

# **THE BOSS IS NOT MY BOSS**

**A study on the complexity of management within a multinational corporation**

Behnaz Ahmadi Teshnizi (23983) & Jessica Ollus (23833)

**Abstract:** The management of multinational corporations have been studied for a long time, aiming at understanding how these large organizations can control their subsidiaries cross-border. Agency theory has been widely used for this purpose but has not yet explained what effect the parallel intended control from several principals has on its agents. By increasing the number of dyadic principal-agent relationships between a headquarter and its subsidiary, we develop on agency theory and further explore the complex management of multinational corporations. In a qualitative case study on an international company in the payment sector, we conduct ten semi-structured interviews with the subsidiary to explore how the interviewees experience having managers both in London and locally. The results show increased goal conflicts within the subsidiary and a slowed-down decision-making. Also, multiple principals with conflicting voices complicates the subsidiary's local adaption and responsiveness to the local market.

**Keywords:** MNC; agency theory; headquarter; subsidiary; multiple principals

**Stockholm School of Economics**

Degree project in management, Spring 2019

Supervisor: Holmer Kok

Presentation: May 2019

# ACKNOWLEDGEMENTS

We would like to offer our special thanks to Mastercard in the Nordic and Baltics, particularly to *John Jensen & Johanna Siewert-Delle*, for helping us get to know the company, getting in touch with our interviewees and supporting us along the way.

We would also like to devote a big thanks to *all the interviewees* at Mastercard, for taking the time to sharing your thoughts and experiences with us.

We also would like to express our very great appreciations to our supervisor, *Holmer Kok*, who has provided us with excellent feedbacks and helped us navigate through the complex process of thesis-writing. The same goes for our amazing colleagues in the supervision group; you made this journey much more fun and it was great to learn from all of you.

Last but not least, we want to thank our *families and friends* for their endless support and encouragement.

# Table of Contents

KEY CONCEPTS .....	4
1. INTRODUCTION .....	5
1.1 BACKGROUND .....	5
1.2 PURPOSE AND RESEARCH QUESTION .....	6
1.3 DELIMITATIONS .....	7
1.4 MASTERCARD.....	7
2. THEORETICAL FRAMEWORK.....	9
2.1 AGENCY THEORY .....	9
2.2 MULTINATIONAL CORPORATIONS AND AGENCY THEORY .....	10
2.3 CONTROL MECHANISMS .....	12
2.4 SUBSIDIARY CEO AS A SECOND PRINCIPAL .....	14
3. METHOD .....	17
3.1 RESEARCH DESIGN .....	17
3.2 CASE SELECTION.....	18
3.3 INTERVIEWS.....	19
3.4 ETHICAL CONSIDERATIONS .....	20
3.5 DATA ANALYSIS .....	21
4. EMPIRICS .....	22
4.1 ORGANIZATIONAL STRUCTURE AND CHANGES.....	22
4.2 MULTIPLE PRINCIPALS .....	24
4.3 GOAL CONFLICTS.....	25
4.4 CONTROL MECHANISMS .....	26
5. ANALYSIS.....	28
5.1 MASTERCARD: A MULTIDOMESTIC CORPORATION .....	28
5.2 CONTRADICTORY EXPECTATIONS .....	28
5.3 AGENTS MAKING THEIR WAY AROUND.....	30
6. CONCLUSION AND DISCUSSION .....	32
6.1 CONCLUSION .....	32
6.2 DISCUSSION .....	32
6.3 LIMITATIONS OF THE STUDY AND FUTURE RESEARCH .....	34
7. REFERENCES .....	35

8. APPENDIX.....40  
8.1 INTERVIEW TEMPLATE .....40

# KEY CONCEPTS

Multinational Corporation	A corporate organization that owns production of goods or services in at least one more country than its home country.
Subsidiary	A company that is owned or ruled by another company.
Departments	Specialized functional area such as accounting, marketing etc. Each department has its own managers and chain of command.
Core business	Consists of departments that account for revenue generation, such as sales, in the subsidiary or departments that report directly to the subsidiary CEO.
Support functions	Consists of departments that are needed but not generate any direct revenue, like marketing and finance.
Principal	Someone that delegates decision-making and tasks to the agent. In this case, the managers at the London office and the local CEO.
Agent	Someone that performs tasks on the behalf of its principal and receives compensation in return. In this case, the members of the management team.
Remote offices	Distant smaller offices that includes 1-5 people working mostly with sales and are part of the region's subsidiary.

# 1. INTRODUCTION

*This chapter gives the reader an overview of the background of the study. We present the research gap and introduce the research question that the thesis aims to answer. Some relevant delimitations are discussed and lastly, the case organization is briefly presented to set the scene for the study.*

## 1.1 Background

Technological advancement and an increased rate of globalization during the recent decades have changed how businesses operate and compete. As companies grow and markets consolidate, more and more corporations scale up. This leads to new challenges for the management: how can these complex multinational companies be managed in the most efficient way? Researchers have studied this particular type of company for a long time (e.g., Björkman, Barner-Rasmussen, & Li, 2004; O'Donnell, 2000; Ghoshal and Bartlett, 1990) but yet there is no simple answer.

For *multinational corporations* (MNCs), having a globally distributed network of subsidiaries is a clear source of competitive advantage (Ghoshal and Bartlett, 1990). Although, if this network is managed poorly, it can significantly damage the organizational performance (Björkman et al., 2004; Kostova, Nell, & Hoenen, 2018; O'Donnell, 2000). Therefore, how this relationship between HQ and subsidiary should be managed is of great importance (O'Donnell, 2000; Roth & O'Donnell, 1996; Szulanski, 1996).

*Agency theory* is one of the most commonly used theories when studying the relationships and control mechanisms in MNCs. It examines the relationship between a principal (i.e. HQ) and its agent (i.e. subsidiary), and the mechanisms that the principal can use to make sure that the agents constantly act in a manner that maximizes the principals' welfare (e.g., Jensen & Meckling, 1976; Kostova et al., 2018; Roth & O'Donnell, 1996).

Some critics are that the theory is based on assumptions that simplifies the reality of most MNCs, for instance that all principals and agents are rational utility maximizers and that the

principal owns the right to veto against the agent's decisions (Baker, Gibbons, & Murphy, 2002; Foss, Foss, & Vazquez, 2006).

Furthermore, the theory is not developed to take the possibility of having multiple principals into account. In other words, there is an assumption that all HQ-subsidary relationships are simple hierarchical dyadic ones between two entities (Ambos, Kunisch, Leicht-Deobald & Schulte Steinberg, 2019; Kostova et al., 2018; O'Donnell, 2000). In the case of many MNCs, this dyadic relationship can be resembled to a *plait*, made of multiple *strands*. While there are many previous researches focusing on the plait, we found that there is a lack of knowledge when it comes to understanding the strands and more precisely, how the parallel strands (parallel agent-principal relationships) affect the whole picture and can be influenced. If agents within a subsidiary follow different principals' agendas, it is reasonable to assume that some conflicting directives could arise with further implications on the internal alignment of the subsidiary. Moreover, principals can differ in the type and degree of control used, which can further initiate challenges in the subsidiary.

## **1.2 Purpose and research question**

The purpose of the research is to add to the understanding of management within MNCs and to explore how individual agents within a subsidiary are affected by the organizational complexity created by different reporting lines. By studying how a case organization experiences the possible clash of goals and directives, we aim to explain how different controls used by a MNC leads to certain reactions in the subsidiary. Furthermore, we hope to extend the existing agency theory and add a more qualitative understanding of an otherwise static and quantitative field of research.

This study will shed a light on how a HQ affects its subsidiary where agents are expected to act in the favor of multiple different principals, by answering the following research question:

*How does having multiple principals affect the agents in a subsidiary of a multinational corporation?*

### **1.3 Delimitations**

The study is limited to analyzing the relationships between agents and their principals at HQ on an individual level, focusing on how interviewees perceive these relationships. Looking at the situation from the agents' perspective gives us the opportunity to understand what possibilities and limitations these agents experience when acting under the supervision of various principals. This is further motivated by the lack of research from this certain angle.

Moreover, this research is limited to one case, therefore the empirical data is based solely on the opinions of interviewees from one subsidiary.

Since we are rather interested in subsidiaries perceived situation and do not aim to explain the principals view on the performance of the agents, collecting data from principals' perspective was not seen as relevant for the study. We further made the decision to leave out the aspects of the social contexts since this topic is subjective and should be compared relatively to the culture of the HQ. Although, during some interviews, our participants have mentioned the cultural differences and we take these opinions into account where it adds to the understanding of the situation.

### **1.4 Mastercard**

This empirical study is based on the case of *Mastercard Inc.* (further referred to as Mastercard), a publicly traded company on the New York Stock Exchange since 2006. It is one of Fortune 500 companies and operates within the payment sector with around 15 000 employees worldwide. Mastercard operate a complex infrastructure that confirms, processes and secures payments between different parties. Their branded debit, credit and prepaid cards are used by financial institutions, such as commercial banks, to make the payments to merchants possible (Mastercard.us, 2019).

The office in Stockholm is the center of Mastercard's Nordic and Baltics subsidiary (hereafter N&B), where most of the region's employees are located. The rest are placed in the three remote offices in Denmark, Finland and Norway. N&B is a part of the division called *UK & Ireland and Nordic and Baltics* with the regional HQ in London. As most Mastercard subsidiaries, they are the face towards the customers and make sure the local business runs

smoothly. Starting with being only a small sales office in Stockholm, they now have more than 50 employees working in various departments. They have some of the support functions in-house in Stockholm, for example marketing and finance, while less-used and more niched expertise can be found in London<sup>1</sup>.

---

<sup>1</sup> Internal documents.

## 2. THEORETICAL FRAMEWORK

*This chapter presents the theoretical framework that lays the ground for the upcoming analysis. First, the classical agency theory is introduced, followed by the research that adopts this theory to the context of MNCs. Different control mechanisms for the HQ to use is also presented, as well as the most recent contextualization of the theory, which sets the foundation for our research.*

### 2.1 Agency theory

The theoretical framework used in this study is constructed based on the broadly used agency theory. Past researchers use agency theory to understand HQ-subsubsidiary relationships within MNCs. It is one of the richest and most used theoretical traditions in organizational research which we also, in consistency with past researchers, use in this paper (e.g., Björkman et al., 2004; E. Chang & Taylor, 1999; Eisenhardt, 1989; Gong, 2003; O'Donnell, 2000; Roth & O'Donnell, 1996).

Since the introduction of agency theory during early 70s by Spence and Zeckhauser (1971) and Ross (1973), many scholars have given it a lot of attention and the theory has evolved a lot ever since. In the classical agency theory by Jensen and Meckling (1976), the *agency relationship* is defined as a contract between one or a few people (principals) and another person (agent), to whom the principal has delegated some decision-making. The agents are compensated to perform services on the behalf of the principal, as a part of the contract. The delegation of the decision-making authority and the associated loss of control create potential goal incongruence and information asymmetry which result in an *agency problem* (Fama & Jensen, 1983; Jensen & Meckling, 1976). In other words, if both parties are rational utility maximizer there is a good reason to believe that the agent will not always act in the best interest of the principal. The agent might pursue its own interests due to the principal's inability to fully observe the actions of the agent (Arrow, 1985; Jensen & Meckling, 1976).

Agency theory further suggest two mechanisms to solve this problem: incentives and control (Jensen & Meckling, 1976). The principal can either establish appropriate incentives for the agent and/or monitor the agent as a way to limit the disadvantageous behaviors (Jensen &

Meckling, 1976). The downside is that both of these remedies incur costs to the principal (Hendry, 2002).

As mentioned in the previous chapter, agency theory has been criticized for its lack of reflection of the real world. In response to the need for a more developed and contextualized agency theory, tailored for the field of management, researchers have explored other aspects that can either explain or help the principal to mitigate agency problems. In the next section we look at how agency theory has been adopted to specifically MNCs, to solve the tensions between HQs and subsidiaries.

## **2.2 Multinational corporations and agency theory**

Agency theory has been extensively used in MNC-research where the headquarter-subsidary relationship has been proposed as a dyadic principal-agent relationship (e.g., Björkman et al., 2004; Chang and Taylor, 1999; O'Donnell, 2000; Roth and O'Donnell, 1996). While agency theory has been very useful in understanding and managing this relationship, many scholars have found no or only partial support for agency predictions (Aulakh & Genturck, 2000; B. Kim, Prescott & Kim, 2005; O'Donnell, 2000; Shaw, Gupta & Delery, 2000).

As a response to the need for further development of the theory, Hendry (2002) in his article presents *honest incompetencies*, also called *bounded rationality* (Kostova et al, 2018), of agent as another explanation for the undesired behavior of the agent. It is that the agents will act rationally but in the limits for the information available to them and their mental capacity. This relaxes the assumption of *self-interest with guile* and challenges the assumption that an agent is fully competent to fulfill the goals set by its principal (Hendry, 2002).

Kostova et al. (2018) builds further on Hendry's research. While bounded rationality and self-interest are the pillars of their model, they let these two factors vary rather than being fixed and absolute. Their model describes how agency problems manifests themselves when different levels of self-interest and bounded rationality exist, which in turn are shaped by the social context and the type of the MNC in question: multinational, global or transnational (Bartlett and Ghoshal, 1989).

A **multidomestic** MNC is described with high degree of decentralization and autonomy in decision makings. The model is characterized by limited interdependence, low information exchange and learning between the different subsidiaries as well as to the HQ (Kostova & Roth, 2003). The relation with the HQ is limited to only few selected areas (e.g. finance) and the HQ carefully monitor the financial results. The subsidiary is seen as a *profit center* and their financial resources are shared among the subsidiaries which becomes a cause of competition. The training of people working at subsidiaries takes place locally and there is not much travelling to other parts of the MNC (Hill, Hitt, & Hoskisson, 1992).

**Global** MNCs are far more centralized, standardized and less autonomous. Different subsidiaries in different locations can specialize into specific parts of the business. This could be a situation when all production takes place in one country with low costs while the selling of the products happens through the subsidiary in another country. There are many synergies to be exploited of both vertical and horizontal relations which implies high interdependence between different parts of a global MNC (Hill et al., 1992; Kostova & Roth, 2003).

A **transnational** MNC is characterized by many intra-organizational relationships and is created to identify and exploit opportunities in the local markets. This model differs from the earlier mentioned models in the sense that to achieve the local objectives, it must utilize its distributed organizational pool of resources and imply organizational-wide knowledge learning (Bartlett & Ghoshal, 1989; Ghoshal & Nohria, 1989). The subsidiaries' responsibilities are both local and global and managed through a complex and global coordination system. On one hand, the subsidiaries are autonomous and must act upon the local opportunities and on the other hand, they are expected to collaborate and coordinate their actions with the rest of the organization (Bartlett & Ghoshal, 1989; Björkman et al., 2004). Similar to the multidomestic model, the transnational subsidiaries are held responsible for their own performance. Although, the higher degree of interdependence and sharing of resources leads to a fiercer competition between the subsidiaries in a transnational MNC. This can consequently cause a subsidiary-based self-interest. Hence, social control (further explained in section 2.3) is used to create holistic shared values and social capital throughout the MNC (Bartlett & Ghoshal, 1989; Björkman et al., 2004; Kostova & Roth, 2003).

According to Kostova et al. (2018), the typical subsidiary in multidomestic MNCs is likely to operate with an institutional logic of higher self-interest and lower unit-level bounded

rationality in comparison to the other two MNC-models. This is mainly due to a high degree of decentralization of decision making whereby HQ has limited input into the subsidiaries. Because of isolation in local subsidiaries of a multidomestic MNC, some we-versus-them way of thinking and groupthink can also be expected, which makes manifestation of self-interest more likely (Kostova et al., 2018). To mitigate these agency problems, the theory suggests different control mechanisms that can be used by principal, which are presented in the next section.

### **2.3 Control mechanisms**

For MNCs, it is crucial to control valuable activities and far-flung subsidiaries in the most efficient way. How this should be done has for a long time been a concern in MNC-research (Ambos and Schlegelmilch, 2007; Andersson and Forsgren, 1996; Bartlett and Ghoshal, 1989; Nobel and Birkinshaw, 1998; O'Donnell, 2000). Previous research advocate three fundamental control mechanisms used by MNCs: behavioural, output and social control, also known as monitoring, incentives and socialization (e.g. O'Donnell, 2000).

Global MNCs operate in different institutional and cultural environments with different market characteristics. While there is a need for local adaptation, the corporations must also attain a certain level of control and coordination throughout the MNC. There is often a need to adjust these mechanisms based on a trade-off between the subsidiary's autonomy and the HQ's need to control. (Ambos & Schlegelmilch, 2007; Eisenhardt, 1989; Gupta and Govindarajan, 1991; O'Donnell, 2000)

However, while research shows that control mechanisms influence the work of subsidiaries, the empirical findings are mixed and there are no studies that isolate the direct main effects in any consistent or generalizable model (Brenner & Ambos, 2012; Shaw et al., 2000). Further we will describe the three previous mentioned control systems, which will be used for analyzing our data to create a better understanding of how different controlling activities, as a part of the HQ-subsidary relationship, affect the subsidiary's agents.

**Behavioural control** for managing foreign subsidiary is defined as mechanisms used by the HQ to reduce the information asymmetry between HQ and subsidiary (Holmström, 1979). The research suggests two different types of monitoring in the context of MNCs (O'Donnell, 2000):

- monitoring through direct supervision by the use of expatriates in the top management position at the foreign subsidiary (Boyacigiller, 1990; Egelhoff, 1984)
- monitoring through bureaucratic monitoring such as rules, programs and procedures (Galbraith, 1973)

Behavioural control becomes more difficult as the level of information asymmetry and delegated decision-making to the agent increase (Fama & Jensen, 1983). Hence, factors that increase information asymmetry, decrease effectiveness in monitoring of MNCs (O'Donnell, 2000). Two such important factors are:

- subsidiary's strategic role due to it obtaining specialized market or product related information that HQ does not have (Roth & O'Donnell, 1996)
- subsidiary autonomy that allows the subsidiary managers to exercise greater discretion in facing the demands of the local market (O'Donnell, 2000)

**Output control** is used in combination with predetermined output goals in annual performance objectives like revenue, market share or customer satisfaction. Several scholars have suggested the use of incentives (e.g. bonuses) when designing control mechanisms for MNCs (e.g. O'Donnell, 2000; Gupta & Govindarajan, 1986). Although, it can be complex to incentivize based on the outcome due to difficulties in the measurability and certainty of the outcomes (O'Donnell, 2000).

**Social controls** create normative pressures that aim to create a social obligation and facilitates the sharing of values among the agents in the subsidiaries (Ambos et al., 2019; Ambos & Schlegelmilch, 2007). Personnel exchange (Ambos et al., 2019) or training programs where the acceptable type of behavior is learned to employees (O'Donnell, 2000), are examples of how MNCs adopt socialization. Social control can also be used to facilitate adoption of other types of control at subsidiary (Brenner & Ambos, 2013). Brenner and Ambos (2013) examined how social control can be used by MNCs to increase legitimacy of the principals in the eyes of the agents, which in turn made way for the other types of controls.

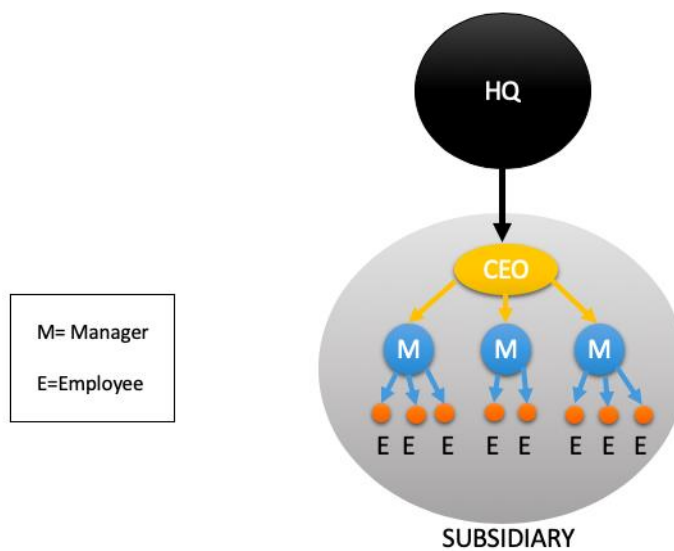
So far, we have described how previous researchers have extensively explored and tried to explain tensions in this dyadic HQ-subsubsidiary relation. Consequently, different control mechanisms for the HQ have been suggested in the context for MNCs. For us to better understand the effects of control mechanisms, we need to explore further relevant factors that can affect HQ's control on a subsidiary. One such factor is the complexity of the HQ-subsubsidiary relationship rather than assuming a simple one-to-one dyadic relation. In the next section, we present research that shows how CEO of the subsidiary has an important role in affecting the HQ's control over the subsidiary.

#### **2.4 Subsidiary CEO as a second principal**

The effects of having more than one principal have been investigated in the context of firm ownership (e.g. Hoskisson, Hitt, Johnson & Grossman, 2002). Hoskisson et al. (2002) studied how different types of institutional investors, as principals, affected corporate innovation strategies. The result showed that two different investors had different preferences which affected both directors and the choice of corporate innovation strategy within the companies. Since having multiple decision-makers seem to be of importance in this context, it would be reasonable to believe that the effects could be similar for other types of principal-agent relationships, for example within a MNC.

Several studies demonstrate that subsidiary managers, possess and often exercise their power (e.g., Ambos & Schlegelmilch, 2007; Conroy, Collings, & Clancy (2017); Mudambi & Navarra, 2004). In a more recent article, Ambos et al. (2019) examined the effect of having two principals in the dyadic HQ-subsubsidiary relationships, with the HQ as the first principal and the subsidiary's CEO as the second principal. Three parallel surveys were conducted with responses from HQs, subsidiaries' CEOs, and subsidiaries' employees in one European MNC. Through a quantitative analysis, they explored how subsidiary CEOs can affect the HQ's intended control. The results showed that even though a subsidiary reports to its HQ, the HQ does not exclusively manage them, as they are also coordinated through the local CEO and an

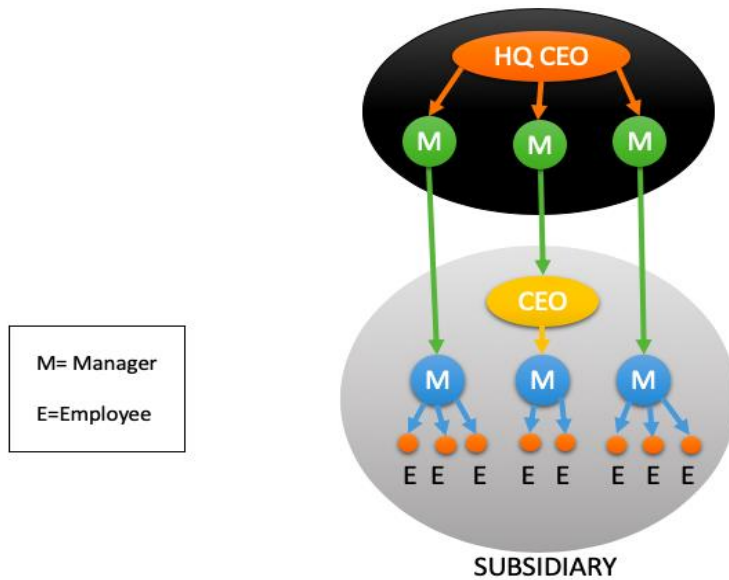
internal hierarchy in the subsidiary. The *nestedness*<sup>2</sup> can affect the intended control of the HQ and create dysfunctionalities, especially when the second principal does not act in the first principal's best interests (e.g., Scharfstein & Stein, 2000). The study also concludes that the use of formal (behavioral) control and informal (social) control are sufficient only if the CEO of the subsidiary (the second principle), maintains a low level of power. This set-up for a MNC is further illustrated in figure 1.



**Figure 1** Schematic representation of the MNC where Subsidiary CEO is the link in the HQ-Subsidiary relationship

The study done by Ambos et al (2019) is based on the assumption that there is only one dyadic relationship to the subsidiary, with the CEO as an influential link in this relationship. Having a CEO at subsidiary level is the reality of most MNCs. It might not be favorable for the HQ to limit the power of the CEO, since it could potentially create passivity and lack of local responsiveness. However, relaxing the assumption of having only one main HQ-subsubsidiary relationship could have interesting effects on the subsidiary, especially if there is a CEO as the second principal. If the other dyadic relationships do not go through the CEO as a control gate (see figure 2), it would be interesting to explore if the HQ would reach a higher level of control and how much it would restrain the usually wanted local adaption.

<sup>2</sup> “Within the MNC, there are multiple levels of decision-making and organizational actors interact with various parties on lower levels, which might make them agents to more than one principal. We refer to this multi-tiered nature of the agency relationship as *nestedness*.” (Ambos et al., 2019)



**Figure 2** Schematic representation of a MNC where multiple principals and agents account for the HQ-subsidary relationship(s).

In conclusion, agency theory gives viable explanations about the tensions between HQ and subsidiaries and provides us with useful suggestions on how MNCs should be managed to decrease the risks for aberrant behaviour in subsidiaries. Although, to be able to better understand this theory applied in the context for MNC, we need to further look into the details of HQ-subsidary relations. More precisely, how this relation is structured and affected by the existence of multiple principals is what we are going to explore in this paper.

### 3. METHOD

*The method chapter presents in what way the study has been done, and why certain choices were made. First, the overall research design is briefly explained together with the research approach, which has had an impact on the rest of the methodological choices. The reasons behind the case selection as well as the selection of interviewees are described. Lastly, we reflect over the ethical considerations and how the process of analysing the data has been conducted.*

#### 3.1 Research Design

With the research question in mind, we designed a qualitative study which was conducted in the *positivistic* paradigm. This is motivated by the aim of the study; to further develop the existing agency theory and to deepen the understanding of MNCs. The findings of the study also aim at generalizability, which is typical for this approach. (Bell, Bryman & Harley, 2019)

Most of the previous research on MNCs have been done in a quantitative manner. Since the purpose of the study is to gain an understanding of how individuals within the subsidiary are perceiving these principal-agent relationships, a qualitative study was appropriate. The focus of this paper is to understand the individual's perspective and the qualitative method allows to take into account the subjective perspectives of the interviewees (Bell, Bryman & Harley, 2019).

As in line with doing qualitative studies, we gathered our data through interviews. Semi-structured interviews were preferred since it gives room to the interviewees to talk on topics of their choice, which suited our intent to explore their point of view (Bell, Bryman & Harley, 2019). An interview scheme was used as a guideline in all interviews which can be found in the appendix.

The study assumes a mainly *deductive* approach where theories and ideas were compared with practice in order to analyze the relevance of existing theory and fill an identified gap in the previous research. Furthermore, applying an *iterative* methodology helped us to narrow down and reshape the research question throughout the process. That allowed an initially general

research question to become more specific and anchored to the theory and empirics. (Bell, Bryman & Harley, 2019)

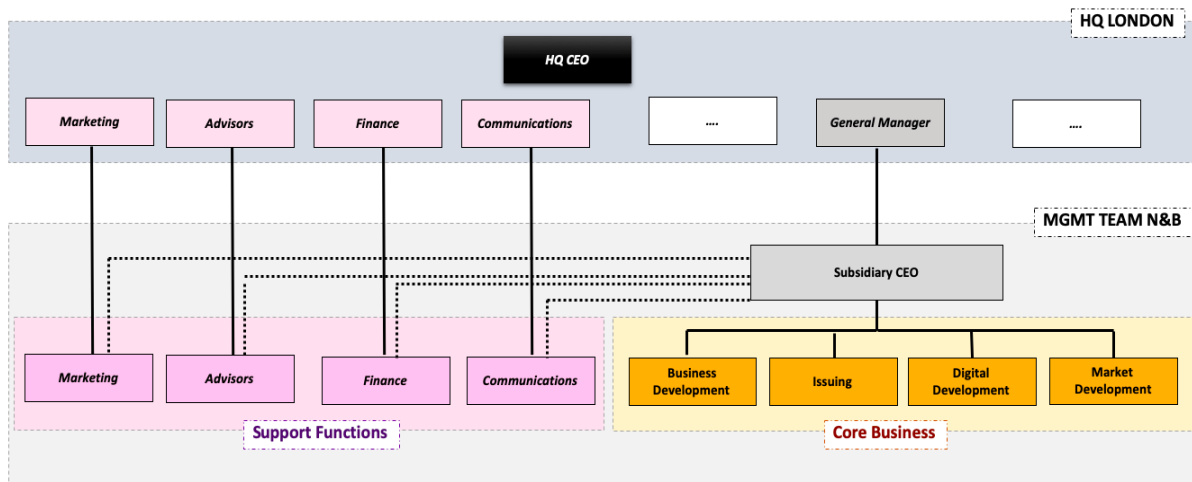
### **3.2 Case selection**

The study is a profound examination of a single case that lays the base for our theoretical analysis. The empirical study was carried out at Mastercard, since the organization deemed to be suitable for several reasons: the size of the organization and its multinational network of subsidiaries which consists of a certain level of complexity.

Furthermore, the study is limited to the examination of the relationships between a subsidiary and its closest HQ, where we particularly look at how the subsidiary is affected by having several principals. Several principal-agent relationships are present between the Nordic & Baltics subsidiary and the London office, which is crucial for the case selection.

Half of the management team at N&B report to the local CEO while the rest report directly to separate managers in London. Managers in London as principals and the subsidiary-CEO as the second principal delegate some decision-making to the management team in the subsidiary. Consequently, the members of the management team become agents to these principals and perform tasks at the subsidiary. For an overview of the organizational scheme, see figure 3.

It might be argued that studying only one company reduces the level of generalizability. However, since the goal of our study is to refine and add to the already existing theory, rather than building a whole new framework, a case study is an appropriate approach. Furthermore, as a global company with subsidiaries all over the world, we do not believe that Mastercard and its organization differ much from most MNCs. Therefore, we reckon the organization as a good representation of most large multinational companies. This leads us to expect similar outcomes when studying other comparable cases. Additionally, since we focus on how the agents perceive the particular complexity of multiple principals instead of company-specific factors, some degree of generalizability should be reachable.



**Figure 3** Simplified schematic representation of the N&B subsidiary and its relation to HQ in London together with direct reporting lines.

### 3.3 Interviews

The study is based on ten in-depth interviews with employees from the N&B subsidiary. The interviewees were sampled strategically based on their relevance to the research question. Since we were mainly interested in relationships between the subsidiary and the headquarter, we interviewed the majority of the management team (six managers), including the CEO which for anonymity reasons is quoted as a part of the management team. Moreover, to see how other employees outside of the management team are experiencing the situation, we conducted some interviews with few of them as well. The interviewees in the management team are referred to as “MT” and employees as “E” when presenting quotes in the section for empirical data.

To identify and map different employees and managers within the N&B subsidiary, we started by having two meetings with our contact person. These unstructured meetings were meant to give us information that could help us narrow down and pinpoint the exact research question and get a deeper understanding of the organization. During these meetings the contact person provided us with useful background information about Mastercard, its organizational structure and different roles within the subsidiary. We got in touch with most of the interviewees through our contact person. We later added some interviewees through snowball sampling (Bell, Bryman & Harley, 2019), when previous interviewees suggested other individuals that could be of interest for our study.

Data collection continued until we had collected data with great variation and representing several dimensions, with no new relevant data emerging. This meant that theoretical saturation was achieved (Bell, Bryman & Harley, 2019). Hence, a decision on not to further increase the number of interviews was made after our tenth interview.

Nine out of ten interviews were held at the Mastercard's office in Stockholm. The tenth interview was held through a Skype-call. Eight interviews were held in Swedish and two in English. Since there were no language barriers for either the interviewees or interviewers, language should not have further implications for the results of the study.

All interviewees were part of the Nordic and Baltics region, with 9 out of 10 located in Stockholm and one in a remote office. It can be seen as one-sided to exclude the HQ's perspective, but since the aim of the study was to understand how the local unit experiences the existing principal-agent relationships, including their perspectives would not add to the findings. Also, due to the limited amount of time, we found it more productive to focus deeply on only one subsidiary rather than conducting interviews in several subsidiaries of Mastercard. We aimed to better understand the relationships and conflicts in one subsidiary rather than scratching the surface by including several subsidiaries. Furthermore, interviewing people with different geographical placement, would require us to account for the cultural aspects as well, which is out of scope in this thesis.

### **3.4 Ethical considerations**

During the whole research process, ethical principles for conducting qualitative research were kept in mind. All the interviews were conducted in the presence of both authors. Prior to the interviews, all of the interviewees were informed about their complete anonymity in the thesis. To reassure that, this thesis mentions no names and specific connections between interviewees and their titles or departments have not been mentioned which could otherwise reveal their identities. All interviews were audio recorded with the consent of the participants, and the interviews were later transcribed and coded by both authors. The data and all other material related to the study have only been used for this specific thesis.

### **3.5 Data analysis**

In line with the deductive approach, the collected data was analyzed and interpreted within the theoretical framework, with room for new factors to arise. The data was analyzed through coding, which is commonly used within qualitative research (Bell, Bryman & Harley, 2019). As the first step, the quotes found interesting were highlighted by both authors after thoroughly reading the transcript materials. These quotes were highlighted either because they were associated with the theoretical framework, our interviewees stressed their importance or because they were repeated by many of the interviewees. Categories used for grouping the highlighted quotes were created in an iterative manner, moving between theory and data. The categories and their respective labels were therefore affected by the data collected.

When interpreting the coded data, we looked for factors that could either confirm or challenge the existing theories in the field for MNCs. Furthermore, we used new factors when making interpretations to see if and how the collected data could answer our research question. It is crucial to bear in mind that the data consists of individuals' subjective perspectives and we have to account for the fact that cultures, values and opinions influence the answers. This subjectivity of opinions and its influence on the results can be difficult to evaluate. Also, our own subjectivity as authors might have influenced our coding process and the analysis. The strong connection to the theory and doing the analysis together were two ways to reduce this subjectivity.

## 4. EMPIRICS

*This section consists of a presentation of the empirical material, divided into four parts to facilitate the analysis in the next chapter. Firstly, we will present data on the organizational structure and recent changes that have shaped the organizational relationships. After that we introduce the reader to the interviewees' experiences of having multiple principals managing the organization, followed by conflicts the interviewees have experienced. Lastly, we present the data collected on the perceived control mechanisms.*

### 4.1 Organizational structure and changes

All of the interviewees recognized Mastercard structured as a matrix organization<sup>3</sup>. This was explained as the reason for why there existed multiple managers supervising the subsidiary. Being organized as a matrix has further created vertical *silos*. Some expressed that besides having several managers, being organized in these silos has made it difficult to get the people in the subsidiary to talk and collaborate with each other: "I know there has been complaints quite often, that there is very little communication between the various departments. Since they are reporting upwards, not sideways, most of the time." - E4

In the interviews, the rapid organizational growth in the Nordic and Baltics during the past years was another factor often mentioned. With the extensive growth of Mastercard in the N&B region during the recent six to seven years, the market share for the N&B subsidiary four doubled. This resulted in organizational growth of the N&B subsidiary and more support functions and employees were gradually added.

The Stockholm office had up until June 2018 external CEOs who were flown in to work in the Stockholm office during a period of one to three years. In June 2018, however, Mastercard promoted one of the managers in the Stockholm office to become the new CEO of the N&B subsidiary. This, by many of our interviewees, was seen as an answer to the markets' and customers' demands in this region and perceived a good change by the employees and

---

<sup>3</sup> "A matrix organization is defined as one in which there is dual or multiple managerial accountability and responsibility [...] In a matrix there are usually two chains of command, one along functional lines and the other along project, product, or client lines. Other chains of command such as geographic location are also possible." (Stuckenbruck, 1979)

managers. Having a local permanent CEO made the N&B subsidiary more local focused. “Having [a local CEO] means that he knows the customers and the market to a much larger extent than one being brought in from a country outside of our region” - E2.

Following the accession of the new local CEO in the subsidiary, a need for more alignment between different support functions and other parts of the subsidiary was identified and addressed. To create a more holistic solution on how the subsidiary should integrate its resources, a new function called *Market development* was formalized. “He [the CEO] felt that we were missing someone who sees the market more holistic and is not just [focused on] clients and activities, which is what other functions do because they are experts at their [clients and activities]. The role is to knit people together and make them talk to each other and build cross functional teams.” -MT2.

The relatively large management team was perceived differently by the interviewees, with no connection to their position. However, those not reporting to London, but reporting to the local CEO, were slightly less satisfied with the large management team. On the other hand, the support functions that report to London, saw it as uniting. Some of the interviewees saw this setup as a disadvantage since it prolonged the decision-making. The longer consensus-seeking process seemed to be the reason behind it. “I think we are about 50 people in Stockholm office now and we have 10 people sitting in the management team, it’s quite a lot. [This means that] you need to involve many people in decision-making... I think it is just a question of how long it takes to get approvals in place and sometimes it takes longer than all of us would have wanted.” -E2.

Contrary, another one of our participants commented on this as “the beauty of a matrix organization” and explained that even though decision-making takes much longer, the outcome is much better when more people are involved and have a saying. “I think it is a huge benefit if someone from all of the functions is part of the management team. And for me [being a part of the management team] is a big driver of energy.” -MT4. A few others agreed with him and saw it as a way to unite the otherwise silo-focused subsidiary.

## 4.2 Multiple principals

The interviewees expressed different opinions when asked about having different HQ managers that supervise different parts of the subsidiary. Some of them saw it as a strength and something necessary, while others saw it as a challenge that made it more complicated to strive after their local goals.

The main prominent advantage of having multiple managers, according to some of our interviewees, was the possibility to be supervised by specialists within different areas. The managers at the subsidiary are often very niched in different core subjects, for example those responsible for Finance and Marketing, and so are each of their managers in London. Reflecting over an alternative approach where everyone would rapport to the CEO, one manager said: "Because what the manager for the Advisor department does is very specific for that department, his manager in London knows everything regarding that, and what the marketing manager does is so much marketing-specific, she has to work towards London" -MT2

On the other side, there seem to be proximity factors and cultural differences that creates tensions in the relations to managers in London. But more importantly, several of our interviewees found it a hurdle to be tied up to the HQ through multiple strings when striving after more alignment at local level and adaption to the market. This topic, which came up frequently, is a more prominent concern particularly for the managers who work more closely towards the market and clients.

Many explained that even though they do not have a direct responsibility towards the local CEO, they still report to him in a dotted line. This was according to many the reason for why the *multiple manager structure* works, regardless its challenges. "Technically my first responsibility is towards my manager [in London]. But in reality, [even though the subsidiary CEO] is really not manager, I still have the same responsibility towards him." - MT4

Contrary, another manager who also reported to London did not agree on this at all: s/he experienced that the local CEO was his/her real manager and that the orders and directives from London were not suitable for the Nordic and Baltics market. Moreover, the CEO of the subsidiary and the value of his insight to the local market was also mentioned often. The CEO, who has worked within Mastercard's organization for a long time, was perceived to be

important to report to and crucial for the alignment of the subsidiary. When comparing managers in London with the CEO, many mention the CEO's influence on their work because of the need for aligning the goals. One manager further explains: "Even though my real boss is in London, I act as if my real boss is the one here." -MT3.

### **4.3 Goal conflicts**

Goal conflicts were an important topic in our conversations with all of the interviewees. Different managers at the N&B subsidiary pursue and prioritize different goals. The discrepancies in the agendas and goals unfolded in two different subcategories.

**The first type** of goal conflict was between the support functions and the core business departments. There seemed to be a mutual consensus that the managers that do not report to London had goals that were more in line with the needs and opportunities at the Nordic and Baltics markets. The goals set in London were not always integrated with the locally set goals, which, according to some interviewees, created an issue when prioritizing which goals to focus on. "There is a challenge with those managers [who report to London] to match their goals [with rest of the management team]. There is not always a way to do so and then it is a question about prioritization. This is the challenge with matrix organizations, and like in any other big company, there are some politics." -E1

Regarding how the subsidiary deal with this type of goal conflict, the answer by many were that while there is no rule book for how the goals should be integrated or prioritize, they do not experience apparent conflicts. There were rather a culture of consensus-seeking and teamwork that made it work at the end. Everybody seem to have in mind that the final goal is to satisfy the local customers and that as a publicly traded company, it is the financial numbers that matter. "I think the clear direction [make the customers happy and make money] decreases the level of conflicts. Sure, there are some conflicts of interests but everyone here is pretty much pragmatic and focuses on what is the best for the firm and clients." - MT5.

**The second type** of goal conflict that many interviewees brought up was the goal conflicts between managers pursuing financial goals and those who targeted strategic goals. This was explained as one of the consequences of having compensations based on different

measurements. Managers and employees from the core business with client contact and sales goals were part of a Sales Incentive Program (SIP), where the bonuses are tied to numbers. The rest who followed more strategic goals were judged based on other non-monetary measurements and were part of an Annual Incentive Compensation Plan (AICP). Few of our interviewees explained that this becomes an issue when employees invest their time and energy in goals that can contribute to their compensation plan. The importance of these compensations (bonuses) became prominent when most of our interviewees said that low or no bonuses would be the consequences of not achieving the goals. “That is the flip side with a matrix, that you can have different reporting lines and different ways how you measure success and achieved goals.” -MT1

#### **4.4 Control mechanisms**

The most present control mechanisms at Mastercard was output control, in form of incentives based on how well annual financial goals were achieved. Many said that they get their goals from higher up in the organization and have no or little mandate to negotiate, while others, mostly managers, felt that it was a two-way process. Both managers and employees agreed that the financial outcomes are the most important goals for the subsidiary. As long as they hit their targets, how they did it does not matter. “Here, the only thing that matters is how much money you make for the firm, this is the only important thing and the rest doesn’t matter.” - E4

Besides the frequently mentioned output control mechanisms, some behavioural controls were also brought up by the interviewees. These mostly took the form of projects that were forced to implement, campaigns that were must-do:s and similar strategic decisions. Most of these were not accepted in the same way as the financial goals and many expressed that these directives were not always suitable for their local market. This created a slightly negative attitude in some interviewees, because it made their work harder when they had to implement something that according to them did not add any value. Thus, some interviewee explain that the subsidiary had developed an attitude to ‘dare to stand up for themselves’ if they did not think that the projects, products or campaigns fit their customers. “Sometimes these sales pushes come when someone says that this is the product you are going to sell [...] Then it is about standing up for oneself if you do not believe it fits the customers”. -E3.

Some interviewees further reflected over the products not being completely ideal for adopting them in the market. One of our interviewees saw the problem with the “half-good products” as a complexity of being a global company and that there is the constant balancing between a global product or a locally adapted solution for the customer. The employee compared the balance with ice cream flavors: “Everyone wants its own ice cream flavor, but you have to find a flavor that everyone likes, and well then we will go with vanilla because everyone likes vanilla. But it is no one’s favorite flavor, so it is that kind of thing.” -E4

Socialization as a control mechanism was not apparent in the data. Almost every interviewee perceived the subsidiary as very independent from the rest of the organization. When asking about interaction with other subsidiaries or the HQ, majority said that they do not have much contact with their other European peers. Their only external connections were those with the colleagues in the remote offices, who are a part of the N&B subsidiary, or with their managers in London.

Some interviewees further explained that there is an undeniable difference between the geographical markets, even in the Nordic and Baltics, which makes the knowledge sharing between subsidiaries good-for-nothing. Moreover, the contact with other offices, when necessary, happens on each individual’s initiative and the collaborations or socializations is not institutionalized. Hence, managers and employees training happen locally, or through web-based education and travelling is mostly to visit customers and enhance those relationships rather than visiting other units.

## **5. ANALYSIS**

*In this section, the empirics introduced in the previous chapter will further be analyzed within the theoretical framework. First, we classify the type of MNC Mastercard is and then analyze the interviewees perspectives and experiences through our theoretical framework. Effects of the HQ's intended control are later analyzed in the light of the specific MNC type, followed by how this force the agents to take some actions in their work to solve the challenges risen.*

### **5.1 Mastercard: a multidomestic corporation**

Following Kostova et al. (2018)'s classification of MNCs, Mastercard can be categorized as a multidomestic corporation. This is motivated by the subsidiaries' local focus and independence from rest of the MNC. Even though there are some interactions with the HQ, these are mostly limited to selected areas such as Finance and Marketing. Agents in the subsidiaries get their trainings in-house. They perceive themselves as an independent unit and responsible only for their local business rather than the global one. As it is described by Kostova et al. (2018), the HQ's clear revenue-focus and their way of seeing the subsidiary as a 'profit center' rather than a part of an interdependent network, is what makes Mastercard a multidomestic MNC.

### **5.2 Contradictory expectations**

In our collected data, no signs of social control mechanisms could be identified. The N&B subsidiary is very much isolated from rest of the MNC. Since training of the staff happens in-house and there is little to no communication between units other than between principals and agents, it is reasonable to confirm the theory's suggestion regarding lack of social control in multidomestic MNCs.

However, the use of output control in form of bonuses connected to clear financial goals is evident. Different goals from different principals give clear, individual directions for the agents to move towards. However, these goals are not simultaneously aligned nor based on the same

measures (financial vs strategic). This means that agents experience a lack of willingness to cooperate and take on opportunities that do not directly contribute to their own particular goals.

In contrast to the high independency and market focus that a typical multidomestic subsidiary is expected to have (O'Donnell, 2000), the fact that the N&B agents are constrained by multiple principals' requirements restrains the possibilities of fully exploiting the local opportunities. Due to conflicting goals, pursuing holistic goals that aligns the whole subsidiaries resources is challenging. This further explains the low cross-functionality between the silos in the Mastercard's subsidiary, and their desire to become more market-focused.

Process control is also used by the HQ to some lower degrees to oversee the operations of the subsidiary, for instance as requirements to implement products and processes designed for the entire MNC. However, since the payment and banking landscape for each market that Mastercard's units operate within differ a lot from each other, the used process controls are designed for the entire MNC. Hence, this type of control has constrained the ability of the agents to fully adopt to the needs of the local markets, which leads to conflicting control mechanisms. The output control in the form of financial goals requires and expects local responsiveness, which the process control does not allow to full extent.

The lack of social control from the principals in London can also be a reason for why their intentions of behavioural control do not succeed. As Brenner & Ambos (2013) concludes, behavioural and output controls should be at least accompanied with social control. Social controls create legitimacy for the principal in the eyes of the agents. As today, agents at the subsidiary perceive the principals with a lack of understanding of the local market and hence, they do not find them legitimate enough to implement projects and campaigns. This makes it harder for the agents to act on the principals' demand if they cannot make sense of them.

There is a clear understanding that different control mechanisms and the supervision by different principals create discrepancies between what the HQ require and what the local subsidiary wants. On the other side, the agents in the subsidiary are supervised by principals with expertise in respective fields which can result into a lower level of bounded rationality for the agents. The local CEO is naturally not an expert in each support function. Hence, him discovering other managers' honest incompetencies would not be realistic.

Moreover, previous research proposes subsidiaries of a multidomestic MNC are less prone to develop bounded rationality (Kostova et al., 2018). This could be an alternative explanation to why we did not find any signs of clear bounded rationality. Another possible reason could be the difficulties in identifying bounded rationality without the principal's perspective. This due to the nature of the honest incompetencies, since most of the time they are unknown to the agents themselves.

### **5.3 Agents making their way around**

As earlier mentioned, the existence of multiple principals and the subsidiary being divided in silos, have made it hard for the subsidiary to work towards the mutual goal of being fully market-oriented. A direct consequence of the goal conflicts is the slow pace in the decision-making. Due to the need for aligning the different goals of all managers and involvement of many actors in the management team, the decision-making takes a lot of time. An implication of this is that the ability to react fast to changes in the local markets suffers. This is experienced both by the managers and the employees in the subsidiary.

In response to the need for more alignment between agents, a new function called market development had to be developed. Market Development has the responsibility to create cross-functionality. The representatives of Market Development seem to act a lot as negotiators between these different departments. They have an important role in making sure that the actions of different agents and their departments are in alignment with the Nordic and Baltics' local needs and demands. The function, initiated by the CEO, seems to be appreciated by many as a solution to the lack of collaboration.

We further concluded that in response to the local deviations caused by having multiple principals, the agents in the N&B subsidiary are welcoming the efforts made by their CEO which enables them to work together as a whole unit toward the desired market-oriented goals. Agents in the N&B subsidiary perceive their local CEO as the one who actually sets the agenda and aligns the departments for instance through initiative like Market Development. The CEO, who we assume to have a higher degree of legitimacy in comparison to his successors seem to have been successful in creating a feeling of we-them between the agents in the subsidiary and the principals. This, even though several of the agents are highly tied up to their first principal

in London. The perceived legitimacy is mainly due to the current CEO's market and culture insight and his long-term relationships with the agents. Moreover, this goes in line with what Ambos et al (2019) concluded about an influential subsidiary CEO. It seems to be the case that the HQ's intents to control the subsidiary has been disrupted by the CEO's power. In our case, we further see that this is the case even when the intended controls do not go through the CEO as a gate but rather applied directly to the subsidiary managers.

In summary, there constantly seems to be a desire from both the HQ as principal and agents at the local level for the subsidiary to be market-oriented. The matrix organization and the situation with multiple principals steering different agents toward different goals seem to reduce the chances to work cross-functionally and prolong the processes. In an effort to work against the stiffness that exist in the subsidiary's structure, agents in the subsidiary work together towards the goals that exploit the market opportunities and let them to be more reactive towards the customers need. This is further facilitated through the guidance of the influential local CEO and the support function called Market Development that aligns subsidiary's vertical silos.

## **6. CONCLUSION AND DISCUSSION**

*In this chapter, the answer to the research question based on the findings in the analysis will be presented. Furthermore, we discuss the research contribution, reflect on implications of the study and suggest future research in this field along with the limitations of the study.*

### **6.1 Conclusion**

This thesis was conducted with the goal to deepen the understanding of management within MNCs. Aiming to add to the contextualization of the agency theory, the question below was answered:

*How does having multiple principals affect the agents in a subsidiary of a multinational corporation?*

We could identify a number of different outcomes when looking at how controls from multiple principals affect the agents at the subsidiary level at Mastercard. A clear consequence of this organizational structure is that the agents perceived limitation to live up to the autonomy and market orientation they desire and what the HQ seems to expect from them as well. Moreover, we could also identify goal conflicts in both principal-agent and agent-agent relationships. The differences in incentivization criteria for the agents also create difficulties in integrating these goals into one coherent direction for the entire subsidiary. Another consequence in relation to this is the higher degree of complexity in the day-to-day work at the subsidiary. This takes the form of both political negotiations and slow decision-making processes which affects the subsidiary's adaption and reactivity to the market.

### **6.2 Discussion**

The aim of this study was to contribute to a better understanding of the management of MNCs. The finding in this study contextualize agency model for a better fit to the reality of these complex organizations. The first implication of our findings is that the more significant the

need of being market-oriented, the more autonomy and independence agents will require from the HQ. This further is in line with finding of previous research where multidomestic corporations are accounted for the type of MNC with highest demand on being local-oriented and independent (Kostova et al., 2018). Moreover, creating a HQ-subsiidiary relationship that involves multiple principals overseeing multiple agents lead to lower autonomy and consequently lower market orientation in the subsidiary.

The second implication of our results is regarding control mechanisms used in the subsidiary of a multidomestic MNC. While our research suggests inefficiency of socialization and process control in independent subsidiaries, it further shows that even the usage of output control and incentives can be inadequate in a situation with multiple principals. Having multiple principals can derive different agents in different directions which they are incentivized to move towards, which in turn slows the movements of the subsidiary as a unit towards mutual destinations. When controlling a subsidiary through output measurements and incentivization, it is important that agents are incentivized based on consistent goals.

Lastly, self-interest and bounded rationality which we particularly did not search for in our research, was still something inevitable to come across. Ambos et al. (2019) have showed the effect of having a powerful CEO in reducing the control of the HQ. Intuitively, one can hypothesize that having multiple principal-agent relationships where the subsidiary's CEO is not a link in the relationships, reduces the effect of CEO's power on HQ's control. Although we find that while having multiple principals seem to reduce levels of bounded rationality, self-interest seem to increase in the presence of an influential CEO due to his/her ability to bring the subsidiary together around the local needs.

Since the three implications mentioned either add another dimension to agency theory or enriches previous research, we find that the study contributes to the field of management research in significant ways. Besides that, there are also some practical implications worth mentioning. For the HQ managers, it is useful to know the affects their choice of organizational structure has on the subsidiary, so they can take it into consideration when further developing the management of subsidiaries and choosing control mechanisms. Also, the finding that several principals reduce the local adaption and fast market responsiveness, can be crucial for companies that are dependent on their locally customized products and services.

### **6.3 Limitations of the study and future research**

Since it is the agents' perspective of the principal-agent relationship that is explored, we have only assessed their perception of how the HQ controls them. The interviewees have contributed with their subjective experiences, and there might be other aspects and controls by the HQ that the interviewees did not bring up nor have noticed but still might affect their work. Hence, a suggestion for further research is to explore the other side of the coin and take the principals' perspective in these parallel dyadic principal-agent relationships into account.

Even though we aim to produce generalizable results and believe our case study is representative for other MNCs as well, there are some factors that affect the outcome of the study. Firstly, our own subjective opinions might have affected what we have considered as important and worth mentioning. There might have been a tendency to recognize rather negative than positive comments, which also is the reality of the interviewees. Secondly, as in most qualitative research, we have tried to provide a deeper understanding of the complex dynamics and people's reasoning behind their opinions. Thus, to increase the ability of the model to predict the effect of multiple principles, we suggest that quantitative studies look further into this.

As reflected over in 'Discussion', the presence of self-interest might increase with the expanded number of dyadic principal-agent relationships while bounded rationality seems to decrease. It would be interesting to continue on this research, and study how these two factors are affected in the said situation. Also, adding on the research on different types of MNCs, it is worth studying if the agents of transnational and global MNCs perceive multiple principals differently.

## 7. REFERENCES

Ambos, B., Kunisch, S., Leicht-Deobald, U. & Schulte Steinberg, A. (2019). Unravelling agency relations inside the MNC: The roles of socialization, goal conflicts and second principals in headquarters-subsiary relationships. *Journal of World Business*, 54(2), 67-81.

Ambos, B., & Schlegelmilch, B. B. (2007). Innovation and control in the multinational firm: A comparison of political and contingency approaches. *Strategic Management Journal*, 28(5), 473-486.

Andersson, U. & Forsgren, M. (1996). Subsidiary embeddedness and control in the multinational corporation. *International Business Review*, 5I (5), 487-508.

Arrow, K. J. (1985). The economics of agency. In J. W. Pratt & R. J. Zeckhauser (Eds.), *Principals and agents: The structure of business*, 37-51. Boston: Harvard Business School Press.

Aulakh, P. S.& Genturck, E.F. (2000). International principal-agent relationships - control, governance and performance. *Industrial Marketing Management*, 29 (6), 521-538.

Baker, G., Gibbons, R., & Murphy, K. J. (2002). Relational contracts and the theory of the firm. *Quarterly Journal of Economics*, 117(1), 39-84.

Bartlett, C. A., & Ghoshal, S. (1989). *Managing across borders: The transnational solution*. Boston: Harvard Business School Press.

Bell, E., Bryman, A., & Harley, B., (2019). *Business Research Methods* (5th edition). New York: Oxford University Press. 20-21, 23, 30, 236, 365-366, 394-397, 434, 530-534.

- Björkman, I., Barner-Rasmussen, W., & Li, L. (2004). Managing knowledge transfer in MNCs: The impact of head- quarters control mechanisms. *Journal of International Business Studies*, 35(5), 443-455.
- Boyacigiller, N. (1990). The Role of Expatriates in the Management of Interdependence Complexity and Risk in Multinational Corporations. *Journal of International Business Studies*, 21 (3), 357–381.
- Brenner, B, Ambos, B. (2012). A question of legitimacy? A dynamic perspective on multinational firm control. *Organization Science*, 24 (3), 773– 795.
- Chang, E. and Taylor, M.S. (1999). Control in multinational corporations (MNCs): the case of Korean manufacturing subsidiaries. *Journal of Management* 25(4): 541–565.
- Controy, K. M., Collings, D. G. & Clancy, J. (2017). Regional Headquarter’s Dual Agency Role:Micro-political Strategies of Alignment and Self-interest. *British Journal of Management*, 28, 390–406.
- Egelhoff, W. G. (1984). Patterns of Control in U. S., UK, and European Multinational Corporations. *Journal of International Business Studies*, 15 (2), 73-83.
- Eisenhardt, K. M. (1989). Agency theory: An assessment and review. *Academy of Management Review*, 14(1), 57–74.
- Fama, E. F., & Jensen, M. C. (1983). Agency problems and residual claims. *Journal of Law and Economics*, 26, 327-349.
- Foss, K., Foss, N. J., & Vazquez, X. H. (2006). 'Tying the manager’s Hands’: Constraining opportunistic managerial intervention. *Cambridge Journal of Economics*, 30(5), 797–818.
- Galbraith, J. R. (1973). Organization Design: An Information Processing View. *Interfaces*, 4 (3), 28-36.

- Genturck, E.F. & Aulakh, P.S. (1995). The use of process and output controls in foreign markets. *Journal of International Business Studies*, 26 (4), 755-786.
- Ghoshal, S., & Bartlett, C. (1990). The Multinational Corporation as an Interorganizational Network. *The Academy of Management Review*, 15(4), 603-625.
- Ghoshal, S., Korine, H. & Szulanski, G. (1994). Interunit Communication in Multinational Corporations. *Management Science*, 40 (1), 96-110
- Goshal, S. & Nohria, N. (1989). Internal Differentiation Within Multinational Corporations. *Strategic Management Journal*, 10 (4), 323-337.
- Gong, Y. (2003). Subsidiary Staffing in Multinational Enterprises: Agency, Resources, and Performance. *The Academy of Management Journal*, 46, (6), 728-739.
- Gupta, A. K. & Govindarajan, V. (1991). Knowledge Flows and the Structure of Control within Multinational Corporations. *The Academy of Management Review*, 16 (4), 768-792.
- Hendry, J. (2002). The principal's other problems: Honest incompetence and the specification of objectives. *Academy of Management Review*, 27(1), 98-113.
- Holmström, B. (1979). Moral Hazard and Observability. *The Bell Journal of Economics*, 10 (1) 74-91
- Hoskisson, R. E., Hitt, M. A., Johnson, R. A., & Grossman, W. (2002). Conflicting voices: The effects of institutional ownership heterogeneity and internal governance on corporate innovation strategies. *Academy of Management Journal*, 45(4), 697-716.
- Jensen, M.C., Meckling, W.H. (1976). Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure. *Journal of Financial Economics* 3(4) 305-360.
- Kim, B., Prescott, J. E., Kim, S. M. (2005). Differentiated governance of foreign subsidiaries in transnational corporations: An agency theory perspective. *Journal of International Management*, 11, 43-66.

Kostova, T., Nell, P. C., & Hoenen, A. K. (2018). Understanding agency problems in headquarters-subsidiary relationships in multinational corporations: A contextualized model. *Journal of Management*, 44(7), 2611-2637.

Kostova, T. & Roth, K. (2003). Social Capital in Multinational Corporations and a Micro-Macro Model of Its Formation. *The Academy of Management Review*, 28, (2), 297-317.

Nilakant, V., & Rao, H. (1994). Agency theory and uncertainty in organizations: An evaluation. *Organization Studies*, 15 (5), 649-672.

Nobel, R. & Birkinshaw, J. (1998). Innovation in multinational corporations: control and communication patterns in international R&D operations. *Strategic Management Journal*, 19 (5), 479-496.

www.mastercard.us. (2019). Mastercard Payment Products & Solutions. Accessed 21 Feb. 2019. Available at: <https://www.mastercard.us/en-us/about-mastercard/what-we-do/products-solutions.html>

Mudambi & Navarra, (2004). Is Knowledge Power? Knowledge Flows, Subsidiary Power and Rent-Seeking within MNCs. *Journal of International Business Studies*, 35 (5), 385-406.

O'Donnell, S. W. (2000). Managing foreign subsidiaries: Agents of headquarters, or an interdependent network? *Strategic Management Journal*, 21(5), 525-548.

Roth, K. & O'Donnell, S. (1996). Foreign Subsidiary Compensation Strategy: An Agency Theory Perspective. *The Academy of Management Journal*, 39, (3), 678-703.

Ross, S.A. (1973), 'The Economic Theory of Agency: The Principal's Problem', *American Economic Review*, 63, 134-139.

Scharfstein, D. S., & Stein, J. C. (2000). The dark Side of internal Capital markets: Divisional rent-seeking and inefficient investment. *Journal of Finance*, 55(6), 2537-2564.

Shaw, J. D., Gupta, N. & Delery, J. E. (2000). Empirical Organizational-Level Examinations of Agency and Collaborative Predictions of Performance-Contingent Compensation. *Strategic Management Journal*, 21, 611-623.

Spence, M., & Zeckhauser, M. (1971). Insurance Information and Individual Action. *American Economic Review*, LXI (2), 380-387.

Stuckenbruck, L. C. (1979). The matrix organization. *Project Management Quarterly*, 10(3), 21-33.

Szulanski, G. (1996). Exploring internal stickiness: Impediments to the transfer of best practice within the firm. *Strategic Management Journal*, 17, 27-43.

# 8. APPENDIX

## 8.1 INTERVIEW TEMPLATE

The interview template was used as a basis for all interviews held. Depending on the position of the interviewee (reporting line to London or to the CEO in Stockholm and if the person was a part of the management team or not) some of the questions were tailored towards the specific role or left out.

### *General questions*

1. Can you briefly present yourself, tell us a bit about your background before and within Mastercard and your current position?
2. What does the organizational structure look like from your point of view: who do you report to, who does this person report to and who, if any, reports to you?

### *Questions based on the theoretical factor*

3. Who sets your goals and your department's goals?
  - a. Can you influence these goals, and if yes, how?
  - b. If the goals are not reached, are there any consequence?
  - c. How do you take these goals to your team?
4. When it comes to the implementation of directives etc, you in Stockholm are quite independent. What types of directives do you get from the London office, more specifically?
5. How would you describe the relationship between the Nordic & Baltics office in Stockholm and the London office? What is the communication like?
6. Within the Nordic & Baltics subsidiary, what is the relationship like between the different departments? Is there a lot of collaboration and communication "cross-border"?

*Multiple principals*

7. Since the management group reports to different people internally, how does that affect your work?
8. Within the management team, has there been situations where your goals have differed? If yes, how have you handled this goal conflict?
  - a. Has there been any (goal) conflicts between the subsidiary and the London office?
9. If there would be a situation where the Stockholm office's best is not in line with Mastercard's best globally, how would you handle the situation?
10. How, if in some way, does the CEO affect your work?

*Other questions*

11. Do you have any contact with other subsidiaries (in Europe)?
12. Do all the subsidiaries at Mastercard have the same mandate and goals?
13. Where do you and your team get training in your work?