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Conducting business as the subsidiary: An investigation of globally implemented MCS impact on headquarter-subsidiary relations and their implications on local business opportunities.

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ABSTRACT: As companies disperse business activities across a global market, control of subunits scattered within a multitude of countries emerges as a particular challenge. This thesis aims to investigate this association from a subsidiary perspective. More precisely, the impact of globally imposed management control systems upon HQ-Subsidiary relations and their implications upon local business opportunities are studied. A single case study was conducted within the local Indian unit of a large multinational firm focused on a specific control process, the risk assessment process. Analysis of a series of nine semi-structured interviews identified that the MCS force a continuous trade-off between local and global views, diversity vs. control. Tensions were handled by the local unit by following directives, signalling competence and at times, by sidestepping the rules. Adverse effects of this behaviour were mitigated by a strong common culture, aligning individuals with the global targets.

Key Words: Headquarter, Subsidiary, Management control systems, Culture

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List of abbreviations/definitions

BOM – Bill of materials

The Company – The multinational company

GDT – Global dispersed teams

GCE – Global Centre of Excellence

GFA– Global framework agreements

HQ-subsidiary – Headquarter-subsidiary

The Headquarter – The division of study

LBU – The business unit of study

Owner – The Sales representative

RA – Risk assessment process

RADB – Online database that Owner fills with information over the course of the RA

RFQ – Request for quotation

SC – Supply chain management unit within the company

SoD – Separation of duties

Turnkey responsibility – Full responsibility for installation of the product

Trigger levels – Company term for conditions that associates to different level of risk in a project

1. Introduction

In recent years, globalisation has brought the field of international control increasingly under focus. Porter defines the context as *"[…]a series of linked domestic industries where competitive forces transcend national boundaries, thereby creating a worldwide competitive arena"* (p.18, Porter, 1986) The impact this worldwide competitive arena has on business has influenced research. Current studies such as that by Lou (2002) incorporate both the classical view of environmental and structural contingencies forming relationships in organisations and propose that organisational capabilities, infrastructure and the need/demand on subsidiaries to interact with global partners have a large explanatory part in how managed controls are designed; *"[…] globalization is resulting in a significant redefinition of the role for the subsidiary manager as subsidiaries become more tightly integrated with other subunits within corporations."* (p. 679, Roth & O'Donnel, 1996)

Perlmutter (1969) predicted a contingency-based, highly integrated organisational form of MNC; he named it Geocentrism. The truly international firm has an immense need for aligning its employees; however the multinational context impacts this adversely (Ghoshal & Nohria, 1994). Cultural and geographical distances (Roth & O'Donnel, 1996) and differing fundamental values of employees (Hofstede&Hofstede, 2005) create managerial and controlling difficulties. The organisation and management of the headquarter-subsidiary relationship has become a potential source for competitive advantage (Mintzberg, 1979; Kim et al,1984) and methods for handling these efficiently, such as globally distributed teams, are being in implemented to a greater extent in organisations (Joshi et al, 2002).

Much of the literature on strategy formation is written from the headquarter perspective and the effects and trade-offs of the different policies in the local context is over looked (Lou, 2002). The current thesis combines a traditional management control framework with theory regarding the HQ-subsidiary relationship and analyzes the implications on the control processes for a small Indian subsidiary of a large MNC in order to understand the impact of globally set policies on operations.

1.1 Purpose

The purpose of this thesis is to study the control implications and relations between global headquarters and local subsidiaries from the local business unit's perspective. In particular we want to investigate what implications the international context has on management control systems and directives and how these consecutively affect the local business opportunities.

1.2 Research question

How does a small subsidiary handle local business conditions when MCS are designed and implemented by global headquarters; more specifically what are the advantages/tensions that arise due to the global perspective on MCS design?

1.3 Limitations

The study is limited to a single case study, and secondary research due to the time frame of the thesis. The scope is management controls and how these are modified by contextual factors, in addition we have focused on a specific control process called the risk assessment process (RA). Finally we have assumed the subsidiaries viewpoint since study was conducted on the subsidiary level.

1.4 Contribution

The study resulted in a number of interesting propositions for further research. Impact of management controls in an international context is complex but nonetheless highly relevant in today's business environment. This thesis adopts a subsidiary viewpoint and relates it to current theories within management control and HQ-subsidiary literature.

1.5 Disposition

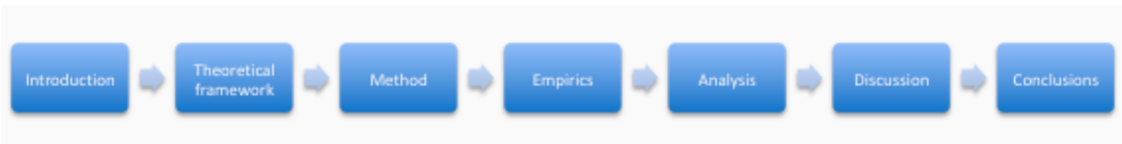

Figure 1.1 Disposition of the Thesis

Following this initial section we will present our theoretical framework (2) and the methodology (3). Thereafter the case study (4) is presented with the subsequent analysis

(5) drawing upon the theoretical framework and the empirics to derive our findings in the discussion (6). Finally we present our conclusions and suggestions for further research (7).

2. Theoretical framework

2.1 Management control systems

Management control can be defined as: *"the process by which managers influence other members of the organization to implement the organization's strategies."* (p.6, Anthony & Govindarajan, 2007). By definition then, management control is vital for a corporation to reach its goals and objectives, and thus ultimately vital for success. Good management control can subsequently be described as systems that influence employees into goal congruent behaviour. In order to achieve goal congruency, management utilise a range of control activities including: planning, coordinating, evaluating and decision-making. These control activities can be grouped into control systems, which in turn can be split into formal vs. informal control systems. Formal control systems are purposefully made systems such as: rules and regulations, and physical controls. Informal controls on the other hand, are more unwitting, for example: management style, organisational culture and work ethic. It is important to note that these factors cannot be considered in isolation but rather in their wholeness, affecting and depending on each other for their ultimate success (p. 99, Anthony & Govindarajan, 2007).

Today, there are a number of control models used to describe and categorise the behaviour of managers. Even Merchant and Otley (2007) themselves realise that *"Given the breadth and complexity of the control field, it is natural that over the years authors have taken many approaches to its study."* (p.788). Hence, there are many different categorisations into different forms of control by different authors. We have chosen to structure our thesis with the support of Merchant and Van der Stede's three forms of control, one of the most widely used systems in business studies today. The three forms of control are: result control, action control and people control. Thus the following under section 2.1 will all allude to Merchant and Van der Stede (2003) unless explicitly stated otherwise.

When investing in management control systems one must be aware of the direct and indirect costs involved. Direct costs include the monetary costs of implementing MCS for e.g. bonuses and internal audits, and direct costs which are harder to measure, such as the alternative costs of employee time usage.

Indirect costs, also known as harmful side-effects are a little more complex than direct costs: *"Some of these indirect costs are created by negative side-effects that are inherent in the use of specific types of controls. Others are caused either by a poor MCS design or by an implementation of the wrong type of control for the given situation"* (p.177).

Forms of harmful side-effects include:

- Behavioural displacement such as myopia (excessive focus on short term profit) and sub-optimisation (making decisions that make the individual or the division look good without actually creating value for the organization).
- Gamesmanship, which is when employees attempt to improve performance indicators without actually adding any real value, e.g. slack within targets and data manipulation. These may occur due to an unattainability of targets.
- Operating delays due to rules and regulations.
- Negative attitudes.

2.1.1 Action control

Action control involves controlling the actual actions of employees and is thus the most direct form of control. Action control can be further divided into three key subcategories: behaviour constraints, action accountability, and pre-action review.[1]

Behavioural constraints can be divided into physical and administrative constraints. Tangible constraints are e.g. limited access to certain areas or having obligatory locks and passwords on computers. These can at times be more time consuming than beneficial and thus cause operating delays. An example of an administrative constraint is the *Separation of duties* (SoD) where many different people are required to complete one task; this is mainly done in order to avoid frauds and errors. Another example is restriction on decision-making authority. Care should be taken with restricting decision-making authority in large and complex organizations, instead having a divisionalised structure with decentralised decision-making will allow, *"local managers [to] become*

[1] Merchant and Van der Stede mention a fourth form in less detail: redundancy. Redundancy involves assigning more employees/machines to a task than is necessary. Due to the fact that "redundancy is relatively limited in its application" (p.71) and due to restricted space it is exclude in this thesis.

experts in their specialized markets, and [allow them] to make good decisions more quickly." (p.416)

Action accountability is to clearly define the boundaries for desired actions and then hold employees responsible for their actions if they do not adhere to these. An example of formalised action accountability is meticulously writing out procedures and codes of conduct. Employees can then be held accountable; they cannot blame mistakes on a lack of knowledge, since the information is available.

Pre-action review is controlling the planned actions of employees. These can range from the very formal and long term plans such as budgeting to shorter-term plans, which may be controlled through weekly conference updates or even informal chats (e.g. over coffee). Pre-action reviews are associated with the direct alternative cost of time spent adhering to directives, which are difficult to calculate

An indirect cost of action control is behavioural displacement due to "*means-ends inversion*" (p.181) where employees focus more on what they do rather than what they accomplish. Another side-effect of action controls is that they may, with time, dull the minds of employees, leading to rigid, non-adaptive behaviour.

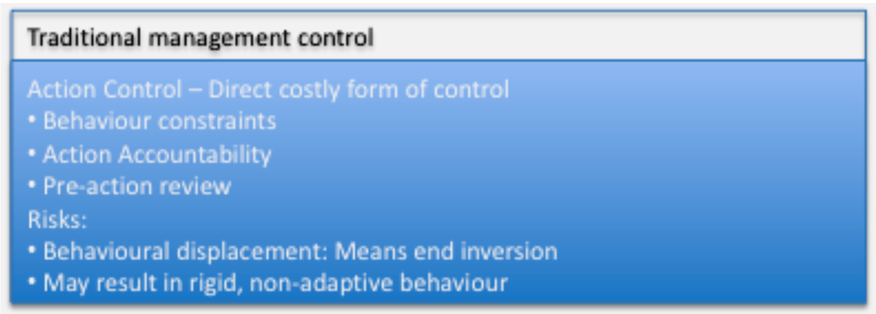

Figure 2.1 Summary of Action controls

2.1.2 Results control

Results control involves controlling the results produced by employees, in other words, what is done rather than how it is done. Thus, results control is not as direct as action control. In order to ensure an outcome of desired results, the performance should be measured against set goals and then linked to incentives. Performance dependant rewards are vital in informing, motivating and aligning employees. Ideally, results controls should indicate actual value creation of employees. However, *"direct measurements of the individuals' contribution to value creation are rarely possible"*

(p. 409). Examples of results control include performance evaluations, budget outcomes, balanced scorecards etc.

For results control to truly be effective they should be predetermined, specific, short-term, with prompt performance feedbacks, and employees must be free to choose their means. Also management must comprehend the desirable results, be able to relay these, have influence over them and be able to measure them. If these criteria are not filled, result controls may lead to negative side-effects such as: sloppiness and wastefulness, uncreativity, behavioural displacement such as myopia or sub-optimisation, further, difficulties in measuring may cause misleading signals. Also, a major risk with quantifying areas is that there is a great temptation to focus completely on those aspects, forgetting intangible factors.

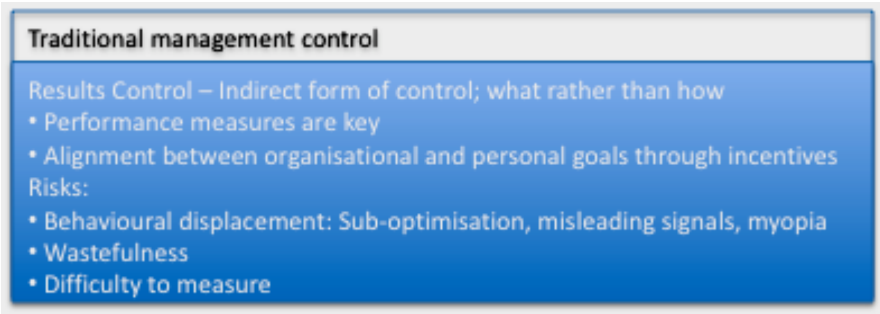

Figure 2.2 Summary of Result controls

2.1.3 People control

People control is the 'softest' form of control; it can rarely be used on its own, but rather in combination with the other control forms. People control can be further divided into two subgroups of personnel control and cultural control.

2.1.3.1 Personnel control

Personnel controls build on people's natural disposition to control their own actions due to values, moral stances, and motivations that they already hold. These underlying characteristics of employees will then result in so called self-monitoring. In order to increase the probability of employees' controlling themselves, a number of mechanisms can be put in place, for example having a clear job design, thorough training, provision of necessary resources to perform work, and a careful selection of employees.

2.1.3.2 Cultural control

Cultural control is also known as mutual control since it is based on the reciprocal pressures from surrounding groups, social norms, and values that influence individual behaviour. Rather than being "control of oneself" it is control by the close group of people which one has emotional ties to. There are five main ways that management can affect cultural control; codes of conduct (rules and regulations), intra-organizational transfers (employee rotation which increases both socialization within firm and number of emotional ties), physical and social agreements (such as office layout and dress code), tone which top management communicates and finally, group based rewards. However, Janis (1972) warns that a culture that is too strong can have negative consequences such as that of "groupthink". Groupthink is when members of a group, due to group pressures strive for conformity rather than actions being steered by rationality. Having a similar background, being isolated from outside judgment and not having clear rules for decision-making will increase the inclination of members to succumb to groupthink. Groupthink will cause self-censorship, which in turn can lead to inefficiency and worse decision-making.

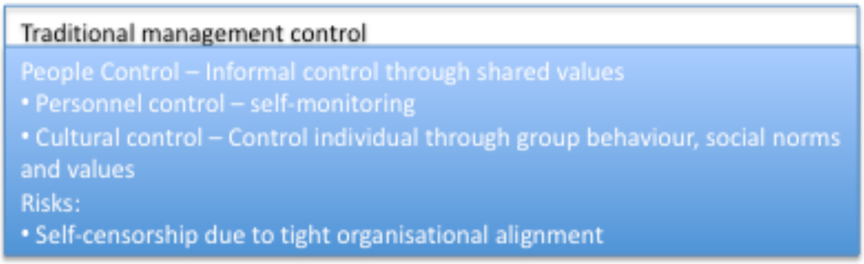

Figure 2.3 Summary of Cultural controls

2.2 Supporting literature

In order to understand the situation our particular study subject (a small division in a large entity controlled by a fixed set of directives and systems) faces we have included supporting literature concerning HQ-subsidiary relations and international business theory. We will begin with describing the theory regarding the international context within which the MNC resides, then the specific HQ-subsidiary literature.

2.2.1 HQ-subsidiary relations

Geographically dispersed HQ-subsidiary relations pose a number of difficulties. Some of the main issues outlined in previous studies within the field are: integration and coordination problems due to physical distance, cultural differences, costs of integration and communication, differences in resource bases and capabilities and principal-agency problems. A review of the different theories will follow below.

2.2.1.1 The international context

According to Mead (1998) international management is no different from ordinary management insofar as the roles it entails; the only difference is the cross-cultural context, which increases the level of uncertainty due to its complexity and heterogeneity. These uncertainties can either be controlled through financial or strategic risk management (Miller, 1992). The strategic risk management attempts to increase predictability of outcomes or increase internal responsiveness to unexpected external changes. Important to note is the fact that reducing uncertainty within one area may cause an increase of uncertainty within another (p. 325).

The most prominently discussed of the problems attributed to the multinational context is probably that of national cultural differences. In a broader sense culture is defined as the underlying programming of the mind, all the knowledge one receives before the age of twelve, knowledge that one acquires subconsciously (Hofstede & Hofstede, 2005). This is in contrast to organisational culture, which is acquired when the adult individual enters into an organisation, with basic values already in place (p. 284). Also, conflicting management styles between countries can severely damage relations due to misinterpretations, misunderstandings and difficulties in communication. According to Joshi et al (2002), national cultures and a variety thereof can be a great asset in organisations but also cause serious problems if not dealt with properly.The cultural dimensions of power distance and individualism-collectivism appears to have the most explanatory power. More specifically:

> "*Indians tend to view themselves in collective rather than individualistic terms and also exhibit the existence of a hierarchical order type for power distance […] Both the dimensions affect the type of leadership (Hofstede & Bond, 1998) Large power distances are associated with greater centralization and benevolent autocrat (or good father) leadership. Indians tend to have a relatively high need to avoid uncertainty, which means they try to avoid risk."*
> (pp. 92-93, Joshi, 2001)

The overarching conclusion from studies within the field are that work related values are not universal, underlying values persist even if multinational companies try to change them, local values determine how headquarter directives are interpreted and demand for uniformity may lead to inefficiencies (Mead, 1998).

There is an up-shore of literature such as that from Mintzberg (1979), Baliga & Jaeger (1984) and Kim et al (1984) that define coordination and integration to be the main priorities of international management. Due to size and the cost and difficulty of monitoring, many organisations try to create an internal culture to increase the control. This underlying frame of reference is put in place to create a common context and thereby an interpretation of directives that are aligned in all parts of the organisation (Samuelson, 2004).

2.2.1.2 The Agency problem perspective

The agency problem arises when there is a discrepancy between the goal of the agent and that of the principal. In order to avoid these inconsistencies one has to be able to both monitor the behaviour of agents and then influence their behaviour. Roth and O'Donnel (1996) puts forward that *"goal conflict may be reduced in situations in which there is a high level of socialization, such as a clan-oriented firm (Ouchi, 1979) or where behaviour is not self-directed."* (p. 679). In other words, the goals of the agent can be aligned with the principal either through increased informal or stricter formal control mechanisms. Geographical separation increases the complexity of the relationship since monitoring the agent's behaviour becomes more difficult (Roth & O'Donnel, 1996).

Roth and O'Donnel (1996) outline three main factors that specifically amplify the risk for an agency problem arising. These are: the cultural distance between headquarters and the subsidiary, secondly the operational and strategic role of the foreign subsidiary for the firm, and thirdly, the degree of psychological alignment of individuals at the subsidiary to the headquarter goals.

2.2.1.3 The contingency perspective

The contingency view contends that the structural arrangements of organizations should be differentiated depending on their external environment. Ghoshal and Nohria (1994) investigate how subsidiaries within a multinational corporation should be controlled differently, depending on the specific/individual context within which each is found, thus taking a contingency view. Two different approaches to managing subsidiary relations are outlined in the article (found not to be mutually exclusive)

1) Differentiated fit: the formal structure of the relation is altered to fit the context of each subsidiary to increase performance.
2) Shared values: increase shared values to better performances.

(Ghoshal & Nohria, 1994)

2.2.1.4 Additional HQ-subsidiary theories

Other studies suggest another means of improving operations within a multinational, complex environment through geographically distributed teams (GDT) that are being used more and more by MNCs (Joshi et al. 2002). Snow et al. (1996) outlines three main tasks of GDT's: increasing responsiveness to local differences, increasing efficiency across operations and to facilitate organizational learning. According to Armstrong and Cole (1996) these conflicting goals along with geographic distance, differing time zones and cultural differences all heighten the chance of conflict. However, *"some types of conflict actually stimulate creativity and shake underlying assumptions (e.g. task conflict)"* (p.278, Joshi et al. 2002)

2.3 Theoretical framework

The theory base that we presented above has various implications for the business. The backbone is Merchant and Van der Stede (2003) yet the propositions of their research need to be modified to the specific HQ-subsidiary relation. Both managerial and organisational aspects are influenced as well as national cultural differences and market perceptions of different geographical and hierarchical units. We will now link the supporting literature to the structural framework provided by Merchant and Van der Stede (2003) by integrating the supporting literature and finally mapping the association of the different theories (figure 2.7)

2.3.1 Action control

Action control will become increasingly difficult when combining the supporting literature with the implications of Merchant and Van der Stede's theory. The contingency perspective uncovers possible adverse effects of behavioural constraints;

top management needs to take the local business environment as well as the local culture into account, which makes the design of such systems highly intricate. In addition new/specific action accountability issues arise as individual vs. organisational targets need to be aligned, and information asymmetry augments. Roth and O'Donnel (1996) points out that enhanced difficulties of monitoring will increase the need to delegate responsibility, yet simultaneously cultural differences may affect the level of empowerment employees are most comfortable with. According to Baliga and Jaeger (1984), the multinational context will create a need for supplementary coordination, which strengthens the need for pre-action controls. Further, agency theory holds that information asymmetry will amplify the need for alignment which can be done through pre-action reviews, thus more formalized pre-action reviews are positively correlated with a tighter organisational culture. Finally, successful implementation of pre-action controls as Roth and O'Donnel (1996) points out can either be informal or formal, where the latter will most probably raise control costs.

Impact of supporting litterature

Action Control
- Coordination need (Baliga and Jaeger, 1984)
- Agency theory (Roth & O'Donnel, 1996)

Figure2.4 Action control modified by supporting literature

2.3.2 Results control

Noshria and Ghoshal (1994) suggest altering results controls for the specific context within which a local subsidiary operates, in order to achieve a better fit between goals and relevant incentives. However an added difficulty is the differing perceptions on capabilities of the local business unit. Due to different cultural conditioning and information asymmetries this fit is increasingly difficult to achieve. In other words the lack of information on a division level and the heterogeneity of the group that the division is trying to incorporate in a single result control framework deteriorates the fit of the result controls and increases the risk of behavioural displacement.

Impact of supporting litterature

Result control
- Contingency theory (Nohria & Ghoshal, 1994)
- Integration aspects (Prescot et al. 1984)

Figure2.5 Result control modified by supporting literature

2.3.3 People control

People control will be affected both adversely and favourably by the new context. Contingency theory outlines ways of mitigating the adverse effects of a complex environment by using people control and creating a common value ground. However, the geographic disparity and the differing national cultures complicate the building of commonalities. For the same reason the coordination across units is obstructed, the heterogeneity will make the process increasingly multifaceted and also raise control costs (Samuelson, 2004). National culture is however also a great source of learning if handled correctly (Joshi et al, 2002), this is further confirmed by theories describing GDTs and organisational learning that put emphasis on the potential positive externalities that might result from conflicts (Snow et al, 1996).

Figure2.6 People control modified by supporting literature

2.3.4 The framework

What is clear is that control of a MNC becomes increasingly difficult due to geographical and cultural distance as well as heterogeneity in the employees comprehension of best practises. Introducing the international context creates a constant balancing act between the local and the global, between special rules for separate business units and the increase in control costs. We have summarised our theoretical framework and explain how we see the organisational-environmental interplay in figure 2.7.

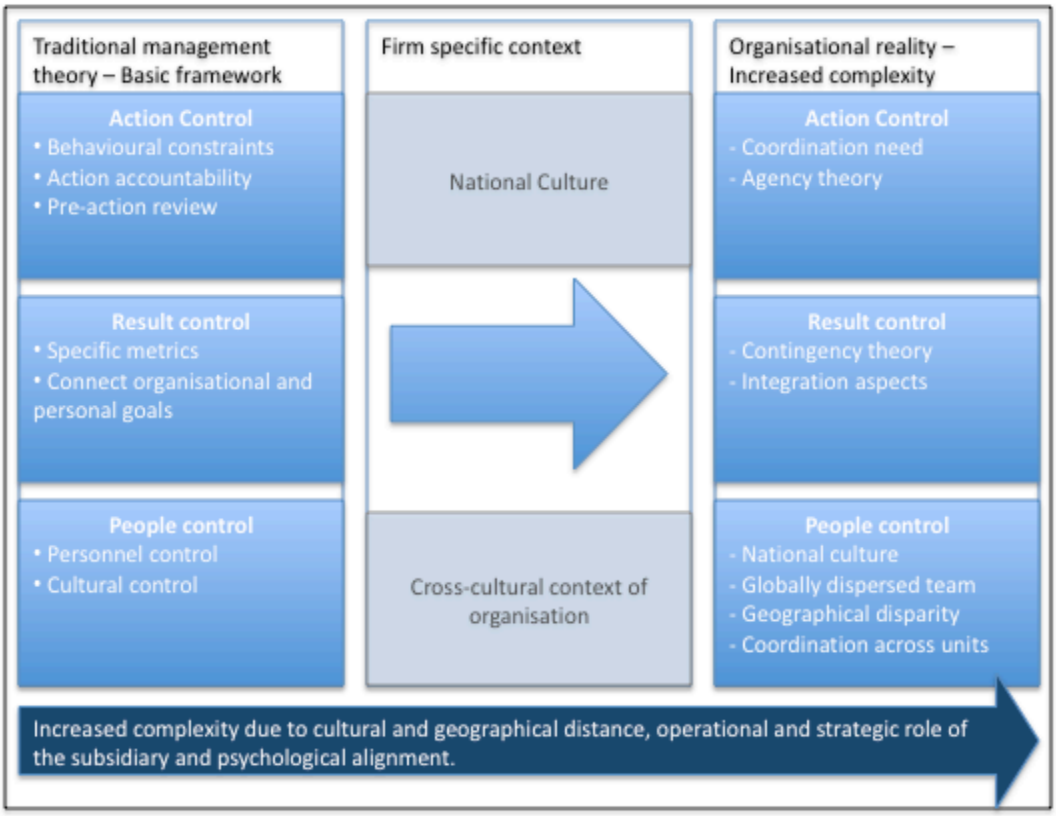

Figure2.7 Summary of Theoretical framework

3. Method

"Qualitative research has added much to accounting. Its presence has served to challenge many of the assumptions of earlier quantitative work [...]"
– (p 66, Humphrey & Lee, 2004)

Due to the complexity of our research objective and the difficulty in establishing causality between the different aspects we decided that a qualitative case study through deep interviews combined with a wide literature review would provide us with the best preconditions to fully understand and analyze HQ-subsidiary relations and control mechanisms. Darke et al (1998) state that single case studies are appropriate when "*[...] researchers [are] to investigate phenomenon in-depth to provide rich description and understanding [...]*" (p. 277).This was precisely the type of understanding we wanted to extract, however, there was an awareness of the limitations of using the case study method at the outset and thus attempts to mitigate these drawbacks were taken into account when designing the study.

Further, for increased objectivity only one researcher was on location at the subsidiary in India, increasing construct validity by reducing the risk of company bias (pp. 60-62, Atkinson & Shaffir, 1998). The roles of the two researchers were consciously defined from the start: the researcher in India would be primarily responsible for the empirical data collection whereas the researcher in Sweden would be primarily responsible for the literature study. The fact that the researchers were geographically separated during the writing of the thesis facilitated a practical understanding of the difficulties faced by MNC's. In order to mitigate these effects: complexity and geographical disparity, an abductive approach was used, iteratively questioning and re-evaluating the theory on basis of findings (Dubois & Gadde, 2002). Below we will go through some of the methodological strengths and concerns of our selected approach according to theory and motivate our choices.

3.1 Workflow – the chronology of the project

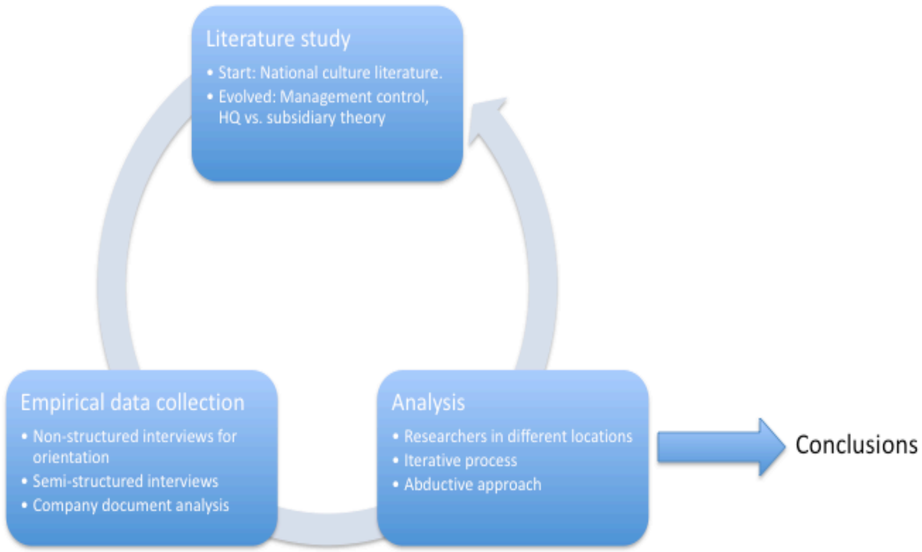

Figure 3.1 Schematic picture over the workflow of the thesis

3.1.1 Literature study

The idea for the thesis emanated in an idea to study national culture within a large MNC and how these differences affect different modes of control. The researches started the literature search on national culture, Hofstede and Hofstede (2005) and Schwartz (1999), in combination with a classical management control framework as an overarching, structural approach, Merchant and Van der Stede (2003), Ouchi (1979) and Merchant and Otley (2007). Further, methods concerning qualitative case studies were looked into before the study was designed and commenced.

After initial interviews the researcher on location in India noticed that the empirical findings would not suffice to build an argumentation on national culture. In addition the RA was identified as an interesting object of study due to a high number of international interactions and the impact this process has on the local business unit. These observations were then communicated to the researcher in Sweden, who then redirected the theoretical focus towards current management control theory within a cross-cultural context. The approach branched out to both international business theory (Mead, 1998; Miller, 2001; etc.), and later towards HQ-subsidiary literatures with focus on different means of subsidiary control (Roth & O'Donnel, 1996; Baliga & Jaeger, 1984) The combination of these different perspectives on management control added explanatory value to the empirical findings and enabled us to theorise and begin inferring some causal relationships; they increased the internal validity.

3.1.2 Gathering empirical data

The empirical study was conducted by one of the researchers. The study object was selected due to access into the organisation. The first two interviews with the CEO and CFO respectively were freely conducted and largely unstructured. These interviews were used as a primary orientation and resulted in the identification of the Risk Assessment process (RA). Following the initial interviews were a series of deep, semi-structured interviews that were conducted with all the local parties involved in the RA telecoms. The interview template (see Appendix I) remained intact throughout the case study. The structure of the interviews and the drive to adhere to the templates throughout the process was done in order to increase construct validity as promoted by Atkinson and Shaffir (1998), this in turn decreases the risk of directing interview subjects answers through biased formulations (Mead, 1998). In total 9 interviews were conducted with people from 3 different hierarchical levels in the organisation. The interviews were held on site (8) and otherwise by telephone (1), the onsite interviews lasted around 1 hour, the phone interview around 20 minutes. In addition we were given free access into the documentation of the company, with the restriction of compliance with strict confidentiality.

One of the difficulties of the research process was the geographical distance between the researchers. On the one hand we believe that it helped increasing the construct and external validity (pp. 60-62, Atkinson & Shaffir, 1998), and aided a deeper understanding of working in global teams, due to personal experience. Yet, on the other hand it increased the difficulties of communication and at times caused frustration and irritation. To coordinate views and directions of the thesis proved to be a challenge with time lags between ideation and feedback due to differences in time zones and schedules. All data was however transcribed and discussed, and much of the writing was done iteratively. We do believe that it added another dimension to the analysis and that we achieved an increased objectivity, avoiding some of the pitfalls in preceding conclusions (p. 285, Darke et al, 1998). The conflicts and misunderstandings generally eventuated in constructive discussions that lead the thesis forward, forcing questioning and changes of opinion as well as of theoretical direction several times during the writing process.

3.2 Methodological considerations

There are a number of problems with the selected study. Firstly the interview approach relies on truthful accounts, Morris et al (1998) found that Asian and in particular Indian managers have a tendency to seek *"[…]a solution that pleases every one […]"*(p. 5).

The reader should be aware that management control frameworks have an assumed universal validity; *"The naive assumption that management ideas are universal is not only found in […] scholarly journals – even in those explicitly addressing an international readership […]"* (p. 276, Hofstede & Hofstede, 2005). The U.S.A. is by far the most dominant producer of international business literature. Thus most works within the field will be to some extent tainted by the "cultural programming" of the writers and one should keep this in mind when utilising the different theories and frameworks within the field. According to Shenkar (2004) a study by the JIBS found that *"[…]over 90% of published studies had at least one North American author, and over 70% of authors were US based."* (p.165)

The authors of our structuring framework, Merchant & Van der Stede, are active in the United States and Great Britain respectively. The authors of the current thesis have international, differing backgrounds; we believe that this promotes added objectivity.

In the following section we will present the results of the empirical study.

4. *The case study*

In the following we will review the findings from the empirical study; we will start with a brief company background and then describe the controls of the company with the RA as the focal point. For clarifications of abbreviations used the reader is directed to the list on p.4. Due to the highly competitive nature of the industry the company is involved in we were required to adhere to strict confidentiality agreements entered with the company.

4.1 Company background

"The first thing that meets me as I enter the lobby of the building situated in the quieter parts of Bangalore is a security guard that checks my student ID. He asks me to sit down in an unimpressive lobby. The atmosphere is sleepy in the lobby but the local corporate headquarter is bustling with activity. I look up at the wall and see four watches, set to the time for the company's main time zones; India, Switzerland, Finland and USA."

– Observation by Amit Paul

The company operates in all major geographies in the world; we have studied the Indian subsidiary of one of the product divisions. The MNC employs a flat matrix, structured on geographies and functions across the world (figure 4.1). Formally the functional divisions are primarily focused on operations whereas the geographies are consolidating financial reporting units. The reporting lines within the company are complex and the local business unit's management answers to at least two superiors. In addition to the divisional structure the company have global centres of excellence

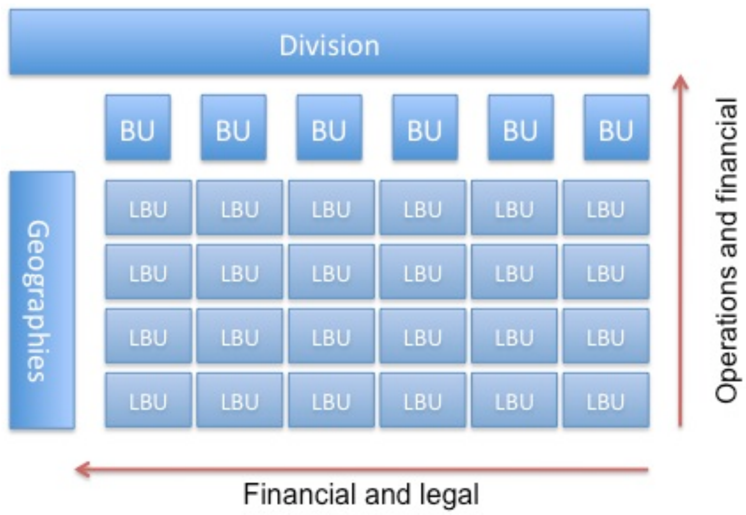

Figure 4.1 The organisation of the company. Matrix organisation on function and geographies

(GCE) located in different places, specialised in dealing with specific products and processes; these play a major role in the RA, as will be illustrated below.

The main control system in the organisation is the annual, globally implemented budgeting process which is a classic bottom-up process, market information from divisions are compiled and transformed into stretch targets for the coming period of operations (Company documents; CFO). Other global control systems that we will come back to are training, balanced scorecard (BSC), the supplier approval process and the RA.

The local business unit we are studying (the LBU) is a comparatively young one. It was established in India six years ago and has grown rapidly from 6 to about 92 employees with a top line CAGR[2] of 91%, under an experienced local business unit manager. Even though the CEO expressed that the control systems generally have aided and sped up this growth, the team has at times, struggled due to them; "*sometimes you just have to do what you think is right and ignore the systems, the processes are adapted for larger business units than India and initially you need more focus on sales*" (CEO, authors translation) (Company documents). The age of the organisation and the Indian culture impacts the way business is handled, "*we do not have a very long planning horizon in the Indian culture, anything further than three weeks ahead is beyond perception.*" (CEO). This tendency is true not only for the LBU but also for the entire market (CEO).

<u>Example: Cultural differences between the Headquarters and Subsidiary</u>

"Well Switzerland is of course much more structured than India, the planning is much better, the execution is on time […] Generally I've seen that people take longer time to respond compared to India. […] [But] once it's done it's done, then you don't need to look at it again. It's not like this here. Here we try to do it faster, we try to run a little faster but in the process we sometime compromise a little bit on the quality aspect. So then what happens is that we need to revisit that again. […] On the positive side for India is that we are harder working, in the sense that we can put in more number of hours into a particular work. That in itself creates some sort of momentum to take some initiatives that will probably not be taken in Europe." – (CFO)

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[2] Compounded Annual Growth Rate.

4.2 The Risk Assessment process (RA)

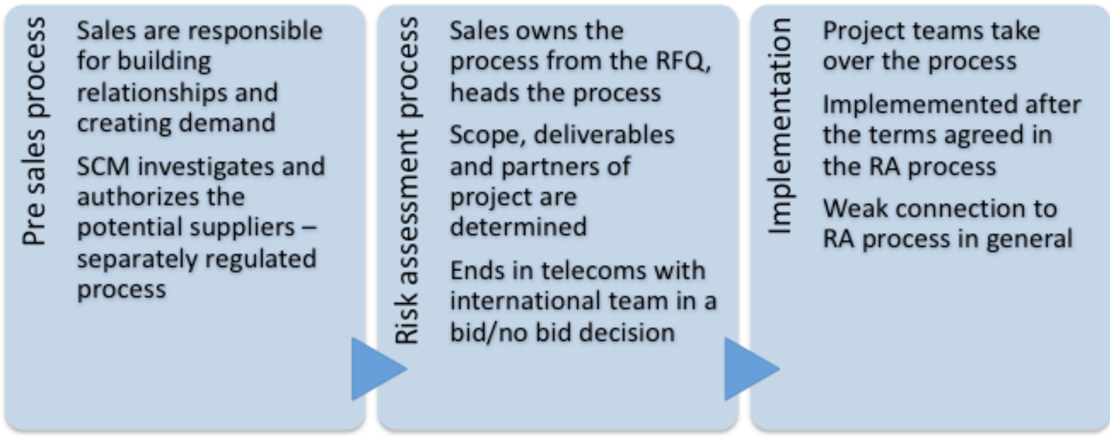

Figure 4.2 The RA in a larger context

The RA is an information gathering process that aims to review all risks related to the business. Therefore there is no best case of the process other than that of compiling the data in accordance with the headquarter directives (Legal). The data is then evaluated on a number of criteria: operational, commercial, legal and financial risks as well as how well it matches with the current strategy of the division (CFO). The process is designed so that the data is collected locally and then presented to the global team; the global go ahead is required for the subsidiary to be able to submit a quote to a potential customer (CEO).

We will describe the process in greater detail below structured according to figure 4.3. In order to clarify some of the issues we have studied one RA process in particular in addition to the RA in general. The processes are not clear-cut and the boxed representation is a simplification of reality, however a useful one in order to understand the process.

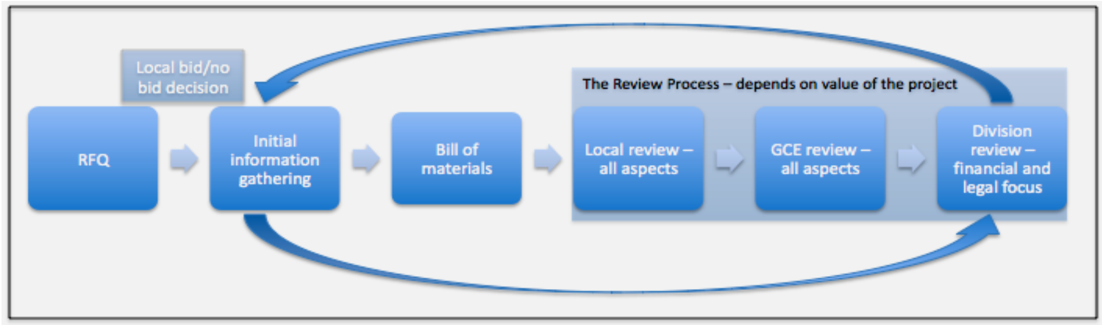

Figure 4.3 Box representation of the different steps of the RA

4.2.1 Request for quotation (RFQ)

The request for quotation officially starts the RA, these are orders put out by customers in order to start a bidding process for a problem they need solved. Primarily, the local management (CEO and CFO) and the sales representative (henceforth the Owner of the project) sit down and evaluate the proposal from the customer on a financial basis. The major consideration is on bottom and top line contribution, investigation of initial trigger levels (global control of differing risk levels) and of local opportunity expressed as overall commercial viability of the project based on rough estimates (Sales).

The initial evaluation results in the Bid/No bid decision. A bid at this stage means that other actors in the organisation will get involved. It is a go ahead for the internal sales process, which is just as important as the contact with the customer (Sales). Supply chain (SC) needs to gather minimum three quotes for products that are to be included in the order, this process is regulated by Headquarters in a separate directive: a supply chain certification. The certification process for suppliers contains evaluation of; site, financials, commercial, reputation, technical skill etc. The crucial point is the expiration date of the prices quoted; bids are only binding for a certain time period and then subject to renegotiation. All the while, further specifications are worked out by Sales and Design (SCM).

The owner of the project will continuously fill out the details of the information gathered in an online database (RADB) where all information is available for the entire MNC. In addition, the global and local teams are registered and the members will thereby begin to receive continuous updates of the information input in the RADB (Sales). This document is the very heart of the process even though verbal communications become increasingly important in achieving a bid decision as the process moves along (CEO).

4.2.2 Initial information gathering

This part of the RA is basically initiated concurrently with the local bid decision, tension increases as a number of activities are initiated simultaneously and the LBU-team is under time pressure (Sales). The Owner will approach Design right after the local bid decision is taken, in order to figure out how to reach the deliverables set by the customer. This is when the first international contact is instigated; the GCE will come in to coach the design team on particulars of the process to ensure it is done properly. The GCE will also match up global capabilities with the requirement and decide on the geographical allocation of the project within the global division (CEO).

<u>Example: Controlling scope</u>.

Originally, the client had been recommended using the GCE (located in China) as the provider for a large product system, and contacted them through the Indian LBU. The GCE had no capacity available and turned down the order. However, the LBU saw an opportunity and kept the sales discussion going. The discussions finally lead to a request for quotation, which due to its size triggered a high level of RA. Thus, the GCE was again involved and decided to limit the scope of the project, the LBU was not allowed to bid for the full process, which they had been working on, but only for parts in which they had a previous experience. Since the LBU perceived themselves as being capable of taking the full process this causes tension between the LBU and Headquarters, their efforts were split between simultaneously selling to the customer and trying to convince the GCE to let them quote for as much as possible. *"I know that the guys here could do the job, but the global unit finds it too risky"* – (CEO)

This highlights one of the conflicts between the Headquarter and the LBU; the Headquarter are considering the entirety and the potential liabilities that might result from a failure to deliver whilst the LBU struggles to fulfil their targets in the budget process (CEO). On the one hand, parts of the personal targets are linked to the LBU performance through a BSC, e.g. Sales has personal incentives to achieve top line profit growth, and the CEO has the full P/L responsibility of the LBU (CEO). On the other hand, a smaller part of the bonus is linked to global performance to increase involvement in global operations (CFO). There is an understanding of the process in a larger sense as well as the need for strategic alignment within the division, the

"After all you are some 15-20 people and that means that you need some earnings. You make [money] only when you get the deal and earn the profit. If you get the international [GEC] unit then the service is good for Global, but what about you?"

– (Sales)

employees identify with the global brand, but decisions by the GCE as exemplified above creates frustrations, especially when the local view on their capabilities is not aligned with what it is communicated from the global units (Sales).

One way to handle the control systems is to signal competence by participating in training sessions that are held each year. Attending the training sessions is encouraged yet voluntary; moreover in order to advance within the organisation one needs to participate (CFO). The topics range from conflict resolution to presentation technique and certifications for internal processes such as that of the RA (SCM). At the LBU in India none of the actors are certified for the RA as of yet (CFO).

Another aspect that determines the comprehensiveness of the RA is the legal triggers. These are handled by the unit's legal counsel, who is a shared resource provided by the national level. The legal counsel has a limited and well-defined task; he fills in certain sections of the online document guaranteeing compliance with the Headquarter regulations and internal directives (Legal). There are a three main concerns; compliance with global framework agreements (GFA), type of bid submitted and maximum amount of accepted liabilities (CFO).

The GFA's are negotiated on the division level between the top actors of the client and the Company and applies to all local units across the world. These can regulate anything from pricing and payment terms to deliverables and discounts (Sales). If a GFA already is in place, the legal counsel must ensure that the current agreement is in line with those guidelines and issue a waiver for the terms that have already been agreed upon, these moderate the RA in the sense that the Owner of the process does not have to fill out information already agreed upon (Company documents). There are two different types of bids; binding and non-binding. For a binding bid the RA needs to be completed before any submission is done. Customers sometimes request ballpark terms and prices, and in that case the local business unit can produce a non-binding budgetary bid (CEO). Company directives strictly regulate these procedures and the legal department mainly ensures compliance by checking secondary data submitted into the RADB (Legal).

Finally there is the third concern of accepting financial liabilities and warranties for delivered products and solutions. This is potentially a large source of business risk; the RA has several trigger levels tied to this aspect of the business (Legal). One of the issues that need to be considered is the financial consequences and costs of failure or delay, so called liquidated damages (LD). The company often delivers products that are parts of integrated production systems and if they are delayed or do not work there will be ripple effects with potentially large financial losses for the customer, sometimes bigger than the project-value itself (CFO). This is exemplified below.

Example: Liquidated damages – the importance of being on time

During negotiations the initial RFQ specification included demands to meet each milestone separately with liquidated damages for each delay. During the RA talks the global team objected to this since the time between the different points was short and such demand was deemed too risky. If something started to go wrong then it was very likely that there would be consecutive delays, but without necessarily affecting the final deadline. Thus, the local team had to go back to the Customer telling them that they would only submit a bid if the financial liabilities were related only to delays of the final deadline.

4.2.3 Bill of materials

At this stage the specifications and the scope of the project is beginning to take form. The customer specifications are still subject to change based on recommendations from the LBU or other externally changed circumstances, but the information is fixed to about 85-90% (SCM). The team needs to handle the situation to make sure that any change to this information positively affects the financial outcome of the project so as not to trigger consequences from a RA perspective (Sales).

SCM has collected most of the quotes from suppliers and the expiration dates of the offers are put into the timeline. The Owner is responsible for providing a timeline that includes all major milestones and deliverables, yet it is done in collaboration with all other local units and with input from the GCE. Matching the LBU timeline with the customer's timeline is crucial in making sure that liquidated damages and other liabilities are not incurred (Sales). The RA documents filed in all geographies are searchable and possible to benchmark against (Sales). The information is useful as a learning document for future processes since it summarizes all comments in addition to reasons for the final bid or no bid decision (SCM). The learning across divisions is sped up thanks to this fact; by benchmarking against previous processes business units can improve performance. The most common way to use the feature is to benchmark against own successful RAs conducted rather than those of other geographies (Sales). Something that goes beyond the actual RA process but worth mentioning is that the management feels that there is a poor connect between the information and learning gathered in the RA with the actual implementation. The project manager in charge of execution is usually not appointed until the bid decision is already taken and there is a lack of initial briefing during the hand-over of the project. Even though the RA information is available in the system it seems to be used sparingly (CEO).

On the mark up in the FCM:
"You cannot change these numbers in order to make a project more profitable, you are only fooling yourself not the customer."

– CEO

Another required document that is to be submitted to the RADB is a so-called Full Cost Model (FCM). This includes a number of costs that are invoked by running the project; material costs, labour costs and licensing for use of technologies from the Headquarter. There are various views on the FCM, these can partly be explained by the conflict between personal incentives and those of the LBU mentioned under 4.2.2. There is a bottom line target communicated from the Headquarter, even if the Owner is responsible for the full P/L of the project his personal incentives are tied to the absolute level and growth of top line (Sales). Another issue with mark-ups arise when calculating Sales, General and Administration. This can add up to large numbers for big projects without reflecting the actual cost, for instance at some point there is no additional cost for management's involvement. This leads to an understatement of profits, the LBU has handled these side-effects by adjusting these costs and thereby reaching required profit levels to proceed with the bidding process. There is limited, but still some discretion in the system (CEO).

"You cannot always focus on the percentages, if you get a big business with less profit at the end of the day that still contributes to your business in absolute numbers"

–Sales

The trigger levels in the RA are changed when the external business environment changes (CEO). For instance due to strain on the company from the current (2008-09) market situation and some less successfully implemented projects that left the company with losses. The Headquarter tightened the trigger levels as well as a heightening the focus on cash flow. Concretely no projects are allowed a negative cash flow for more than three months, which has strictly been enforced since the credit-crunch (CFO). The subsidiary uses several different strategies to reach the cash flow goal such as; supplier financing, external credit, in some cases customer financing or a combination of these. The important thing is that the solution is in place when the global RA telecoms start (CFO).

Example: Payment terms – Project financing

About 60-70% of the cost is material cost in projects like this one, which implies large amounts of cash flowing out of the company without any cash inflows. The proposed deal from the Customer was 90-10, which means that 90 % is paid upon completion and start of on-site installation and the remaining 10% are held until the actual turnkey and commencement of production. In this case the response from the international team communicated through the LBU, which was later agreed on, was to suggest a 20-70-10 solution, where 20% was to be paid in advance. "*I need some money before because I'm incurring cost*" (Sales)

4.2.4 The review process

The review process consists of a number of telecoms. The total amount varies depending on how well the RA is conducted initially and depending on what trigger levels are induced by the scope and turnover generated by the project. The actual reviews are one-hour phone calls that are booked on predetermined days when the whole global team is available (Sales). This is a vast improvement from before when the Owner was charged with getting the whole team together for the telecoms, which was *"an administrational nightmare"* (CEO). The

"I also believe that in 30 min to one-hour review you cannot [relay] what you've been doing in the last 2 months. So what you do is even more up to you. You need to know what you are doing."

– (Sales)

LBU runs through a standardised power point that summarises all the information in the RADB (CFO). At this point most of the work is already done and the teams involved on a global and local level are composed correspondingly; manager, controller, legal and SCM are supporting while the Owner runs the process, depending on the size and importance of the customer a key account manager might also be involved (CEO). After a local go ahead the unit goes on to the GCE level, which is where the entire scope of the process is reviewed; the focus is on the business side since the GCE has been involved in the design of the process already. Given that all information is in order and that the LBU is not charged with completing or renegotiating any terms the review moves on to the Headquarter level where mainly financial and legal aspects are reviewed finally. A bid decision on this level enables the submission of the binding quote to the customer (Sales).

The reviews are comprehensive and the information is gone through in various ways during the process. Except for the actual telecoms the management of the subsidiary tries to get a commitment from members of the global team prior to the final telecoms in order to ensure a swift process (CEO). The continuous flow of information, backing from the global team previous to telecoms and a confident presentation will have more impact on the bid/no bid decision than a perfectly executed RA document (CEO). This does not however, mean that the LBU team can go through the process lightly; the sheer number of controls and people checking the material, along with the drawbacks of omitting any information, is too large to let anything slip. In addition they themselves need most of the information to conduct successful business. Any insecurities or outstanding issues in the telecoms always lead to further questioning and either to a no bid decision or being charged with completing the missing data and coming back with sufficient information for another review (CFO).

> *"It is difficult to explain what type of an opportunity you have in your current to a guy who is on the other side of the world, it usually comes down to how you answer their questions on the phone. It is a matter of presentation technique; it comes down to the interaction between people"*
>
> – CEO

There are however other difficulties in communication between the local and global teams. As already mentioned above, the GCE sets the scope of the projects without regard to specific business conditions. The strategic alignment as far as cash flows or bottom line contribution is required regardless of the other circumstances or opportunities connected to a potential deal. At times this has been an obstacle in establishing the LBU brand on the local market, since they have to pass up on opportunities that could have lead to future business by not engaging with projects that were not in line with the global directives (CEO). Even though the interviewees ensure that they understand the reason for the decisions and the importance of an aligned strategy globally the understanding is ambiguous and one can sense an underlying frustration due to lost opportunities since it does not only affect the company but also the individuals through their personal incentives (Sales).

Example: Head of sales role in the global context.

Answering the question about difficulties in handling the process:

"The minus is that it [the process] takes a long time and sometimes opinions of different people might not be the same[…]There are businesses that you would like to take because you know your customer better. But from the global point of view you simply cannot overrule the process. It has an impact on the business and so you have to align with you organizational deadlines[…] See, it is a situation where you have to sell both to your customer and your organization, it is an equal effort. Because you are connecting, at the end of the day you have tied up the two ends. It is not so easy to tie them up. That is what the business is, the sale is the value you put on that activity."

– (Sales)

The RA is ultimately a simplification of reality, the risk emanates from how the company delivers on the specifications. As the CEO said: "*No matter how good you get at the [RA] there are still risks inherit in the business that is not affected by how good your documentation is."* The process is sometimes overly rigid but considered good. It is the strained macroeconomic cycle that has lead to lowered trigger levels and employees having to spend as much time on deals which generate 1 MUSD as they used to do for deals concerning 10 MUSD. Regardless of frustrations there is an understanding: *"[…] ultimately the top management is accountable, it's their heads on* *the chopping block. This is their way of ensuring that everything is correctly done on all hierarchical levels."* (CEO).

> *–"How often are you in touch with other geographies?"*
> *– "That is more or less daily. […] Well I was speaking with Dubai today and I was in touch with a colleague in Thailand where we're supporting a project. Last week it was people from Japan and Switzerland, you can say it's daily"*
>
> – CEO

A benefit of the process that all interview subjects referred to is the strategic alignment it achieves with the Headquarter. The strategy in the company is communicated through a large number of contacts between the local business units and the headquarters, through budget systems, directives and through the RA. The LBU is continuously in contact with other geographies in less formalised ways than the telecoms. The centres of excellence are active in coaching, guiding and advising the local units on numerous aspects of the business, this means that the local unit will be in touch with a number of different geographies across projects, in addition to the actual RA (Sales). The degree of socialization varies between different organisational functions, supply chain being the most internationalised one; they source products from the entire world. In addition India is a low cost country, due to a global cost cutting initiative certain commodities will be sourced from here, meaning that local SChas contact with and assists other local business units in purchasing from India. Furthermore there is an ongoing project of setting up a *global experience-sharing database*, when fully implemented it is to be a source of learning and inspiration on successful sourcing strategies (SCM). Generally employees feel that the frequent contacts with other geographies result in strong organisational culture. There is an outspoken dedication towards the global organisation and brand. Even though some directives results in more work than would be necessary if the LBU had been an independent company, there is an acceptance and understanding to the difference between being a separate company and belonging to a large MNC (CFO).

When the RA is completed the customer will consider the offer and communicate an acceptance or not, if the LBU wins the bid a project team will be created and implementation of the plans created during the RA will commence (CEO).

4.3 Summary of the process

The key aspects of the process is summarised in figure 4.4 below. It is a stylised picture of the RA in order to try to clarify the many interlinks and processes, the real picture is however much more complex as illustrated above.

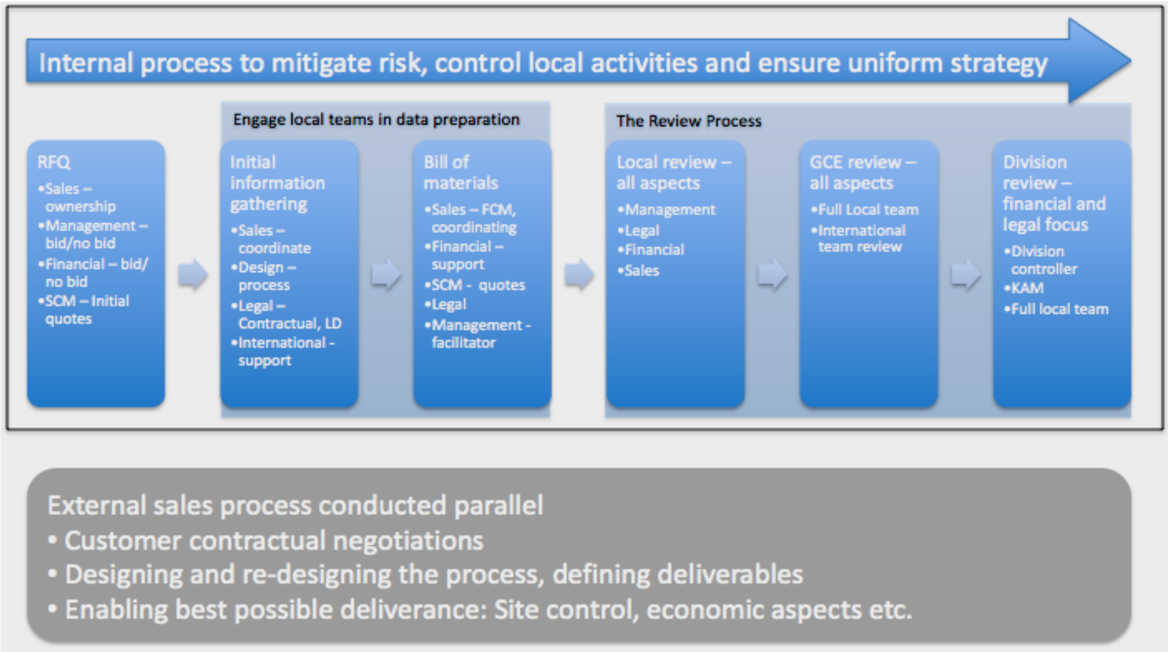

Figure 4.4 Schematic summary of the Case Study

5. Analysis

The RA is only one of many control system within the Company. It is an action control system; in place to help the Headquarter supervise the major activities in the business unit across the world in order for them not to incur losses due to negligence or lack of knowledge. Therefore section 5.1 Action control is the most extensive, however when studying the process closely it is clear that the RA includes several components of results control and people control. By dividing the RA we gain an understanding of the various impacts, trade-offs and complex inter-linkages that are at work in the organisation, which in turn helps us to answer our research question. Drawing upon the theoretical framework (Section 2) and data from the case study (Section 3), we found it useful to structure this segment after the three forms of control suggested by Merchant and Van der Stede: Action, Result and People.

5.1 Action control

Action control is a direct and impeding form of control according to the literature. It is also connected to considerable costs, both direct and indirect. The theory predicts an increased need for controls as the complexity of the organisation increases; which is in line with what the empirical study implies. There are a number of contradictions and conflicts that the subsidiary has to deal with due to the global controls.

The most prominent behavioural constraints identified within the RA the restriction of decision-making authority and the SoD which both occur to different extents when varying degrees of trigger levels are set off. The restriction on decision-making authority is more encompassing and begins already before the RA with activities such as the procedure around supplier certification and the organisational structure where each employee has to answer to not one, but two superiors. Headquarter having a tight restriction on decision-making authority is supported by Merchant and further by agency theory as the subsidiaries within the MNC may not see the full, global picture but have their own narrow, tunnel-vision of local needs and opportunities. However, Merchant also warns that care should be taken when restricting decision-making authority and heralds for the advantages of a divisionalised structure in order to exploit opportunities that a strictly global perspective may not allow. The company has implemented this formally, yet the question remains if local subsidiary managers really do have enough freedom to make their own decisions within their own markets.

Another added layer to this reasoning is if local subsidiary managers necessarily want to have such decision-making authority, according to Merchant empowering employees is motivational, however on the other hand the cultural programming may affect the level of empowerment employees are comfortable with. In India for example, the culture is distinguished by strong risk aversion and preferring a "father figure" leadership style. These preferences are accommodated by the restricted decision-making authority and knowledgeable GCE's that are sent in to support local business units and mitigate risk through their experience. The tight Headquarter controls on what scope of projects the local business units can take lies with the GCE's and are dependant on the perceived capabilities of subsidiaries. Moreover, the GCE also facilitate team building and trust due to increased international socialisation. Conversely, the characteristics of a geographically dispersed team sent in to mitigate risks may in itself be hazardous since the threats of interpersonal conflicts are aggravated by the national differences and physical distance of the team. Conclusively, it appears as though the GCE both increases alignment and could lead to further conflict.

According to Ghoshal and Nohria the degree of centralization (restriction on decision-making authority) in a relationship should be dependant on the environmental complexity within which the subsidiary resides and it's specific business conditions. The LBU is small and India is a new market for the Headquarter, the brand name is not as established and well known as in other markets, yet the RA imposes the same demands on the characteristics of projects for India as any other LBU globally. These involve set levels of bottom line profits, limitations on LDs and no negative cash flows for more than 3 months. None of these are exceptional in the industry, but if one considers the subsidiary perspective of trying to get into the market and build brand awareness these targets present a hurdle for the sales department. It is difficult for the local unit to explain the market opportunity they perceive by taking on a project that is not in line with the target levels. Further project acceptance is dependant on an ability to relay opportunities during short telecoms whereby impressions may be impacted by national cultural differences such as having to speak in a language other than one's mother tongue. These difficulties of communicating can at times cause aggravations, yet without a common language communications across geographies would be more or less impossible.

Subsequently the pre-action reviews in the form of telephone conferences can in themselves be demotivating. Knowledge of the scrutiny a telephone conference implies will automatically create a somewhat stressful and hostile environment, which the language barrier will further amplify, thus perhaps making it even harder to communicate the most vital points effectively. This sort of atmosphere takes focus away from what is actually said to how it is said. Thus advantageousness of the communication form can be discussed since an approval of projects should not really be driven by people's social skills rather than how good a project actually is. On the contrary, from a Headquarter perspective, one could argue that if employees are confident in what they have to convey, they should have nothing to worry about, and should not become nervous by a slightly pressured environment or a language barrier. Further there are implicit implications of not being able to present a project under pressure, if the LBU cannot present it how can it be expected to execute successfully?

Implementing such formal, standardized pre-action reviews are associated with significant direct costs such as time consumption for organisation and preparation, and indirect costs due to behavioural displacement. However, the costs of coordinating and integrating globally would have been even higher if the process had not been as structured. The previous situation without set dates for telecoms was according to employees an administrational nightmare, with the fixed times of the RA they have the ability to communicate schedules to customers and plan accordingly which facilitates the capturing of local opportunities. Locally and internationally, aligning information before meetings is a key success factor, shortening the process and avoiding re-reviews, which increase time consumption for all parties. Also, there is a significant positive side-effect of having frequent pre-action reviews, namely increased socialisation. The steady updates will keep employees on track but also tighten the organisational culture; employees feel affinity with the MNC globally rather than on the subsidiary level. An increased alignment should reduce time spent on things such as communication misunderstandings. Further, the more aligned employees become the more accepting they will be for reasons as to why they have to divide their efforts, thus reducing their frustrations at having to go through the process. Also with increased contact, better alignment between the Headquarter and subsidiary is achieved which in turn increases the understanding of the respective capabilities and reduces differences of perception.

Another control tool, which has a positive side-effect of increasing organisational alignment due to more social contact, is SoD, the tightened organisational culture should in turn mitigate problems of national cultural differences. The reason for implementing SoD is to avoid frauds and errors according to Merchant. Suspicion of fraud has to do with trust issues and fear of errors has to do with what the Headquarter perceives to be the capabilities of the subsidiary. The very use of SoD will automatically signal distrust when implemented and create tension. Another possibly negative aspect is that it by nature increases the number of parts that need coordination and integration, which already is the most difficult task of complex MNC's. Further a SoD also results in a splitting of rewards, which will affect motivation since one cannot get the contribution of a project regardless of what the LBU itself perceives it could handle. From this perspective then splitting tasks and rewards can be seen as a punishment as it will have a negative impact both on the extrinsic monetary rewards and the intrinsic rewards one gets through a sense of achievement of handling larger projects.

This can be tied in with Merchant and Van der Stede's theory on how effective action accountability should be formulated so that rewards and punishments are linked to clearly defined desirable/undesirable actions. Boundaries for desired actions are outlined by e.g. the availability of information in the database, which allows employees to easily check how projects should be implemented when unsure of how to act. Secondly, the timeline can be seen as a tool of connecting actions to what 'should' have been done at different times. The timeline also serves as a tool to increase socialization since it is a collaborative effort between different units. Other than this however, punishments and rewards are not especially linked to the action for which one is held accountable for, which they should be according to theory. Also, subsidiary employees are faced with a situation of having to split their time and efforts between trying to please customers and headquarters, the external vs. internal sale. This is a form of double accountability that managers at the subsidiary level need to abide by and try to handle. Attempting to please conflicting stakeholders can diffuse focus and induce frustrations; they will be split between the regional financial goals and the global operational goals. Furthermore, this kind of opposing pressure may ultimately cause confusion with management, which in turn will affect the clarity of directives to their subordinates and thus may not be the best grounds for efficient control.

On a subsidiary level, they are expected to formulate stretch targets that they then are held accountable reaching, yet their authority to take on each project, which affects the ability to reach the targets, are restricted through the RA by global organisation. This is not in line with theory on how results control systems should be optimally implemented. Also, the fact that the GCE, which directly limit decision-making, are not jointly accountable for the outcome may affect the social relations since they will not have to bear the consequences of the subsidiary losing the project. This may feed conflict between the Headquarter and the subsidiary as an “us against them” mentality might evolve. On the other hand, this conflict also fulfils a purpose. Creating competition between units drives to excellence, provided that the controls are geared correctly and does not lead to sub-optimisation; in other words the element of conflict is a part of the organisational design. It is however important that it does not overtake focus from the business, it needs to be kept on a level where the decisions are objective and benefit the company.

Summarising the implications from action control; the formalization and concretization of all actions and processes allow Headquarter and subsidiary managers to know exactly what the desirable actions are and make them easily measurable, this is inline with the theory of how action control should be implemented. Yet how does such rigorous action control tie into the purpose of the RA or the ability of the subsidiary to follow such rigorous rules? The advantages of action control include there being an increased predictability of actions and thus an increased efficiency and coordination within the organization. This is in line with the purpose of the RA, which is to reduce risks, and will allow the LBU to focus on their core operations instead of focusing on how to coordinate and control globally. A negative aspect of such a rigid system is the loss of human creativity in reacting to certain situations where employee’s adaptations may be more optimal than the standardized procedures. In order to avoid this type of rigidity one could then utilize informal action accountability as well where “common knowledge” of how one should act within certain situations is relied upon instead of set rules and regulations. The new *global experience-sharing database* can be seen as a form of knowledge sharing that may increase the use of informal action control, where employees follow benchmark examples, not because they have to but because they want to.

5.2 Result control

Results control is controlling the results produced by employees. On an individual level Headquarters has implemented an elaborate balanced scorecard (BSC) of personnel evaluation, which can be seen as an example of results control since one's personal benefits are directly related to individual achievements. These can either be monetary or non-monetary. The employees' bonuses are connected to fulfilling the targets set in their BSC. This outlines the importance of linking results to rewards in order to achieve a clear motivational impact. However, linking results to rewards/punishments can also be demotivating if the ability to reach the results is restricted. As discussed in section 5.1, the LBU is involved in setting their own annual stretch targets, yet their ability to act to reach these targets are restricted by the globally set RA, which may lead to frustrations and behavioural displacement. This puts the action and results control in conflict. The action controls are formed as the theory suggests, yet this makes for worse results control and thus affects the subsidiary adversely. Also according to theory, results controls should include short term, measurable results, yet simultaneously one of the feared behavioural displacements the Headquarter tries to avoid is that of myopia. The risk that subsidiaries will not see the bigger picture when they act compared to the increased efficiency through short-term goal setting. Thus, the results and action controls further comes into conflict.

Results control is a more flexible form of control where there should be freedom in the means of reaching results. In this case then the formal control mechanism also restricts actions since they have to follow certain criteria, this can be perceived as positive since there is an increased certainty of success in projects, however sometimes the Headquarter may simply have a differing view on the capabilities of subsidiaries that may be higher than what they perceive. If this is the case, the subsidiary will only be permitted to take on smaller projects or smaller shares of projects, thus having to split the potential contribution with other subsidiaries. Further, higher trigger levels will bring in GCEs whose expertise is costly. These lowered incomes are demotivating for the employees.

Within the organisation, all subsidiaries have to comply with the same RA and the same targets of cash flows etc. This comes in conflict with the contingency-based view that optimal coordination and integration mechanisms for a given HQ-subsidiary relationship stem from the resource base of the specific subsidiary and with Merchant's understanding that people should only be held accountable for what they can control. Setting the same profitability targets for projects globally may not be optimal due to differing organisational and macroeconomic factors the local business units face. The age and size of a business unit as well as the market conditions is hardly something that the management in local units can control. Yet, from a Headquarter perspective, setting different targets for hundreds of different subsidiaries worldwide may not be feasible either.

5.3 People control

According to agency theory, due to the great dispersion of business all over the world, the need for control is stronger in MNC's, and also more complex due to information asymmetries and difficulties of monitoring. With differences in national cultures and language barriers, communication difficulties will further fortify and strengthen the information asymmetry. According to Roth and O'Donnel, either the Headquarter can increase the formal or the informal control systems. Yet there is another aspect, namely the effect of the controls systems on each other. The use of people controls through strengthened organisational culture appears to aid the use of the formal control systems and vice-versa, the organisational alignment increases due to some of the other control systems (such as steady pre-action reviews). Having a misalignment of goals is one of the main risks of HQ-subsidiary relations, which the company seems to have succeeded in avoiding; the attitude is relaxed and most people are in line with what is expected of them. All interviewees were very coherent on and off the record as well as in-between each other. The subsidiary had a clear understanding of the reasons for the conflicts built into the RA, and these were accepted, even if there were some underlying tensions these were seen as necessary evils. These very accepting attitudes however might be more reflecting of the Indian national culture rather than a deep-rooted understanding of the RA. The national culture of Indian's have a high degree of uncertainty avoidance: seeking solutions that please everyone and mutual problem solving. Thus the organisational culture is aligned, but the reason for this alignment may be twofold.

From a MCS design perspective the aligned mindset can probably be attributed to a number of different things. For example the training days most employees attend annually which increases socialization between different areas of the corporation and thus strengthens the organizational alignment of all employees. In this manner, through interactions with others, employees will understand each other better as well as being taught the same things worldwide, creating a global organisational culture. Moreover, both the socialization and the increased knowledge of how to tackle tasks will improve the employee's motivation to do a good job as they get an increased sense of professionalism and is thus an advantage of the MCS. Also, along with the training days, the availability of all past projects online increases organizational learning. Other factors that may increase the strong culture due to the MCS are the frequent interaction with different members of the organization worldwide and the clear job description of each employee. All these things should according to Merchant and Van der Stede and supporting literature increase the Headquarter control of subsidiary employees since they are more prone to share the same beliefs and values and thus control their own actions and/or mutually control each other. However, this is also an aspect which the Headquarter needs to be wary of as it can lead to a mild version of groupthink, which will reduce performance and efficiency.

So, the organisational culture is strong within the company, reinforcing all the three control systems. However, having a strong organisational culture in a sense censors the national culture on the aspects it covers. The control framework is implemented with a sort of culture free mentality, which does not reflect reality. Subsidiaries all have to follow the same rules and regulations, yet maintaining internal differentiation and local responsiveness amongst individual subunits is key to maintaining competitive advantage. According to theory the national culture can be a great asset, bringing with it diversity and increased creativity. Further, national culture can in itself be intrinsically motivating. Thus it can be discussed whether it is completely desirable to have an all-encompassing organisational culture, according to Hofstede and Hofstede this is not an optimal solution. National culture is by definition more deeply rooted than its organisational counterpart due to the unconscious attainment of it. Rather than trying to eradicate national culture the organisational culture should coexist with and modify it. This is achieved thorough repeated socialisation and mutual learning.

Type of control	Summary of RA impact
Action	• Behavioural constraints: Perceived vs. Actual capabilities • Environmental diversity vs. centralised control. Signalling issues • Direct (time consumption) and indirect (behavioural displacement) cost • SoD: Involuntary split of rewards, increased coordination difficulty, org. culture building through socialisation • Action accountability: formal (weak link to rewards) & informal (boundaries, culture) • Conflict with attaining business targets
Result	• Conflict with Action control due to limited ability to reach results • Risk of myopia • Perceived capabilities rather than actual determines profit share • No adaptation of RA to local conditions

Person	• Geographic dispersion
	• Understanding
	    • increased due to org. culture
	    • decreased due to national culture
	• Aligned mindset: due to e.g. training, socialisation
	• Strong org. culture replaces national
	    • motivational effect
	    • loss of diversity

Figure 5.1 Summary of the Analysis. Conflicts generated by the RA

6. Discussion

There are two major conflicts that are implied in the above section that are of further interest for the management control system and HQ-subsidiary relations perspectives. These are issues inherent in the system, which need to be there to achieve some of the benefits, yet one can discuss the balance and the different possible policies. One is the conflict and the effect the directives have on the local business and the other is the amount of conflict that can be seen as constructive from the Headquarter perspective.

The first matter has already been mentioned above; still it deserves some more focus since it has a major impact for the issues and for the research question. From the subsidiary perspective, running a business in the start-up phase takes a lot of creativity and adaptability. On the one hand the Headquarter directives hampers the freedom of the subsidiary to conduct "normal business" and on the other it increases the speed of learning and strongly mitigates the challenge a business faces in the growth face with building a management team and establishing processes. The local management communicated that a core skill in handling the specific HQ-subsidiary situation/relation was to know when to follow and when to discard the rules, and then how to do it. From a theoretical perspective this is a clear behavioural displacement effect but if it benefits the business, the type of discretion might prove efficient. One could perhaps explain it with a personnel control component of managerial trust, by selecting managers, making sure they follow the practices often enough and then having training schemes to align organisational bodies the division is likely to ensure enough control, but still achieve efficient business practices.

Another interesting aspect is that subsidiary employees who had been in the business unit for longer emphasise there being changes in the control practices. Targets and follow-ups have become much stricter since the financial crisis and due to previous failures to execute within other geographies. The RA is well designed and all interview subjects feel that the frustrations originate from the lowered trigger levels rather than the process itself, or more accurately the process is seen as unreasonable at low levels of contribution for the business. The direct cost of time loss for employees is perceived as too high, when they could spend time on other value creating activities instead. This is closely linked to the fact that after the actual sale the RA documents are rarely used in the execution. The hand over between the sales team and the project team is usually inadequate for a proper knowledge transfer to take place. Basically much of the information that is collected for the RA is not put to use, which increases the frustration towards the rigour of the process.

It is clear the business and the speed of the growth of the Indian subsidiary is suffering because of the RA, it is however unclear whether the fears of the global unit would come true if the LBU would be let lose. The RA seems to get easier to handle each time they complete it and the employees are learning which points they need to emphasise. Rather than increasing the quality of the data they start focusing on the right aspects and communicate in the right way as per Headquarter standards, by signalling competence and control over the situation they mitigate the information asymmetry and handle the principal-agency problem. In order to achieve efficiency in this type of interaction the incentives (feedback) and rewards (bid decisions) from the Headquarter needs to be aligned with the criteria that builds the ‘right’ organisational culture. If this is fulfilled then this type of evaluation does not have to lead to inefficiencies and the current tension can be viewed as a learning period for the LBU in how to capably conduct an RA, it becomes a culture building activity.

Many of the control systems, from the RA to the organisation of the Company, are based on conflict; two forces pulling opposite ways in order to direct operations by forcing managers and decision-makers to argue for their stand-point. This type of control system requires a tremendous feeling for the balances in these conflicts. If the controls are too rigid or if a manager starts misusing authority employees might start losing creativity and succumb to gamesmanship, in the best case employees feel empowered and take initiatives that develops the business. One aspect to mitigate the negative side is the SoD, another is the organisational culture, both of these are intangible, and the employee’s previous experiences and national culture will affect the perception of the control systems across geographies. That is why the collective tightening of trigger levels due to the failure in some business units is unfortunate; it affects the motivation of subsidiary employees. It seems clear, that a certain amount of conflict is good in both a motivational and an efficiency perspective albeit balancing the conflict across geographies is difficult and unbalance in the system impacts the business. In the case of the LBU this manifests as frustration over the trigger levels and the rigidity of the system, the problem is small in the short-term however if this attitude settles and the practices become permanent it can become problematic for the entire organisation.

7. Conclusions

This section is where we try to summarise our findings in order to answer our research question and also make suggestions for future research.

7.1 Summing up

> *How does a small subsidiary handle local business conditions when MCS are designed and implemented by global headquarters; more specifically what are the advantages/tensions that arise due to the global perspective on MCS design?*

A number of interesting findings painted a complex picture of the interaction between the LBU and the global units summarised in figure 5.1 above. The underlying conflict is the continuous trade-off between the local and global. The main control problem is striking a balance between mitigating complexity on the one hand and diversity on the other, and keeping a tight control over operations centrally vs. letting business units adapt to local conditions and make their own mistakes. Much of the misfit with theory is due to an average approach where sufficient control is weighed against the diversity of the system. The Headquarter mitigates the need for control by building a common value ground, a culture and a strong identification with the global brand.

From the local perspective the main tension is between delivering acceptable results from a global standpoint whilst adhering to the enforced directives. This imposes a strain on the LBU due to the low fit between their organisational context and the one that is assumed globally when designing the control systems. However there are also positive effects that diminish these pressures; increased learning pace, support from the global division and a within-unit alignment are some examples. The local unit handles the tension by following directives, signalling competence through participation in training, informal contacts prior to the official RA telecoms and by sidestepping the rules when possible. These activities do not necessarily pose a problem for successful control, the culture is largely aligned with the global unit. The overall impact on the business is unclear; by operating as a separate entity they could possibly submit bids for more projects still it is hard to know if the capabilities of the business unit are along the lines of what the local management believes or closer to the global opinion, if the unit would take on projects that were bigger than they could handle losses would be incurred. One thing is clear: the employees believe that the RA leads to a higher quality of services for their customers and therefore they accept the tensions and frustrations it causes.

7.2 Implications for further research

There are a number of interesting conclusions that further research could imply. We suggest the following

- A multiple case study of several local business units within one firm, this would give greater insight into the specifics of national culture, and also provide more information on the efficiency of the MCS design.
- A focused study on national culture's impact on the interpretation of the MCS. What is attributable to the market context and what is due to preconceptions of the individuals? We would suggest that such an approach draw on anthropological literature for design of the study of culture.
- While conducting the literature study the dominance of the headquarter perspective of MCS design struck us. In addition a national neutral perspective is assumed, which is also noted by Hofstede and Hofstede (2005). We believe that an increased understanding of MCS design from the subsidiary perspective incorporating a cultural aspect could prove interesting.

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9. Appendix – Interview guide

Introduction
Position and duties
Number of subordinates
Age and nationality
Your history within the company
    How long have you been here?
        What training/certifications have you received? Where was the training held?
        Any foreign postings? Where?
Description of workplace/work environment?
Control in general
How do you feel about the global control practices?
    Budgets?
    BSC?
    Risk Assessment?
    Training?
    Directives and policies?
        What is the amount of time you spend each day with administration according to protocol?
Who are your closest superiors? Who do you report to? To me there is a lot to keep track of, how is it to work in such an environment?
Do you identify as a part of global X, global Xdivision or the LBU more?
How often do you have contact with other geographies within the division?
    Who do you have contact with?
RA process
Tell me about you role in the RA process in general, what is your opinion of it?
What are the major difficulties?
What is good about the process?
What is your role in the RA process?
Who do you report to?
What are the follow-ups that you usually have to make?
What are the bottlenecks?
Do you see the RA process as a part of building the global brand?
Are the cultural ties strengthened through the process?
Does it help you in you everyday work with the increased international network?
What was your role in this RA process?
Was this process different in some way? Why?
Who were you in touch with?
What were the key issues that you needed to resolve?
Did you perceive any differences between the local and the international actors in how you approached these issues?
What is the RA to you?
    Knowledge transfer?
    Obstacle?
    Value add?
RA Telecoms

What preceedes the telecoms

Officially?

Inofficially?

How are they structured?

What do you do?

How do you complete a successful telecom?

What basis are the negotiations done on?

How does this correspond to the RADB questionnaire?

Who are the key players to convince?

If there are disagreements then what happens?

What would have been the case without the RA-process?