (Manager Client Facing Division, 2014-04-07)

"We are an incredibly small fragment of a very large organisation. […] and sometimes when I wake up in the morning I wonder how it is possible that I have so much to do when there are many thousands other employees globally who could do things? But at the same time I feel relieved that I can always find someone who can answer my tricky questions, because there are so many people to turn to." (Client Manager Add-on Division, 2014-03-11)

The head of the Add-on product division agrees that processes and goal-setting are made by GlobalTech, but highlights that LocalTech has an assignment of taking the global and making it relevant for the local market:

"TechCo has a strategy that is set for the company, and what we do here in the countries or in the different divisions is that we bring the strategy to the market and […] in each country you have to adapt [the strategy] to the local market. But overall strategy is common for all." (Head of Add-on Division, 2014-02-27)

LocalTech is supposed to act on GlobalTech's communicated strategic focus areas and exploit these on the Swedish market. One of the managers within the Add-on product division comments on strategy on the subsidiary level:

"Strategy is tricky in a local sales organisation. It is complex for the reason that we are, to a great extent, given what our strategy should be. […] Then we try to adjust it and put our own local flavour on it. We cannot say 'no, we do not believe in those [focus areas], we take some other areas instead.' […] Often the global strategies are good and thought through, but we have to adjust ourselves to them." (Client Manager Add-on Division, 2014-03-11)

Moreover, the head of the Base product division develops on LocalTech's assignment of taking the global strategy to the local market, and illustrates with an example when this proves a challenge:

"We have a certain pricing structure […] it is very managed [by GlobalTech], and in certain situations and markets this can inhibit sales growth, because you have certain demands or a competitive landscape which is much tougher in Sweden in a product

area where we are a small player. If the pricing strategy is based on how it looks globally where we are very big in this product area, then it does not really work. […] This results in us down-prioritising that product area, in favour of something that works better here." (Head of Base Division, 2014-02-19)

A Client Manager in the Base product division (2014-03-17) agrees with the challenge of taking the global strategy to the local market, and points out the need for adaptation and flexibility of the global strategy due to local market variations:

"There is a global strategy from GlobalTech, but there is a need for local variations and adjustments since we have […] different structures in different cultures. In Sweden for example, there is a strong consensus culture compared to the general global corporate culture. GlobalTech's market- and communication strategy infer trying to influence [clients'] top management, who makes the decisions, while for us in Sweden it is important to influence on the grass root level to have a chance [to win the deal]. Often it is these persons who make the decisions in our [Base product division] experience. The final decision is then made on the C-level, but they do not really make the actual decision, they just agree to a proposed business case." (Client Manager Base Division, 2014-03-17)

Regarding how LocalTech adapts to what works best on the local market, the Client Manager in the Add-on product division (2014-03-11) describes that this is most commonly done within the specific client relationship. In order to do this, LocalTech is trying to organise the sellers to focus on specific industries. In this way, when a solution is created for one client within a certain industry, it can hopefully be applied also to industry peers. This way of working becomes a natural way of exploiting opportunities within new client areas. However, sometimes an opportunity is identified that is unique for the Swedish market, but with possibility to be relevant also for other parts of TechCo. In these cases, the Client Manager in the Add-on product division explains, often LocalTech does not have the competence locally but need to involve people from GlobalTech to build the solution, for example industry experts. To get these kind of resources from GlobalTech requires a good business case, and even then the resources are hard to come by. When the solution is built, the GlobalTech employees bring it back to the global organisation to investigate if the solution can be used also on other markets. As it is a hard process to make GlobalTech pursue local ideas for innovation, the Brand Manager in the Base

product division is hesitant to do this (2014-03-20). As far as the Brand Manager in the Base product division knows, trying to get GlobalTech resources to pursue a local idea for innovation is not commonly done.

Another way for locally developed ideas to be picked up by GlobalTech is the abovementioned online sessions, where employees within TechCo can discuss a certain issue during a limited period of time. The online sessions are not only a way for GlobalTech to collect information and opinions on a certain matter from employees. The sessions can also be made locally, and have been made locally according to the Former Head of the Base product division (2014-04-07). The Operations Manager in the Add-on product division (2014-03-18) views the online sessions as a way for LocalTech employees to affect TechCo, and mentions the development of the corporate values as an example.

5.2.3 Business Conduct Guidelines and Corporate Values

As previously mentioned, every employee at TechCo needs to do an online education and assessment on the business conduct guidelines every year. Out of the interviewed employees at LocalTech, some perceive this education as just another process by GlobalTech that needs to be followed, while other employees attach a deeper value to it:

> "I understood that there are ethical principles embedded in the company, which have been present from the start. There is a deep-rooted belief in driving business in an ethical way. This makes me feel good about being here and proud to be a TechCo employee." (Operations Manager Add-on Division, 2014-03-18)

Most interviewed employees agree that the business conduct guidelines serve a useful purpose, and think it is necessary to be reminded of them from time to time. There is some doubt around what actually happens to an employee neglecting to do the yearly online assessment on the business conduct guidelines, but as one of the interviewees put it, "if you do not sign off on the business conduct guidelines, you cannot work at TechCo" (Operations Manager Add-on Division, 2014-03-18).

As also mentioned above, TechCo have company-wide corporate values. These values are communicated in several different ways, for example on the company internal web, on town hall meetings by first line managers and they are also addressed and discussed on occasional team workshops (Operations Manager Add-on Division, 2014-03-18). When visiting the LocalTech

office, it was also observed that posters emphasising the corporate values were displayed on the office walls. The corporate values are also to some extent incorporated in the yearly performance evaluations when it comes to personal behavioural aspects. The attitude toward the corporate values and what they mean to different interviewees vary widely. The Operations Manager at the Add-on product division speaks highly of the values:

> "It feels like [the values] truly are TechCo, that they are not just a show off, but something that TechCo lives and strives for and something that lies within all TechCo employees." (Operations Manager Add-on Division, 2014-03-18)

While the above manager perceives the values as very meaningful, another manager within the Base product division does not seem to think about the values in the daily work at all:

> "To be honest, I do not reflect on the corporate values at all. I have worked and trained for such a long time and do not think about [the values]. […] Of course [I know about the values], much of it is common sense, very much common sense." (Brand Manager Base Division, 2014-03-20)

Another brand manager says that for him personally, the most important value in his work is that the client is always right (Brand Manager 2 Add-on Division, 2014-03-14). This corresponds closely to TechCo's value of always prioritising the client, which the brand manager thinks is an essential value to have since the organisation is dealing with sales. The brand manager perceives him and his colleagues as living according to this value, but questions if the TechCo organisation is built with the value of putting the client first in mind.

> "[…] it is questionable whether TechCo's processes and structures are there to promote putting the client first. I am hesitant to answer yes to that question. I think TechCo is incredibly admin focused and extremely complex, that it takes very much, unnecessary much in my opinion, for the sellers to be able to execute on the client first idea." (Brand Manager 2 Add-on Division, 2014-03-14)

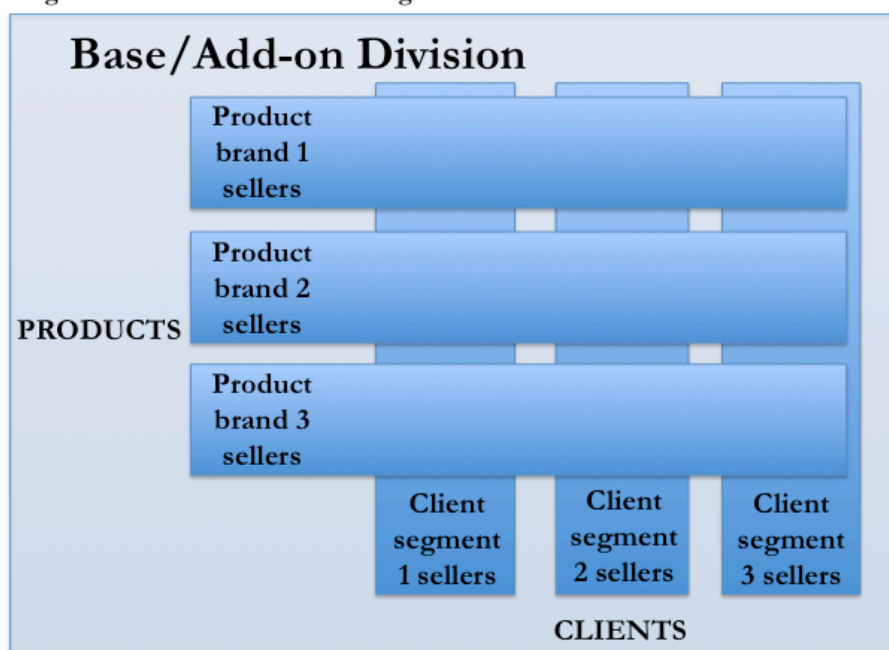The manager goes on to describe an example of the above situation:

"It has to do with our size and global presence; TechCo would not survive if every country had 17 different contractual forms in place, that cannot be managed. Therefore we become bureaucratic and our clients often think we are difficult to deal with. One example is that our sellers in negotiations with clients extremely seldom can commit to a certain price, instead almost always it has to be taken back to GlobalTech, being sent into some system to get approvals on five different levels, sometimes more, depending on the deal. […] We manage to handle these situations anyways since we are experienced with them, but it is an example of the corporate value putting the client first being a label and a slogan in TechCo which is quite hollow in my opinion." (Brand Manager 2 Add-on Division, 2014-03-14)

As the quotation above illustrates, the Brand Manager 2 within the Add-on product division perceive TechCo's corporate value of always prioritising the client as hollow, as TechCo creates obstacles for sellers to execute on the value.

5.3 The Base Product Division and the Add-on Product Division

As mentioned above, the Base product division and the Add-on product division are two divisions within LocalTech focusing on selling TechCo products. Each of the divisions is structured as a matrix with units running vertically and horizontally. Vertically, there are groups responsible for certain clients or client segments. The sellers in these groups are responsible for optimising the technological solutions sold to a specific client or client segment, covering the entire division's product portfolio. Horizontally, each so-called product brand has its own sales organisation. The product brands are the different types of products in TechCo's portfolio, and the sellers within each brand are responsible only for selling their brand's specific product portfolio. The product portfolios consist of an extensive range of TechCo products for the sellers to choose from. There are thus both sellers responsible for selling an entire division's product portfolio to a specific client or client segment, as well as sellers responsible for selling a specific type of product brand within a division to all clients (Head of Base Division, 2014-02-19). The structure is illustrated in Figure 4 below:

Figure 4. Illustration of overall organisational structure within a division

Base/Add-on Division

PRODUCTS

- Product brand 1 sellers
- Product brand 2 sellers
- Product brand 3 sellers

Client segment 1 sellers | Client segment 2 sellers | Client segment 3 sellers

CLIENTS

5.3.1 Overall Plans and Strategies for the Divisions

The base product segment has traditionally been core business for TechCo, but as technology has developed over time and the market has become more competitive, these products are moving toward a lower value segment. Several product brands from the Base product division have been sold off over the past years, and the division's global pre-tax income has been on a constant level over the last ten years. The Base product division's global pre-tax income is not expected to grow from here but expected to stay at this level over the next few years (TechCo Annual Report 2013; TechCo Website 2014-03-30).

The global Add-on product division on the other hand has grown rapidly over the last ten years, from generating less pre-tax income than the global Base product division to generating many times more pre-tax income than the Base product division (TechCo Website 2014-03-30). The add-on products lie in a higher value segment than the base products. The growth of this division globally is therefore a large part of TechCo's strategy to move toward higher value business. The growth in the Add-on product division has been heavily supported by acquisitions within this product area and the division is expected to continue to grow over the next couple of years (TechCo Annual Report 2013). The Add-on product division makes up quite a large part of the revenue and profit for LocalTech as well as add-on products in the Nordic region. As the head of LocalTech's Add-on product division puts it:

"My role is like running a company. What is visible are my revenue targets. […] as my division is responsible for about 50% of the profit, if I fail, then Nordic fails, it's that simple." (Head of Add-on Division, 2014-02-27)

As the Add-on product division's result makes up a large part of LocalTech's revenue, LocalTech depends on the Add-on product division to deliver on their targets to a larger extent than LocalTech depends on the Base product division to deliver on their targets (Head of Add-on Division, 2014-02-27).

Moving on, the Add-on product division sells higher value products than the Base product division. Therefore, the Add-on product division sellers need to do business with client stakeholders higher up in the client's organisational hierarchy than the Base product division sellers, who access stakeholders on a lower level in the organisation. This means that the Add-on product division sellers to a further extent need to involve the Client Facing division in their business with clients, as the Client Facing Division is responsible for representing LocalTech to key stakeholders within the client's organisation (Manager Client Facing Division 2014-04-07). The Manager within the Client Facing division explains that he and his colleagues are more comfortable with letting the Base product division sellers be independent in their contacts with clients, while the sellers within the Client Facing division are more involved in the Add-on product division's business with clients where they often act as door openers and monitor the sales process.

5.3.2 Cooperation and Incentives

Often LocalTech cooperate with business partners to provide client solutions including both TechCo's products and competitor products. However, TechCo's products are optimised technically when provided together and therefore TechCo's offering is supposed to be technically strongest when the divisions work together on a solution. The Head of the Add-on product division illustrates this:

"Well, that is the name of the game of being in TechCo, that we are the strongest when we work together. The best possible case would be that there are TechCo add-on products, TechCo base products and TechCo services [in a client solution]. This would be the best possible scenario. But in real life, […] most likely it will be that there are TechCo add-on products with competitor base products and business partner services. Or base products with competitor add-on products and business

partner services. It is very seldom we are chosen to cover all, there are situations where it occurs in Sweden for big, big clients, but it is not the general case. We [the divisions] are very much related, but we have to stand on our own as well." (Head of Add-on Division, 2014-02-27)

On the other hand, there are limited incentives for the sellers in the different divisions to cooperate. The same goes for the sellers of the different product brands within each division. A manager in the client-facing organisation illustrates this dilemma:

"We always say that we are strongest when we go together, but I have also experienced many cases where we try to approach an opportunity together and the focus in the room turns to what is good for each individual, the agenda becomes personal for everyone. When it is sorted out and everyone agrees, then we are invincible, but to get there is a very bumpy road. It is almost nicer to work with business partners to avoid having different internal agendas. […] When we cooperate internally it is easier to accidentally sabotage our own business [than if we cooperate with a business partner]." (Manager Client Facing Division, 2014-04-07)

The Manager in the Client Facing division thus illustrates that although LocalTech's offering is strongest when the different divisions work together, the individual sellers' personal agendas make cooperation problematic, and sometimes working with an external business partner instead could be preferable.

As a result of past development for base products, it becomes more key for sellers within the Base product division to be included in client solutions combining base products and add-on products. One seller within the Base product division says:

"[…] the biggest challenge for the Base product division is to establish an ecosystem for cooperation with actors within add-on products, both internal and external. We need to get incentives in place to get add-on product actors to ally themselves with us when they build client solutions." (Client Manager Base Division, 2014-03-17)

Currently there are no incentives in the individual sellers' incentive plans to include other divisions' products in a client solution. There are some incremental cross-division incentives

however, an example of a "challenge" as mentioned above, where a seller is occasionally incentivised to include products from another division in a client solution when these products can be easily included in the solution. As one seller within the Base product division puts it:

"[…] add-on product brands close to base product brands tend to have cross incentives with us since a combined client solution is easily built. […] I do not think all product brands have cross incentives, it is specifically where there are clear synergies between the brands and they are easily packaged in a combined client solution." (Client Sales Person Base Division, 2014-03-18)

In some cases however, sellers within the Add-on product division are actually better off not offering their add-on products in combination with base products by TechCo. One of the sellers within the Base product division explains:

"Add-on product sellers can lose if base products from TechCo are added in the client solution. Since TechCo's products are made to be technically optimal for each other, not as much add-on products are needed if our base products are used instead of competitors' base products." (Client Manager Base Division, 2014-03-17)

The add-on product seller would in these cases be able to sell more add-on products, and earn more revenue, if going with a competitor's base products in the client solution through a business partner instead of going with TechCo's own base products (Client Manager Base Division, 2014-03-17).

In addition, if the LocalTech sales person chooses to compose a solution through involving products from other divisions, he or she increases their risk without being compensated for adding products from other divisions. If the seller instead goes with a business partner for the rest of the solution, the business partner takes responsibility for their part of the solution:

"If [I am a seller for one of the divisions and] I am fronting the client and more and more products and solutions are added [from other divisions], then my risk of something failing in the solution increases. And I am still measured only on my part of the solution. Then it is better for me to take in a business partner instead, because then the business partner fails [if something fails] and not TechCo. I cannot go to the

client and say 'yeah, well, it is TechCo you know but it is another division, the client does not care about that." (Manager Client Facing Division, 2014-04-07)

The Manager in the Client Facing division thus illustrates a situation where a seller within a LocalTech division is better off not involving other parts of LocalTech in the deal, but rather to do the deal with a business partner instead.

5.4 Concluding the Empirics

In the above chapter the empirics collected from the interviews made with LocalTech employees and other collected TechCo related material has been presented. A broad picture of the formal structures of TechCo was the starting point for the chapter, then moving on to the subsidiary LocalTech and how business is done in practice at the local level. Finally, the two divisions Base product division and the Add-on product division were taken a closer look at. Using the empirical information presented in this chapter, the next step in this thesis is to analyse the information using the before mentioned theoretical framework, in order to find an answer to the posed research question.

6. Analysis

In this chapter the presented empirics will be analysed in order to answer the research question: *"How is global strategy balanced with the need for local adaptation in the management control system at the subsidiary level?"*. As previously described, global strategy is here seen as all actions and orders received from the global level at the local level. Thus, everything the global organisation wants the local organisation to do is perceived as a part of the global strategy, i.e. GlobalTech's intention is the global strategy.

First Simons' (1995) four levers of control framework will be used as a skeleton framework, in order to investigate and clarify the structures in the management control system within LocalTech and the divisions. The analysis will then be further developed using the concepts of exploration and exploitation and the tensions presented by Busco *et al.* (2008), in order to unravel the effects of the structures in the management control system on the balance between global strategy and the need for local adaptation.

6.1 The Management Control System in LocalTech

6.1.1 Beliefs and Boundary Systems

As mentioned in the theory chapter above, beliefs and boundary systems are closely related as boundary systems limit the span of beliefs systems. While beliefs systems give guiding values on how to act in the corporate environment, boundary systems tell what not to do in that same environment. Therefore they will be treated together in this section of the analysis.

6.1.1.1 LocalTech's Beliefs Systems Aim to Achieve Innovation

Beliefs systems are the formal values a company identifies itself with, which the managers continuously enforce through formal systems. In LocalTech, the corporate values are a typical example of a beliefs system. The TechCo corporate values are clearly communicated in different formal communication channels, and occasional workshop initiatives are made in order to internalise the values in the daily work of employees. The values are communicated both from GlobalTech through for example the internal web, as well as from first line managers within LocalTech on for example town hall meetings.

Overall, LocalTech employees seem to be well aware of the corporate values. However, it can be discussed how effective the corporate values are on affecting how employees within LocalTech work, and whether or not the corporate values are coherent with and supported by other

structures within the TechCo organisation. Several structures within TechCo do not support the corporate value emphasising prioritising the client, such as rigid processes making the client experience LocalTech as bureaucratic and complicated to do business with. Thus, these structures do not seem to be aligned with the direction of the value of prioritising the client. Moreover, there are values emphasising the importance of innovation and being innovative, but it is questionable if these values are executed in a LocalTech seller's daily life. The LocalTech seller is free to construct client solutions combining existing products but does not deal with creating client solutions that are not possible to build using TechCo's existing products. If such a need should appear, experts from GlobalTech are called in to deal with the situation instead of the LocalTech seller. Hence, it seems the value of innovation is more apparent in some parts of the TechCo organisation than others.

Considering the two divisions, there are no identified differences in the beliefs systems between them. The corporate values are valid for the entire LocalTech and thus both divisions, and no individual beliefs systems within the specific divisions have been observed.

6.1.1.2 LocalTech's Boundary Systems Limit Behavioural Scope

Boundary systems are the formal set of rules and guidelines the organisation sets up in order to specify what the employees cannot do (Simons 1995). Within LocalTech, the business conduct guidelines closely resemble a boundary system, as they stipulate guidelines for what not to do when doing business in the name of TechCo. The strict rules around pricing that several interviewees bring up could also be viewed as a boundary system. The sellers are not allowed to set prices themselves, which limits their freedom and flexibility in the relationship towards the client. In most cases, the sellers need to get approval from GlobalTech in order to be able to offer the client a certain deal.

LocalTech employees also have to follow a range of rigid processes enforced by GlobalTech, such as applying for approvals for all kinds of business trips within or outside the country, recording all potential business opportunities in the CRM system and update these according to certain guidelines, as well as going through an online course and examination on the business conduct guidelines once a year. If an employee does not follow the processes, consequences such as manager reprimands and degradation could be enforced. These processes have aspects of boundary systems as they limit and steer the behaviour of employees, and are enforced through sanctions. However, the processes do not specify what employees cannot do, which a typical boundary system does, rather they specify what employees have to do. Simons (1995) argues that

it is better to focus on specifying what the employees should not do, as it will most likely make up a shorter list than specifying everything the employees can do. However, within TechCo, GlobalTech instead specifies what employees *must* do through the use of processes.

As the processes specify what employees must do, these processes can be seen as even more limiting than traditional boundary systems. According to Simons (1995), the possibility to achieve flexibility and creativity is generated in the organisation as the boundary system creates organisational freedom within the boundary domain. However, as the processes within LocalTech, in contrast to the conduct guidelines, do not specify what the employees cannot do, but rather they specify what employees have to do, they do not give organisational freedom within the boundary domain. Instead of giving employees freedom within a domain, the processes limit this freedom and instruct the employees exactly what to do. The processes can thus be viewed as even more limiting and controlling for the individual seller than a traditional boundary system.

When looking specifically at the two divisions, no additional division-specific boundary systems are identified in any of the divisions. As the divisions carry out their business in much the same way, the sellers within both divisions need to comply with the same boundary systems: the overall boundary systems brought up above.

6.1.2 LocalTech's Diagnostic Controls Dominate the Management Control System

Diagnostic control systems, as mentioned in the theory chapter, are feedback systems present to achieve set targets and goals, measuring outputs against a predetermined standard (Simons 1995). Diagnostic control systems are a large part of LocalTech's management control system. The diagnostic control systems in TechCo originate from GlobalTech's overall financial goal for TechCo, which is more or less trickled down into targets for the different organisational levels in LocalTech. There are clear targets for every seller to work towards, the targets are followed up regularly and incentives are attached to them. The most important targets for the sellers within LocalTech are the revenue targets. The revenue target levels are predetermined and the output is measured after the measuring period is over. When the measuring period is going on, as well as afterwards, the level of expected revenue is compared to the target level and the information is fed back to the seller who based on the information decides on appropriate actions to take.

As the sellers are measured and incentivised only on semi-annual targets, there is a risk the sellers in LocalTech will be narrow sighted and short-term focused. In order to mitigate this risk and

have a longer-term perspective to secure business deals more than a half year into the future, sellers are supposed to continuously build pipeline with future business opportunities. However, the sellers have no concrete targets on pipeline further than six months into the future, and have no explicit targets on keeping pipeline this far into the future. On the other hand, the sellers are followed up on their future pipeline in recurring meetings, and are in this way expected by management to take responsibility for building future pipeline. The future pipeline will eventually be the current pipeline, and there seems to be an inherent expectation by management that the sellers will understand this and therefore, for their own future good, work to build future pipeline. However, as a sales person you are always torn between working to secure a business deal now, which you are incentivised on, compared to working to secure a potential deal in the future, which is by definition more risky business. Thus, chances are that the short-term focus dominates the sales person's agenda despite management expectations.

Since TechCo's financial goal is trickled down into local seller targets, sellers are incentivised on generating revenue from their own product area or clients, and not on creating solutions in cooperation with other LocalTech divisions, which could be negative for the organisation as a whole. The sellers are to the greatest extent incentivised on revenue generated by sales from the products or the clients that they are responsible for. The sellers are most commonly not incentivised on maximising sales revenue in any other areas of LocalTech, even though the common understanding is that LocalTech and TechCo gain when different divisions cooperate and offer a complete TechCo solution instead of involving business partners and competitors. Not only are the sellers not incentivised on cooperating with other parts of LocalTech, the sellers in some cases have incentives not to cooperate – as they only increase their risk with the business deal but do not gain anything from the cooperation. Therefore, providing incentives to sellers on only sales revenue from their own product area or clients could actually disfavour the organisation as a whole.

There is a risk that sellers in LocalTech will not focus on TechCo's strategically important focus areas as they are incentivised only on their individual responsibilities. Even though these focus areas are strategically important for the organisation, there are in general no extra incentives for a seller to work toward these areas. However, as in the pipeline case above, sellers are followed up on their business within the focus areas in meetings regularly. Also, a common opinion seems to be that the future lies within these areas and that the sellers should want to focus selling toward these areas, since they are driven in part by growing demand on the market. All in all, to only

measure and give incentives on the sellers' own areas of responsibility in order to reach the global financial goal, gives no extra monetary incentive for sellers to expand sales within TechCo's strategic focus areas.

Comparing the two divisions, even though they have different strategies putting different pressures on them to perform, they have the same diagnostic control systems as their targets are followed up in the exact same way. The Add-on product division is larger than the Base product division and is supposed to deliver on much higher revenue and growth targets than the Base product division. This results in more pressure being put on the Add-on product division, as it is more important that the Add-on product division delivers on its targets than the Base product division doing so, as LocalTech depends more on the Add-on product division to deliver to reach LocalTech's revenue target. However, the Add-on product division's current opportunities and future pipeline is followed up in the exact same way as the Base product division's pipeline.

Moreover, sellers within both divisions are incentivised on only their own area of responsibility, even though the divisions depend differently on each other to do business. The Add-on product division is more independent from the Base product division than vice versa, as the Base product division is dependent on the Add-on product sellers including the base products in client solutions. Although this large dependency on the Add-on product division by the Base product division exists, the diagnostic control system includes no incentives to promote the Add-on product division sellers to include the Base product division's products in client solutions. Rather the opposite is true: Add-on product sellers can sometimes lose if including TechCo base products in a solution, as the products are technically optimal for each other and not as much add-on products are needed when adding TechCo base products in a solution. Again, to only incentivise sellers on sales revenue solely from their individual area of responsibility may be negative for the entire LocalTech.

The divisions also have relatively different dependencies on the Client Facing division, and even though this difference exists, no specific incentives are in place in the diagnostic control systems to promote cooperation based on these dependencies. As mentioned in the empirics chapter, the Base product division sellers have more freedom when approaching clients than Add-on product division sellers. Base product division sellers need to impact client stakeholders on the grass root level selling lower value products, while Add-on product division sellers need to influence clients on an executive level as a consequence of selling higher value products. Thus the Add-on

product division needs to involve LocalTech's Client Facing division to a greater extent than the Base product division does, as the sellers in the Client Facing division are responsible for executive stakeholder connections. However, the diagnostic control system is not promoting cooperation between the Client Facing division and the Add-on product division any more than it is promoting cooperation between the Client Facing division and the Base product division.

6.1.3 Interactive Control Systems are Used to Follow-up on the Diagnostic Control System

Interactive control systems are formal information systems used by managers to involve themselves regularly and personally in the decision activities of subordinates (Simons 1995). The interactive control systems focus attention on strategic uncertainties and enable strategic renewal (Simons 1995). Within LocalTech, there are a few examples of systems resembling interactive control systems. However, as mentioned before, interactive control systems are not its own unique type of control system, rather any control system can be used interactively. Within LocalTech, parts of the diagnostic control systems are used quite interactively. Sales targets and pipeline are followed up interactively, as attention is put on identifying strategic uncertainties regarding business deals and identifying appropriate actions to deal with these in order to close the deal. Other characteristics of an interactive control system, such as continuous reforecasting of the future based on revised present information and usage of the system by managers on all levels of the organisation suits this situation well.

The purpose of an interactive control system is to focus attention on strategic uncertainties and enable strategic renewal (Simons 1995), however the system described above is not focused on enabling strategic renewal. According to Simons (1995) the core of management control systems is to balance the tension between innovation and the achievement of predetermined goals. The interactive control system plays a critical role as it is supposed to focus attention on strategic uncertainties and enable strategic renewal. Even though the interactive control system described above enables discussion on how to tackle strategic uncertainties in specific business deals, it is not focused on the enabling of strategic renewal as it only supports the execution of achieving predetermined goals using existing resources.

There is a parallel interactive control system following up opportunities within the strategic focus areas that is important to enable strategic renewal within LocalTech. When following up sales opportunities and pipeline, opportunities within the strategic focus areas are also followed up interactively. Special focus is then put on distinguishing opportunities within the focus areas to make sure the sales organisation is working within these strategic areas. In addition to the regular

follow-up of the focus areas, educational sessions are held by GlobalTech with the aim to educate and market the focus areas for sellers to go in this direction. Even though there are monetary incentives tied to all opportunities as such, there are no extra monetary incentives to make sellers prone to go after opportunities within a prioritised strategic focus area rather than any other area. Therefore the interactive control system following up opportunities within the focus areas is particularly important to steering the organisation in this direction and enable strategic renewal within LocalTech as well as GlobalTech.

Moving on, the discussion leading up to defining the corporate values was an initiative with some interactive influences but not an interactive control system as it was a one-time occasion. When the corporate values were defined, all employees within TechCo were invited by GlobalTech to take part of this discussion online. The beliefs systems were thus developed through an initiative with some interactive influences. The initiative resembles an interactive control system as it proved a way for senior managers to involve themselves in the decision activities of subordinates, as well as enabling strategic renewal. However, this was a one-time occasion and thus cannot be defined as an interactive control system as the initiative does not occur regularly.

When considering only interactive control systems in the individual divisions, similar interactive control systems are identified in both divisions, where the following-up of sales and pipeline is treated interactively in the same way.

6.1.4 Concluding the Analysis of the Management Control System in LocalTech

When applying Simons' (1995) levers of control, a focus on implementation of global strategy rather than a focus on local adaptation can be observed in the management control system within LocalTech. The diagnostic control systems steering the organisation to deliver on targets trickled down from the global target, as well as the overall focus on the achievement on predetermined goals in the control system, are both factors in support of the above statement.

Within LocalTech, there seems to be a stronger focus on the achievement of predetermined goals rather than innovation in the management control system. The corporate values provide the base for the beliefs systems, however it is questionable if the values promoting innovation are lived by employees within LocalTech. Moreover, the boundary systems such as the business conduct guidelines, pricing rules and processes, limit the behavioural scope of LocalTech employees and focus attention to the achievement of predetermined goals rather than innovation. In addition, well-developed diagnostic control systems steer sellers toward working to reach their targets, i.e.

reaching predetermined goals. Finally, the interactive control systems identified do focus attention on strategic uncertainties, related to identified business opportunities, and to some extent they also enable strategic renewal related to GlobalTech's prioritised focus areas. However, they do not promote innovation on the local level as the interactions taking place in the interactive control systems are focused around dealing with strategic uncertainties and enabling strategic renewal using existing products and solutions. In conclusion, the management control system within LocalTech heavily supports the achievement of predetermined goals, but provides very limited support for innovation (see Table 1).

Table 1. Summary of the levers of control within LocalTech

Lever	Examples within LocalTech	How lever steers sellers
Belief	Corporate values	Aim to achieve **innovation**, questionable if they do as innovation is suppressed by boundary
Boundary	Business conduct guidelines, pricing rules, internal processes	Limit behavioural scope, focus attention on **predetermined goals**
Diagnostic	Overall financial goal trickled down into revenue targets with incentives. Measuring and follow-up.	Steer sellers toward reaching **predetermined goals** only in their own area of responsibility
Interactive	Following up sales and pipeline within all areas and focus areas	Focus attention on strategic uncertainties and enable strategic renewal related to already existing products and solutions but **achieve limited innovation**

Considering only the two divisions, although the Base and Add-on product divisions have different strategies to execute on, only a few differences are observed in how the divisions act, and no differences are observed in how the divisions are influenced by the management control system. Differences in the two divisions' targets growth levels, their independence of one another as well as their relative freedom to approach clients can be observed within LocalTech. However, even though there are strategic differences between the divisions, differences in how the management control systems are balanced and used in relation to global strategy appear to be negligible.

6.2 Dominant Exploitation Gives Limited Room for Exploration

In this section, the analysis of Simons' (1995) levers above will be further developed using the concepts of exploration and exploitation. In order to assess how global strategy is balanced with the need for local adaptation in the management control system at the subsidiary level as well as in the divisions, the levers of control within LocalTech will now be analysed from the perspective

of the two concepts exploration and exploitation. However, LocalTech is a subsidiary in a multinational company. To get a broader understanding for how this aspect influences the balancing of global strategy and the need for local adaptation in the management control system, we will also look at how tensions between a global and local setting are managed within the management control system and what effect this has on exploration and exploitation at the subsidiary level. As presented in the theoretical framework chapter, exploration are things captured by terms such as search, variation, risk taking, experimentation, play, flexibility, discovery, innovation, while exploitation is such things as refinement, choice, production, efficiency, selection, implementation, execution. Thus, as previously stated, exploration is closely related to local adaptation while exploitation is related to the execution of global strategy.

6.2.1 The Structures in The Management Control System Limit Room for Exploration and Local Adaptation

Exploration within LocalTech is to some extent promoted by the identified interactive control systems in the organisation. Interactive control systems should promote exploration, as their purpose is to focus attention on strategic uncertainties and enable strategic renewal (Simons 1995). The interactive control systems identified within LocalTech are foremost the interactive control systems established around following up targets and sales progression. These interactive control systems have elements of exploration as they to some extent promote search and experimentation within the daily work around business deals, in order to create new and customised aspects in client solutions. In this way they also make LocalTech adapt to local market needs.

There are also other occasional initiatives in the organisation with interactive elements although they cannot be defined as interactive control systems as they are often one-time initiatives, such as the online discussion around the corporate values. These initiatives also spur explorative behaviour in the organisation, as they encourage experimentation, play and discovery and encourage LocalTech employees to create something new that does not already exist within TechCo. As mentioned however, these initiatives are not part of the management control system as they are occasional initiatives, and they therefore fall outside the scope of the research question.

Within LocalTech, the exploration provided by the beliefs systems is limited by other structures and systems in the company. In TechCo, one of three themes in the corporate values is the importance of focusing on innovation. Such a theme within the corporate values could be an

example of the management control system steering LocalTech toward exploration, as innovation within LocalTech would be an example of exploration. However, it is questionable if the corporate values promoting innovation are lived among sellers in LocalTech. Instead, it seems company structures and processes obstruct employees from living according to these corporate values on the local level. In addition, often if innovation is needed at the local level, global competence is brought in for these kinds of projects. It therefore appears the exploration provided by the belief systems is somewhat suppressed by the standardised processes, centralised functions and short-term targets connected to the boundary and diagnostic control systems.

However, even though much of the little innovation on the local level is done by GlobalTech expertise, this could be interpreted as exploration on the local level. Even if the sellers within LocalTech are not part of these projects to the same extent, the opportunity to innovate is called for by the local sellers, the innovation is carried out at the local level and LocalTech and its clients benefit from these innovations made locally. The global competence is asked for to answer to market needs that LocalTech cannot already answer to, which means that local adaptation occurs when the need is fulfilled. In this way, even though global competence is carrying out the innovation, this could act as a substitute for exploration and local adaptation carried out by the local sellers. Exploration and innovation are still done locally, enabling local adaptation. However, it should be noted that these global resources are seldom received and that GlobalTech only provides them when there is a business case in favour. If no global competence would be taken in by LocalTech, the sellers locally would probably instead have chosen to not answer to the client's need, as the competence gap would be too much of an obstacle and it would be easier to tend to another client's need. In that case no local adaptation would have been made.

Looking specifically at and comparing the two divisions, as they are affected in the same way by the management control system, no differences when considering the aspect of exploration within the divisions is observed.

6.2.2 Exploitation

The identified boundary systems within LocalTech; the business conduct guidelines and the rules around pricing, limit exploration such as risk taking, variation, flexibility and experimentation. In addition, they relate to exploitative actions such as execution, production and implementation as they specify and regulate how the business should be carried out.

Furthermore, the internal processes push LocalTech toward exploitation. As mentioned, the processes such as applying for approvals, registering sales opportunities in the CRM system or having to do certain online course assessments include several aspects making them similar to boundary systems. As the processes specify what an employee must do, they aim to increase efficiency in the production, controlling and steering execution and implementation of doing business in the organisation, which can be understood as focusing LocalTech toward exploitation and global strategy implementation.

Moreover, rather than innovating new solutions, sellers within LocalTech build solutions based on prior knowledge and by combining already existing products within TechCo. As TechCo has an extensive product catalogue for sellers to choose from, this may contribute to a limited need for exploration and innovation at the local level. Even if the LocalTech sellers experience that they have flexibility, the focus lies on the exploitative "choice" instead of the explorative "innovation" in their work. However, even though "choice" is an example of exploitation, it could be a way for LocalTech to adapt to the local market, as products that do not sell on the Swedish market could be deselected in favour of products that do sell.

There is a clear dominance of convergence of the above-mentioned practices within TechCo, at least as far as LocalTech is concerned. This is positive for exploitation and global coordination and strategy implementation, but may limit room for exploration and advantages of local responsiveness and adaptation. The dominance of convergence of practises versus differentiation of practises is an example of the presented tensions that need to be managed within a performance management system within a global organisation, in order to achieve the benefits of global coordination and the advantages of local responsiveness. All processes described under section 6.1.1.2 are global processes, all products are global TechCo products and the corporate values are common for the entire global group. LocalTech has no differentiated practises or processes compared to the rest of the global TechCo organisation, except for where the Swedish law requires TechCo to comply with specific Swedish legislation. This dominant convergence of practises across TechCo likely facilitates exploitation and global coordination and strategy implementation as the practises are managed from a global perspective. However, a lack of differentiation within LocalTech may jeopardise the possibility for exploration and advantages of local responsiveness and local adaptation.

Moving on, the diagnostic control systems within LocalTech are heavily focused on exploitation and global strategy implementation. The system of having strong goals and targets running through the entire company with incentives tied to them and regular follow-ups, focuses the entire sales organisation toward execution on these targets. Except for promoting exploitative behaviour to reach the targets, the diagnostic control systems also limit room for explorative behaviour. As the seller gets incentivised on the targets and since the targets are relatively short term, the seller needs to focus entirely on delivering on them. If the choice between doing low-risk conventional business and potential business generated by search, innovation and experimentation comes up, the seller will likely be prone to go for the secure business instead of the more risky business.

From the perspective of LocalTech, the decision-making within TechCo is centralised, which facilitates exploitation and global strategy implementation but limits room for exploration and local adaptation. Important decisions such as overall targets and goals, strategy, acquisitions of new technology, product development and innovation, are made by GlobalTech and not at the local level. The diagnostic control systems are steered from a global level as the overall targets and goals are trickled down to a local level with limited room for negotiation, and then followed up from the lowest level in the organisation, to the country and to GlobalTech. The beliefs systems, although discussed by all TechCo employees, are decided on globally. The boundary systems such as the business conduct guidelines and pricing are also decided on globally. According to Busco *et al.* (2008), a global organisation needs centralisation of decision-making in order to leverage its competitive advantage across borders, but it also needs some degree of decentralisation and local autonomy in order to adapt to local conditions. The centralisation of decision-making within TechCo therefore likely facilitates the implementation of the global strategy, i.e. exploitation, and enables TechCo to leverage their competitive advantage across borders. However, this comes to the expense of adapting to local conditions, as adapting to local conditions requires some local autonomy.

Within LocalTech, there are well-defined superior-subordinate relations, stretching all the way up to GlobalTech, which facilitate global strategy implementation and exploitation. The vertical relations can be observed clearly from the reporting structure within the diagnostic control systems where information flows are vertically driven. Well-developed vertical relations affect positively the adoption of the parent company's practices by the subsidiary (Busco *et al.* 2008), and the identified vertical relations can therefore be assumed to have a positive effect on

exploitation and global strategy implementation. As vertical relations are defined by the extent of centralisation versus decentralisation of decision-making in the organisation, observing clear vertical relations comes as no surprise as the organisation has centralised decision-making.

Furthermore, receiving incentives only on the own product area or client segment will also promote exploitation rather than exploration. When sellers are incentivised only on the own product area or client segments, and in some cases actually disfavoured by including other TechCo products in the solution, the incentive systems will not contribute to a mind-set where sellers think of what is better for the entire LocalTech organisation. They will rather be encouraged to maximise the sales in their specific area of responsibility. As the incentive system makes the seller focus less on the big picture and concentrate more narrowly, the system will disfavour explorative actions such as experimentation between areas leading to new solutions, flexibility and innovation.

When considering only the two divisions and any differences in exploitation between them, no differences are observed as they are affected in the same way by the management control system.

6.2.3 Dominating Exploitation Limits Exploration

In the management control system within LocalTech, an emphasis weighing over on exploitation can be observed. As the two divisions are affected by the management control system in the same way, no differences between how the divisions pursue exploration and exploitation is observed. Exploration is only done to a limited extent within LocalTech, as the major focus of the sellers in the sales organisation is to deliver on their relatively short-term targets by selling existing products instead of creating new, innovative solutions.

Interactive control systems, as they focus attention on strategic uncertainties and enable strategic renewal should steer an organisation toward exploration. In LocalTech, the only interactive control systems within the management control system are connected to the diagnostic control systems. These interactive control systems to some extent promote exploration as they encourage sellers to create new and customised aspects in client solutions. However, given that there is no identified interactive control system that is not connected to the diagnostic control systems, and the exploration provided by the belief systems is somewhat suppressed by the boundary and diagnostic control systems, LocalTech has a very limited acting space for dealing with exploration.

Considering the tensions between the global and local setting, a domination of standardised practises, centralised decision-making and vertical relations can be observed. This domination likely further enables and facilitates exploitation and global strategy implementation within LocalTech, and limits room for exploration and local adaptation.

For being part of a group with focus on innovation as one core value, the sellers within LocalTech have very limited focus on innovation. However, if a case where a completely new solution is needed should arise, with a business case backing it up, GlobalTech industry experts are sometimes received to work on the project, creating exploration in the local organisation. LocalTech sellers, rather than innovating new solutions, design solutions by combining already existing products from TechCo's extensive product portfolio. Thus, the focus lies on the exploitative "choice" instead of the explorative "innovation" among the LocalTech sellers.

However, the exploitative "choice" contributes somehow to LocalTech's local adaptation. Even though it is defined as exploitation, the possibility of choosing for example what products to sell enables LocalTech to deselect products not working well on the Swedish market and thereby adapt to the Swedish market. Controversially, at the same time as this de-selection enables local adaptation, it also enables global strategy implementation as LocalTech still selects among products from the GlobalTech product portfolio. Thus, local adaptation and global strategy implementation may to some extent be overlapping, and achieved at the same time, which is illustrated in Figure 5 below.

Figure 5. The overlap between local adaptation and global strategy implementation

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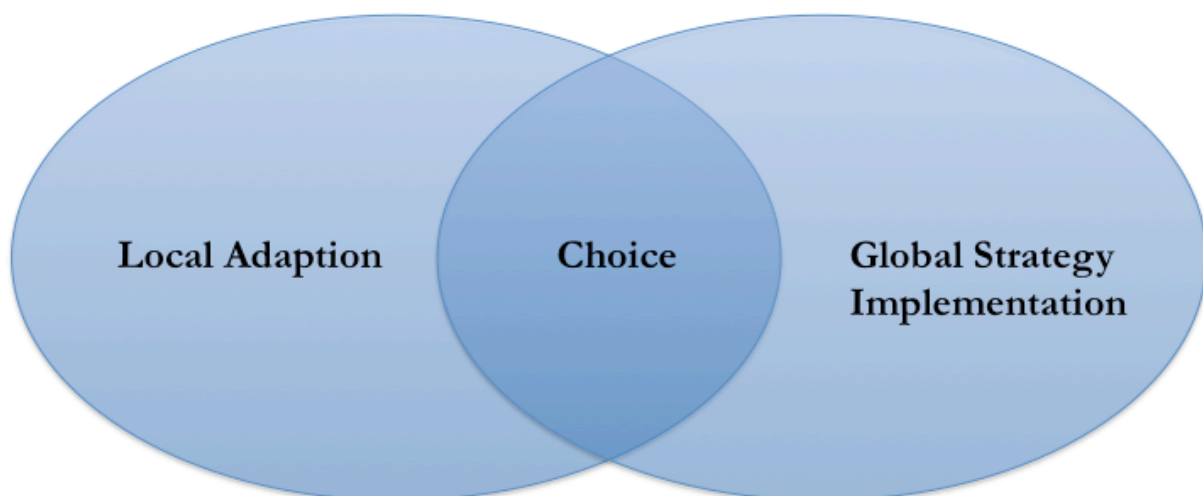
Lifting the above reasoning to a more general level, an overlap of local adaptation and global strategy enables global organisations to execute on both of these conflicting demands simultaneously. A global company can then resolve the challenge of balancing global strategy implementation with local adaptation by giving the subsidiary the freedom to choose from a range of options on how to execute on global strategy.

7. Conclusions

The aim of this thesis was to explore how a global strategy is realised at a local level. In order to do that, the research question: *"How is global strategy balanced with the need for local adaptation in the management control system at the subsidiary level?"* was posed. In an attempt to answer the research question, an exploratory case study was made of the sales company LocalTech, a local subsidiary to the large multinational corporation TechCo. The two divisions the Base product division and the Add-on product division were studied to achieve a comparative approach and provide symmetry in the material collected.

Empirical material was collected through a series of interviews with TechCo employees, with a focus on employees in the two divisions as well as LocalTech management and representatives from a client facing division. Material was also gathered through other sources, such as internal and external documents, the corporate website and the TechCo annual report. The material collected was then presented starting with a focus on structural information on the entire TechCo organisation, moving on to looking at the practice within LocalTech, and ending by narrowing the focus further and comparing the two divisions the Base product division and the Add-on product division.

In order to structure the analysis, Simons' (1995) four levers of control were used as a skeleton framework to analyse the management control system within LocalTech. The concepts of exploration and exploitation were then applied to the analysis, in order to shed light on how the management control system within LocalTech balances the implementation of global strategy (exploitation) with flexibility for local adaptation (exploration). To also capture the dimension of LocalTech being part of a global organisation, Busco *et al.*'s (2008) tensions were used to add the perspective of global versus local to the exploration-exploitation analysis.

The analysis of the management control system within LocalTech concluded that the management control system focuses the organisation toward achieving predetermined goals rather than innovation. The management control system within LocalTech thus supports global strategy implementation while limiting space for local adaptation. When looking at how the management control system within LocalTech handles exploration and exploitation, an emphasis weighing over on exploitation was observed. Exploration is only done to a limited extent, as the major focus of the sellers in the sales organisation LocalTech is to deliver on their relatively short-term targets rather than explorative actions.

When looking at the Add-on and Base product divisions, some strategic differences between the divisions and differences in how they do business were observed. Even though these differences exist, differences in how the management control systems are used and balanced within the divisions appeared to be negligible. As the two divisions are affected by the management control system in the same way, no differences between how exploration and exploitation are pursued within the divisions is observed. The comparative approach therefore did not affect the conclusions of this study.

For being a company with focus on innovation as one core value, the sellers within LocalTech have limited focus on innovation and tend to focus more on the exploitative concept of "choice", as they put together solutions based on TechCo's existing product portfolio. Moreover, when looking at how the tensions described by Busco *et al.* (2008) are managed in the management control system within LocalTech, a domination of convergence of practises, centralised decision-making and vertical relations can be observed. This domination likely enables and facilitates exploitation and global strategy implementation within LocalTech, but gives limited room for exploration and taking advantage of local opportunities. However, the exploitative "choice" contributes somehow to LocalTech's local adaptation as it enables LocalTech to select and deselect products and thereby adapt to the Swedish market, while still implementing the global strategy. Thus, local adaptation and global strategy implementation can to some extent both be achieved simultaneously, through presenting the local organisation with the freedom to choose how to deliver on the global strategy.

To conclude, the analysis shows a global strategy being pushed out from GlobalTech leaving minimal flexibility for adaption to the local market on the subsidiary level in terms of exploration. The local sellers are assigned a range of TechCo products to sell, clients to sell to, what price to sell for, a revenue target to deliver on and strategic focus areas to do business within. The only choice left for the individual seller is how to design the solution using TechCo's existing products, which gives some room for local adaptation in terms of exploitation while also working to fulfil the global strategy. Thus, the analysis reveals a strong emphasis on global strategy implementation and little emphasis on local adaptation in terms of unique solutions in the management control system within LocalTech.

The findings of this study add to the research focused on the challenge of how to balance conflicting demands within multinational organisations. The findings shed light on a case where a successful company balances the demands unevenly, while succeeding in resolving the challenge and making demands overlap. As the findings of this study prove a contrast and extension to previous theory, this exploratory case study indicates a research area in need of further attention.

8. Discussion and Future Research

In this chapter, the presented findings will be discussed and problematized from a theoretical, empirical and methodological perspective.

8.1 Problematizing Results Based on Theory

As discussed in the theory chapter, exploration and exploitation can be pursued simultaneously within a company, which is referred to as ambidexterity; a state considered necessary for company success (Gibson & Birkinshaw 2004). As a strong emphasis on exploitation is observed within LocalTech, one may wonder if ambidexterity is not achieved within LocalTech. Since exploitation is dominating and there is no balance between exploitation and exploration within LocalTech, the concept of contextual ambidexterity likely does not exist on this local level, as in that case both exploration and exploitation would have to be pursued on an individual level. It could be argued that calling for global experts for innovation is local sellers' way of pursuing exploration on an individual level. This is true to some extent, but as the global resources are hard to come by, this is not a way to pursue exploration for the common LocalTech seller.

However, structural ambidexterity could potentially exist within LocalTech if other parts of LocalTech than the sales organisation would have a dominating focus on exploration. This is not very likely however, as much of the rest of LocalTech is focused on delivery and execution of the business deals made. More likely is for structural ambidexterity to exist on a global level, for the entire TechCo organisation, through for example centres of excellence, focusing only on innovation. As the exploration in centres of excellence would be balanced by exploitation in for example sales organisations, structural ambidexterity would be achieved on an organisational level.

As brought up in the theory chapters, past research brings up the necessity of contextual ambidexterity for an organisation to be successful in the long run. However, within LocalTech contextual ambidexterity does not seem to exist. Structural ambidexterity could however exist on a global level, within TechCo. Given that both TechCo and LocalTech are well performing companies, maybe contextual ambidexterity within LocalTech is not needed in this case. Considering that LocalTech is part of a global organisation, if TechCo handles ambidexterity in a structural way potentially this could be enough for both TechCo and LocalTech to succeed in the long run.

It could also be discussed whether the dominance of exploitation within LocalTech is in fact punctuated equilibrium. For this to be true however, LocalTech would at a later point in time have to be dominated by exploration, as punctuated equilibrium implies a cyclical movement of exploitation and exploration within an organisation. The situation where LocalTech is dominated by exploration seems quite unlikely however, given that LocalTech is a sales organisation that needs to deliver on short-term revenue targets, which requires exploitative actions such as efficiency, implementation and execution.

8.2 Problematizing Results Based on the TechCo Organisation

Furthermore, the TechCo product portfolio is extensive and the general opinion among sellers within LocalTech seems to be that these products are more than enough to satisfy client needs. This may be a reason for why there is limited innovation carried out by LocalTech sellers, and that LocalTech is a seemingly well functioning company even though little time is spent on innovation in the local organisation. However, as GlobalTech provides newly innovated products to LocalTech without LocalTech having to develop them, this may result in a lack of structures channelling ideas for new innovations from the local sellers, who are closest to the clients, back to the global organisation that innovates new products. Even though centralised processes and functions provide competitive advantage for TechCo as they are cost efficient and enables specialisation, it could endanger the company's long term success if the sellers who work closest to the clients are not involved in development of the company's business.

In addition, if all innovation is done on a global level, the result may be that LocalTech does not meet specific needs on the Swedish market and thus becomes less competitive than competitors on the Swedish market. However, the Swedish market makes up a very small part of TechCo's overall revenue, which could be a reason for innovation and exploration being done to a limited extent within LocalTech. If LocalTech would have made up a larger part of the total TechCo revenue, it would perhaps have been more important for TechCo to be competitive on the Swedish market and thus have a product offering that suits this specific market better. Consequently innovation and exploration on the Swedish market would in such a case become more important for the entire TechCo. Even though the Swedish market makes up a very small part of TechCo's total revenue, there could be large negative effects for TechCo if the competitiveness becomes a problem on several of TechCo's local markets. Providing structures and systems to channel ideas from the local organisations would likely help TechCo be more sensitive to new market trends and make sure the organisation does not miss out on a technology shift.

8.3 Problematizing Results Based on the Chosen Method and Suggestions for Future Research

As concluded in the analysis, there is a clear focus in the management control system within LocalTech on global strategy implementation and the achievement of predetermined goals, rather than a focus on local adaptation and innovation. This could be an effect given that the focus of study is a sales organisation with a clearly communicated global financial goal. GlobalTech likely wants the sales organisation LocalTech to deliver on their revenue targets in order to achieve the global financial goal, rather than for LocalTech to focus on innovating new products. Moreover, this thesis has studied only one subsidiary within TechCo, a sales organisation. To get a more complete view of the management control system in TechCo subsidiaries, several subsidiaries of different sizes within TechCo could have been compared, or LocalTech and TechCo could have been compared to another international organisation. In future research, several subsidiaries in several organisations could be looked at, or several subsidiaries in the same company.

Moreover, the focus of this study has been the subsidiary level in the company. Apart from studying more than one subsidiary within TechCo, future research could expand to cover several levels of the international organisation. The headquarter perspective, for example, would have been interesting to compare the subsidiary perspective to. However, the approach of this study was not to give a complete answer to all the above perspectives, the purpose was to perform an exploratory case study, which can be seen as a preliminary investigation with the purpose to generate ideas that can then be tested more rigorously later on (Ryan *et al.* 2002).

It should also be noted that the part of TechCo and LocalTech that this thesis has focused on, the sales organisation, is not completely representative for the entire LocalTech and TechCo organisations. Thus, other parts of the organisations could have different pressures from the management control systems, and may be more focused on innovation and exploration than the sales organisation. However, the sales organisation within LocalTech makes up a very large part of the entire Swedish organisation. In addition, apart from the sales organisation, the rest of the LocalTech organisation works as implementer of business deals made within the sales organisation. It therefore seems reasonable to assume employees working in these parts of the organisation also have managing structures pushing implementation of global strategy rather than local flexibility.

In addition, LocalTech and TechCo is a company with strong formal managing structures, also in comparison to many other companies. This may affect the application of the results to other corporations negatively. If a company has softer formal managing structures than TechCo, one should apply results from this study to such an organisation with caution, as the formal structures most likely influence the dominance of global implementation seen in LocalTech.

Finally, in this thesis we have investigated how global strategy is balanced with local adaptation *in the management control system*. When looking at the management control system in LocalTech, it turns out to be managed to a great extent by GlobalTech rather than from within LocalTech. Based on the analysis of Simons' (1995) levers of control in this thesis, the only lever of control that could be managed from within LocalTech is the interactive control systems. Given that the management control system to a large extent is managed by GlobalTech, it is relevant to question whether the chosen focal point of this thesis makes us blind to potential local adaptations, as the control system is global. In this case, the study may in fact miss out on discovering local adaptations within LocalTech, as they could be made outside of the control system. However, even if this may be the case, the management control system should be built in order to balance both forces, as global organisations need to manage both global strategy implementation and local adaptation (Busco *et al.* 2008).

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9.2 Company Specific Sources: Written Documents and Electronic Resources

TechCo Website (Last Accessed: 2014-03-30)
TechCo Annual Report 2013
Internal Business Conduct Guidelines
Internal Personal Development Plan (Sample)

Appendix A – Interview Respondents

Interviewee	Division	Date of interview
Head of Division	Add-on	2014-02-27
Operations Manager	Add-on	2014-03-18
Brand Manager 1	Add-on	2014-03-06
Brand Manager 2	Add-on	2014-03-14
Client Manager	Add-on	2014-03-11
Client Sales Person	Add-on	2014-03-17
Head of Division	Base	2014-02-19
Former Head of Division	Base	2014-04-07
Brand Manager	Base	2014-03-20
Client Manager	Base	2014-03-17
Client Sales Person	Base	2014-03-18
Trainee	Base	2014-03-17
Chairman LocalTech		2014-03-18
Former CEO LocalTech		2014-04-16
CFO LocalTech		2014-01-24 2014-04-09
Former Country Operations Manager		2014-03-06
Head of Marketing and Communications LocalTech		2014-03-06
Manager Client Facing Division		2014-04-07

Appendix B – Generic Interview Guide

The interview guide was adapted based on the person interviewed and their position in the organisation. Below you can find sample questions excerpted from the customised guides.

Sample of interview questions:

Describe your background within TechCo?

What are you current role and responsibilities?

How would you describe your position within TechCo in relation to the rest of the organisation?

What type of goals and targets are you measured on? Are you evaluated on qualitative aspects/measures? Quantitative?

Could you describe the target-setting process? Is there room for negotiation in the target? Is there a difference between qualitative and quantitative targets? Why/why not do you think?

Could you describe what happens if a goal/target is not reached?

In what way are the goals and targets related to the global strategy/focus areas?

If problems occur, who do you turn to and what is the action pattern?

What are the strategy and targets for LocalTech? How do they relate to the global strategy and goal?

What would you say characterises LocalTech? How would you describe the organisation's values? How are the corporate values communicated to the employees?

How do you obtain information about what happens in TechCo/LocalTech? Are there any common forums through which co-workers can communicate?

Do you have recurring meetings? If yes: With what groups? What is the purpose of such meetings? If no: why not?

Can you describe the process for how new ideas within the organisations are created? If a new idea comes to you, where does it usually come from and how do you act on the idea? Are you able to influence the development of products and services within LocalTech?

Have you experienced a situation when what you wanted to do in LocalTech collided with the will of GlobalTech? Can you describe the situation? Why was there a clash? How was the situation resolved?