Parent company control of foreign subsidiaries through performance management systems:
A multiple case study on Finnish MNEs and Chinese subsidiaries

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Abstract:

This study explores how multinational enterprises (MNEs) control their subsidiaries through performance management systems (PMSs), and how these systems are adapted and used locally at the subsidiaries. Management accounting systems, such as PMSs, have been characterized as bringing stability and control to organizations (Burns & Scapens, 2000), and the importance of these systems is underlined at MNEs (Busco, Giovannoni & Scapens, 2008). Challenges that MNEs face are how to strategically organize the business globally and how to efficiently integrate company resources and units on a global scale, while also adapting to both global and local constraints and pressures (Devinney, Midgley & Venaik, 2000). In situations as such, PMSs can be used as tools to integrate global strategies and internationally distributed and diverse units, increasing reliability and building trust within organizations (Busco et al. 2008).

This study expands on the limited body of research on PMS implementation and use in MNEs, through a holistic analysis of company PMSs. A cross-sectional multiple case study design is applied in the study, which involves four Finnish MNEs and their Chinese subsidiaries. The data for the study was collected mainly through interviews at the case companies. Data also included public and private company documents, providing additional depth to the case studies. Case company PMSs were analyzed with Ferreira and Otley’s (2009) extended PMS framework. The framework allows embracing a holistic, ‘PMS as a package’ approach to analyzing company PMSs.

The findings show that MNEs have headquarter-imposed PMSs, but that their complexity and the extent to which HQ (headquarters) is involved in implementing these PMSs is largely dependent on the individual companies. Common control measures that HQs use to manage their subsidiaries are performance measurement, target setting and performance evaluation. These are generally enforced through formal reporting, reward systems, and further influenced by socio-ideological controls.
and boundary systems. Some performance measures and targets are negotiated at
the organizations, while others are imposed on subsidiaries coercively.

Contextual factors identified by previous studies, such as company size, structure and
integration, its position in the market, industry and type of operations conceivably
affect adoption and independence of PMSs at subsidiaries. The unity of global
operations, organizational complexity, common value chains and resource sharing are
potentially defining factors behind HQs’ choices on whether to impose certain types
of controls on subsidiaries. In these cases, standardization and comparability appear
to be key motives behind both PMS implementation in global organizations and the
PMS use to support company strategy. However, some challenges in aligning lateral
units’ interests with company interests were also observed, indicating that PMS use
failed to conform with the intended use. Other findings include that PMSs may be
developed through lateral relations as well as organically. In conclusion, although
many similarities were found between the case company PMSs, the findings from this
study also highlight the value of analyzing PMSs as holistic systems. Due to the
complex and unique nature of these systems, many of the intricacies and
contextualities are omitted in simplified analyses.

Key words: Performance management systems, management control systems,
multinational enterprises
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Abbreviations

APAC – Asia-Pacific
BA – Business Area
ERP – Enterprise Resource Planning
HQ – Headquarters
HR – Human Resources
IT – Information Technology
JV – Joint Venture
KPI – Key Performance Indicator
KSF – Key Success Factor
MA – Management Accounting
MC – Management Control
MCS – Management Control System
MNE – Multinational Enterprise
PMS – Performance Management System
TCE – Transaction Cost Economics
WOFE – Wholly-Owned Foreign Enterprise
1. Introduction

From the beginning of the 1970s, the research field of management accounting (MA) has moved from a narrow, largely financial focus to encompass a diverse selection of research applications, applying social, psychological and contingency theories in the research domain (Bromwich & Scapens, 2016). Among the different fields, comparative management accounting, that is cross-country adaptations of MA, has emerged in the 1990s, in the footsteps of increasing globalization and integration of the global economy (Endenich, Brandau & Hoffjan, 2011). Granlund and Lukka (1998a) have argued that global MA practices are on the course of convergence, and that this has been influenced by internationalization of companies (Granlund & Lukka, 1998b). Studies show that factors such as adoption of IFRS, international education and MA systems provided by consultancy firms (Brandau, Endenich, Trapp & Hoffjan, 2013), as well as academics, education, government, professional associations, consultants, international transfer of information and technology (Shields, 1998) are some of the factors driving convergence of MA practices. Comparing these MA practices and structures in different institutional and cultural environments can contribute to finding useful practices for management accounting in different environmental settings, which in turn will mitigate misconceptions and mistakes that might arise, when designing and adapting management control systems (MCS) for foreign subsidiaries (Endenich et al. 2011).

Despite notions of convergence, previous studies indicate that cross-national divergences in MA practices persist. Hoffjan, Trapp, Endenich and Boucoiran (2012) found that even though MA techniques are harmonized, the way these techniques are used are not uniform in different national settings. Other studies have indicated that practices, such as incentive compensation, vary in different national settings (Merchant, Van der Stede, Lin & Yu 2011; Jansen, Merchant & Van der Stede, 2009), national culture influences preference for management control systems (Chow, Shields & Wu, 1999), and that some expectancy theory-based assumptions, applied in performance management, might be invalid in a Chinese cultural setting (Zhang, Song, Hackett & Bycio, 2006). Barney and Zhang (2009) note that there are motives
to explain some phenomena by applying a Chinese theory of management, especially in a Chinese context. Therefore, a line of studies have turned to examine how company headquarters (HQ) influence foreign subsidiaries and how MA and MCSs are ‘transferred’ from company HQ to its subsidiaries (Cruz, Scapens & Major, 2011; Dossi & Patelli, 2008; Kornacker, Trapp & Ander, 2018; Mahlendorf, Rehring, Schäffer & Wyszomirski, 2012).

1.1 Research problem

Management accounting systems (MASs) have in general been characterized as bringing stability and standardizing organizational principles, thus also allowing better control within organizations (Burns & Scapens, 2000). In an international setting, enterprises might be motivated to facilitate reporting between the home country and their subsidiaries by implementing performance management systems (PMSs), MCSs, and MASs (Busco, Giovannoni & Scapens, 2008; Moilanen, 2007). Integrated MAS are crucial in corporate acquisitions, as not having a common accounting system nor a common language to communicate in can lead to instability and difficulties in managing and harmonizing different organizational units (Granlund, 2003). Similar problems might also arise in large organizations operating on an international scale in many countries (Lukka, 2001, cited in Granlund, 2003).

Challenges that global organizations face include how to strategically organize the business globally, in order to gain a competitive advantage, and how to efficiently integrate company resources and units on a global scale, while also adapting to both global and local constraints and pressures (Devinney, Midgley & Venaik, 2000). In situations as such, PMSs can be used as tools to integrate global strategies and internationally distributed and diverse units, increasing reliability and building trust within organizations (Busco et al. 2008).

Questions remain to be answered about how the MCSs at large organizations’ units, for example at multinational enterprises (MNEs), relate to each other across the
organization (Malmi & Brown, 2008). Cruz et al. (2011) call for research examining how wholly-owned subsidiaries localize MCSs imposed by parent company HQ. Kornacker et al. (2018) argue that there is scarce evidence on how MCSs are actually used in subsidiaries. Furthermore, the authors call for research that takes into account both company HQs’ intended influence and the effect that it has on how MCSs are shaped and used at the subsidiaries (Kornacker et al. 2018).

1.2 Purpose of the study

This study builds on previous studies examining the relations of MNE HQs use of PMSs in order to control their subsidiaries (Dossi & Patelli, 2008; Mahlendorf et al. 2012). Following a cross-level approach suggested by Kornacker et al. (2018), the purpose of this study is to provide insights in the control relationship of Finnish company HQs and their foreign subsidiaries, in China. This study examines how the parent company uses PMSs for managing subsidiary performance, with a focus on performance measures and target setting, detailed in the first research question.

RQ1: Do company HQs manage subsidiary performance through performance measures and target setting and how are the aforementioned performance management structures imposed on subsidiaries?

A key issue identified by previous literature is how MCSs are de facto used by management in different environments or on different levels at organizations (e.g., Ferreira & Otley, 2009; Hoffjan et al. 2012). Kornacker et al. (2018) found that budget structures imposed by company HQ were either rejected (i.e. decoupled from decision making), reshaped or adopted at the subsidiaries, while similar findings from Cruz et al. (2011) indicate that adopting parent company-imposed MCSs is a complex process, which is shaped by multiple local determinants.
Therefore, building on these studies and answering calls from extant literature, this study also aims to shed light on how the PMSs are used at the subsidiaries, specified in the second research question.

**RQ2**: Are the PMSs adopted, reshaped or rejected at the subsidiaries? How are these HQ-imposed PMSs actually used at the subsidiaries?

1.3 Outline of the study

In the subsequent chapter, the evolution of management control and performance management theory is reviewed, followed by a review of performance management and management control frameworks. In chapter three, the theoretical contextualities and previous studies in international management control are reviewed. In chapter four, the methodologies applied in this study are reviewed in conjunction with the research process of this study. Chapter five consists of the four case study reports derived from field research, and the ensuing chapter six contains a cross-case analysis and a discussion of the attained results. The conclusions of the study are presented in chapter seven.
2. Management control

In this chapter, management control theory and its evolution into modern theory reviewed. The review is followed by a presentation of MCS and PMS frameworks.

Traditionally, the definition of MA has been somewhat ambiguous, since providing a specific definition for the term in an academic context has been difficult. Since the 1970s, MA research has evolved from being based on neo-classical economics, into a field with a broader vision of what the term ‘management accounting’ comprises. Today, the field also encompasses psychology, sociology and organizational theory, and has the possibility of bridging the gap between academics and practice, where practice has tended to move ahead of academic research. (Bromwich & Scapens, 2016)

Chenhall (2003) describes MA as a set of practices, such as budgeting or product costing, while recognizing previous literature’s use of the terms MCS, MAS and organizational controls have been used interchangeably. However, Chenhall (2003, p. 129) defines MAS as “the systematic use of MA to achieve some goal”, while considering MCSs to comprise both MA practices and MASs, used for control purposes.

A textbook description of MCSs is a set of controls that management uses as tools to steer an organization towards a particular set goal (Drury, 2015, p. 405). Literature also distinguishes between the terms ‘control’ and ‘controls’, where the former is the function that gives a direction to actions that are taken, in order to reach an organizational goal, and the latter term refers to measures and information that support the control process and aid in reaching the goal of the organization (Drury, 2015, p. 404). Previous literature has had both congruent and diverging definitions of MCSs (Malmi & Brown, 2008). Merchant and Otley (2006) use a broader definition of the term MCSs and conclude that most authors refer to the process of managing an organization through setting objectives and planning, deciding on and implementing different strategies to reach those objectives with MCSs. Although the
focus and use of the term MCS might vary between authors, the basic element, ‘controls’, is usually characterized as the several types of measures that managers take to keep organizations on a desired trajectory (Merchant & Otley, 2006).

Malmi and Brown (2008, p. 290) propose that “Those systems, rules, practices, values and other activities management put in place in order to direct employee behaviour should be called management controls”. However, if these constitute complete systems, the authors propose that the term MCSs should be used. Malmi and Brown (2008) argue that the term MAS should be used for accounting systems that only support decision making and do not control how the systems are used. Therefore, in accordance with Malmi and Brown’s (2008) definition, if for instance planning is used simply as a tool for decision making it is categorized as a MAS. On the other hand, if planning includes employees participating in the process, the participants are more likely to adopt and execute the plans, giving planning a purpose in creating goal congruence in the organization and thus another, control-related dimension (Malmi & Brown, 2008).

An external focus in management control focuses on external factors to the organization, such as competition, and highlights strategic positioning, which reflects the mix of different strategies the organization uses to attain its objective. In strategic control, strategic PMSs are used to line the organization’s processes and organizational behavior to its strategy. (Drury, 2015, pp. 405, 598–600)

This means using MA as a tool for implementing strategy and making strategic decisions. The most widely used performance management framework that considers both financial and non-financial information, is the balanced scorecard (Drury, 2015, p. 600). The four categories of performance measures that the balanced scorecard, constructed by Kaplan and Norton (1992), links to each other are financial measures, customer measures, internal process measures and innovation and learning measures.
2.1 PMS and MCS

The terms PMS and MCS have been treated as separate but overlapping concepts, in literature. The terms are overlapping in the sense that both embody the same objective in helping an organization reach a predetermined set of goals (Siska, 2015). The terms are sometimes not differentiated but regarded as describing the same phenomenon. However, distinctions can be found: Aguinis (2013, p. 2, as cited in Schleicher, Baumann, Sullivan, Levy, Hargrove & Barros-Rivera, 2018, p. 2210) defines performance management as “a continuous process of identifying, measuring, and developing the performance of individuals and teams and aligning performance with the strategic goals of the organization [original in italics]”, while performance management can also be regarded as more holistic and having a broader and a more strategical approach (Ferreira & Otley, 2009; Melnyk, Bititci, Platts, Tobias & Andersen 2014). According to Drury (2015, p. 600) and Melnyk et al. (2014), performance measurement and management systems identify, collect, analyze and interpret performance data, provide tools to measure, control and correct organizational performance, and help in communicating and implementing organizational strategy. To expound on the definition, Ferreira and Otley (2009) define PMSs as:

[...] evolving formal and informal mechanisms, processes, systems, and networks used by organizations for conveying the key objectives and goals elicited by management, for assisting the strategic process and ongoing management through analysis, planning, measurement, control, rewarding, and broadly managing performance, and for supporting and facilitating organizational learning and change. (Ferreira & Otley, 2009, p. 264)

Ferreira and Otley (2009) not only see performance management as encompassing processes, systems, informal and formal controls and as networks that management uses for measuring, forecasting and managing an organization’s performance, but also as facilitating organizational learning and change as well as a strategic tool.
2.2 MC as a system and MC as a package

Contingency theory, in the context of MCSs and MASs, means considering contingent factors, such as the environment that organizations operate in, organizational strategy, structure and processes, to analyze the aptness of a control system in a specific organization and its environment (Drury, 2015, p. 422). Some of the early contingency-based research focused on how the external environment, technology, company size and organizational structure impacted the design of MCSs. These contextual contingency variables, later augmented by organizational strategy and national culture, have come to form foundation of contingencies in MCS research (Chenhall, 2006).

In contingency theory, extant MA research has examined specific management control (MC) practices in isolation from each other, for example only focusing on budgeting, performance measures and incentives, or as systems, that is as a combination of certain MC practices. The former type of research, denoted as a reductionist approach, has been criticized for examining control practices independently from other MC practices and it has been countered by the latter, systems approach. Furthermore, two relatively isolated streams of research have appeared within the broader, systems approach, where literature has distinguished between MC as a system and MC as a package. (Grabner & Moers, 2013)

Grabner and Moers (2013) define ‘MC as a system’ as interdependent MC practices, where the systems’ interdependency is consciously taken into account and ‘MC as a package’ as a complete set of MC practices, consisting of both independent and interdependent systems that are used in an organization’s control environment. The particular relation between independent and interdependent MC practices has explicitly been studied by Bedford, Malmi and Sandelin (2016). Findings from the study implied that both independent and interdependent MCSs can exist in a MC package, which suggests that there might be too much emphasis on the interconnectedness of these systems. However, Grabner and Moers (2013) assert
that a prerequisite for being able to describe MC as a package, is understanding MCSs and their dynamics.

It has been argued that the concept of MCSs as a package should be applied more widely in studies (Bedford & Malmi, 2015; Malmi & Brown, 2008; Otley, 2016). Moreover, several studies have advocated for a more holistic approach to MCSs and MA practices (Chenhall & Langfield-Smith, 1998; Grabner & Moers, 2013; Ferreira & Otley, 2009; Otley, 1999). Some studies have also explicitly addressed the interconnectedness of MCSs (Bedford, Malmi & Sandelin, 2016; Bedford, 2015).

Bedford and Malmi (2015) expand on the notion that both accounting-based and other control mechanisms that constitute MCSs should be seen as packages that interact with factors in the organization’s operational environment. Ferreira and Otley (2009) have made similar remarks, arguing that although simplification has made research easier to conduct, it has resulted in ambiguous and inconsistent results. Therefore, the authors have suggested a more holistic approach to study MCSs and PMSs (Ferreira & Otley, 2009).

Challenges that researchers with an ‘MCS as a package’ approach face have been discussed earlier by Malmi and Brown (2008). These challenges include defining MCSs, that is what to include and exclude from the definition, how to separate MCSs from information and decision-support systems, as well as defining the specific objects in the organization that the MCSs are supposed to control. The authors also stress the importance of future studies underlining which kind of control is being studied, since the definitions within the field can vary significantly. Yet another challenge is how to describe organizations’ large, complex and intricate systems, compress the amassed information and make it comprehensible in one paper. (Malmi & Brown, 2008)
2.3 The evolution of control theory

Bedford and Malmi (2015) argue that in order to understand why certain accounting structures exist, understanding of the organizational control mechanisms is necessary. Therefore, a review of control theory is highly relevant.

The difference between organizational structure and the control mechanism have been discussed by previous literature. Ouchi (1977) expounds this difference: Organizational structure includes centralization, formalization and differentiation, with hierarchy and divisions, while control consists of a set of conditions that determine the type of control that will be used and the structure of the control system, which, in turn, involves processes for monitoring and measuring performance and take corrective actions (Ouchi, 1977). A variety of different types of control strategies, in conjunction with structure, have hence been introduced in previous literature, where these two concepts are differentiated (Bedford and Malmi, 2015). Bruns and Waterhouse (1975) and Merchant (1981) have examined interpersonal and administrative controls as control strategies, in their studies on budgeting control. Administrative controls are characterized by standardized and formal processes and are mostly adopted in larger, technologically sophisticated organizations, while intrapersonal controls are characterized by informal control in interpersonal interaction, and are predominant in smaller, centralized organizations that lack autonomy (Bruns & Waterhouse, 1975). Bruns and Waterhouse (1975) considered technology, the organization’s size and its dependency on other organizations, while Merchant (1981) considered size, diversity and degree of decentralization as the prominent, contingent factors affecting an organization’s control structure.

Ouchi (1977) argues that only two phenomena, outputs, and behavior, can be observed, quantified and measured, in the process of controlling work of humans and technology. Here, output is a result of inputs and processes, and behavior is simply the actions that an employee takes in these processes. Due to having these two observable variables, Ouchi (1977) proposes that control strategies would consist of
behavior and output controls, coupled with rewards. Output controls can be applied when available information of outputs is high and behavior control can be applied when knowledge of the transformation process leading to the output, is perfect. If neither outputs measurability nor knowledge of the transformation process is good, ritual controls (clan controls), that is informal social structures influenced by a shared set of values (Ouchi, 1979), can function as the control mechanism. This form of control allows for creative and exploratory behavior, in contrast to behavior and output controls. (Ouchi, 1977)

Jaeger and Baliga (1985) also use the term input control, which is a part of the control process associated with organizational culture. While very similar to clan controls, input controls emphasize processes such as the selection of employees, whose values and beliefs are aligned with those of the organization and training, which involves socialization processes and implicit communication of organizational values and desirable behavior to employees (Jaeger & Baliga, 1985). The input, output, behavior and clan controls have hence served as foundations for subsequent theories.

2.4 Levers of control

A significant, extensive control framework is the levers of control framework, developed by Simons (1995). The framework places whole organizations’ processes under the domain of management control and considers the control systems as constituting a package. It consists of four complementing levers that managers use to control business strategy and to balance innovation with control, in the organization. The four systems that Simons (1995) discerns are beliefs systems, boundary systems, interactive control systems and diagnostic control systems.
Beliefs systems are basic values and a perception of direction, related to value-creation, performance and employee relationships. The beliefs systems are communicated and reinforced formally by managers and staff groups, mainly through credos and statements of mission, vision or purpose, while acting as a support system for inspiration and guidance, within the organization (Simons, 1995, pp 34–6). The importance of the beliefs systems is highlighted during organizational change and in complex business environments. As beliefs systems are vague enough to be inclusive and appealing for all employees, they are not apt to be tied to formal incentive systems and directly to performance measures in the organization (Simons, 1995, p. 38). These systems enable employees to rely on organizational purpose and direction, when facing different choices, as well as offer reassurance for managers, when making decisions based on complex sets of data (Simons, 1995, pp. 36–7).

Boundary systems form limitations for a specific domain, where organizational activity is supposed to occur, limiting exposure to business risks, loss of reputation and overly opportunistic behavior (Simons, 1995, p. 39). Although the system is negative, involving rules and usually sanctions and possible punishments for those
crossing the boundaries, it also allows encouragement of creative behavior, within the defined limits of the boundary systems and by the direction given by the beliefs systems (Simons, 1995, pp. 40–2). The boundary systems can be formal codes of conduct within the organization, which over time, are codified and aggregated from harmful incidents that have occurred, professional codes of ethical conduct established by industry associations, or of existing laws (Simons, 1995, pp. 42–6). An example of a situation where codes of conduct are relevant is when pressure for performance high, and there is a desire to limit measures that lead to good performance to ethical ones (Simons, 1995, p. 47). In addition to controlling codes of conduct, boundary systems are used for strategic control, which involves limiting opportunity-searching to a certain domain, often through the process of strategic planning, in addition to tools, such as checklists, capital acquisition and capital budgeting systems (Simons, 1995, pp. 48–9). An example of a boundary system in capital acquisition is management requiring a minimum percentage of return on investment, on a specific project (Simons, 1995, p. 51). Defining and controlling which strategic areas are acceptable for opportunity-seeking and which are not, limit squandering resources on pursuing a too wide a wide range of opportunities (Simons, 1995, p. 48). However, misplaced boundary systems may also lead to significant disadvantages in a fast-paced, changing environment (Simons, 1995, p. 54).

**Diagnostic control systems** are the systems that enable managers to evaluate daily processes in an organization by measuring outputs and by comparing these results to benchmarks, in order to correct deviations towards desired performance (Simons, 1995, p. 59). In other words, diagnostic control systems provide a mechanism that allows self-correction and leads to performance predictability. The control system lets employees enjoy full autonomy, while still holding them accountable for results, which incites creativity and allows adjusting to the situation at hand (Simons, 1995, p. 70).

The processes that are crucial to maintaining this system consist of setting and negotiating goals with employees, giving and receiving feedback on performance and revising greater deviations. In the goal-setting and negotiation process, decisions about target difficulty, rewards and incentive structures are also made, in addition to
setting goals. A feedback loop of communicating updates and reporting deviations in reaching goals and management attention and action is required, if significant deviations or shortcomings to reaching targets are apparent in the evaluation process. (Simons, 1995, pp. 70–1)

Simons (1995, p. 60) notes that the term ‘management control’ that literature refers to, is usually identical to the term ‘diagnostic control’, presented by Simons. Some of the most universal management control systems used in organizations are budgets, while other include cost accounting systems, profit plans and goals and objectives systems (Simons, 1995, p. 61). The measured output variables, that is critical performance variables\(^1\), represent the causes of a strategy’s success or failure, by affecting the probability of goals being met (effectiveness) or the size of potential marginal gains, induced by the strategy (Simons, 1995, pp 63–4). Some examples of critical performance variables used are customer loyalty and entrepreneurial salespeople, revenue growth, market share and meeting customer needs (Simons, 1995, pp. 66, 68).

Interactive control systems, in contrast to diagnostic control systems, encourage to explorative behavior, and abet responding to strategic uncertainties and encouraging strategic renewal (Simons, 1995, pp. 93–4). A few examples among the plethora of strategic uncertainties include changes in owners’ visions, loss of reputation, balancing risk and conservatism and staff related contingencies (Simons, 1995, p. 101). The interactive control systems are formal information systems that managers use to gather information that is then recurrently used for decision making, in order to evaluate whether or not to explore a new technology or how to respond to strategic threats that can potentially undermine the business’ strategy or the strategy’s underlying assumptions (Simons, 1995, pp. 94–5). Information generated by interactive control systems requires regular attention and is discussed at all levels of the organization, horizontally and vertically, between managers and employees, thereby promoting interpersonal communication and establishing an environment

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\(^1\) Synonymous with “key success factors” and “critical success factors” (Simons, 1995, pp. 63)
that promotes innovation through dialogue and debate (Simons, 1995, pp. 97–9). Simons (1995, p. 97) highlights how employees or managers can be driven to focus on a specific area through face-to-face meetings, where subordinates are expected to explain unanticipated changes, as well as suggest actions to be taken to respond to these changes. This, in turn, creates a bottom-up structure for innovation. Interactive control systems do not constitute an independent system. Instead, they are often parts of other control systems, as these systems are used interactively to, for example, explore new technologies to apply in business operations (Simons, 1995, p. 96). By focusing on strategic uncertainties, interactive control systems can contribute to a learning-process loop, which translates actions and tactics into learning and to the creation of emergent strategies (Simons, 1995, pp. 97–8).

Some explicit examples of interactive control systems are profit planning, project management and intelligence systems (Simons, 1995, p. 180), though Simons also asserts that control systems can be used interactively.

The Levers of Control framework has been impactful in MA research but has also been criticized of being too vague (Kruis, Speklé & Widener, 2016; Tessier & Otley, 2012). Some of the framework’s strengths are its strong focus on strategy’s influence on control systems, not only considering the existence of control systems but also how they are used, in addition to the combinations and manners they can be used in (Ferreira & Otley, 2009). Some of the framework’s weaknesses include a lack of emphasis on socio-ideological controls and on informal controls on lower levels in the organization, and a vague definition of ‘interactive controls’ (Ferreira & Otley, 2009). In response to vagueness, studies have expanded on the concept of interactive controls. For instance, Bisbe, Batista-Foguet and Chenhall (2007) advocate more detailed conceptual definitions and illustrate the vagueness of Simons’ (1995) concept of interactive control systems by forming five sub-categories of the control system: The intensive use of information by top managers and operative managers, engaging face-to-face interactions with subordinates, a focus on strategic uncertainties and non-invasive, facilitating and encouraging involvement in processes (Bisbe et al. 2007).
2.5 A control typology

Based on previous literature Malmi and Brown (2008) create a typology of MCS packages, consisting of five types of control: Planning, cybernetic, reward and compensation, administrative, and cultural controls. The typology attempts to distinguish between decision making and control in organizations.

To highlight the impact that planning can have on employees’ commitment and behavior, Malmi and Brown (2008) regard planning as a separate type of control. The role of planning is to set goals in the organization and to direct employee behavior by defining both expectations and standards, which can be compared with actual outputs, to measure performance. However, these measures need not be financial. Planning can be categorized in tactical, short-term planning and strategic, long-term planning (Malmi & Brown, 2008).

*Cybernetic controls* include both non-financial and financial measures, combinations of these, as well as budgets. Measuring characterizes these types of controls, which are used to assess performance and compare it with standards. Information about deviations can then be detected and this feedback can be used to analyze variances and ultimately, alter either the system or correct underlying activities (Malmi & Brown, 2008). This type of control is comparable with output controls, proposed by Ouchi (1977), without the inclusion of rewards.

*Reward and compensation*, mostly, but not limited to financial rewards, functions as a means of control, which encourages employees to perform in a desirable way for the organization. Theory suggests that financial rewards act as incentives, affecting effort, which in turn affects performance (Bonner and Sprinkle, 2002). This type of control is often used jointly with cybernetic controls but can also be based on other factors than explicit measures (Malmi & Brown, 2008).

*Administrative controls* consist of organizational design, referring to different functions or departments in the organization, governance structures, that is authority,
hierarchies and personal accountability systems and lastly, rules and regulations, which define processes, desired behavior and boundaries (Malmi & Brown, 2008).

The final control type in this typology is *cultural controls*. In their definition, Malmi and Brown (2008) include value-based controls, symbol-based controls and clan controls. With value-based controls, Malmi and Brown (2008) refer to belief systems (section 2.4), defined by Simons (1995). With symbol-based controls, the authors refer to visible expressions that have an impact on employees. These expressions can be uniforms that create a sense of professionalism or office space design, which influences employee behavior in a certain fashion (Malmi & Brown, 2008). Clan controls refer to the concept of informal social systems, presented by Ouchi (1979). These informal social systems incorporate values and indoctrinations that can stem from within the organization or be inherent to a certain profession (Malmi & Brown, 2008; Ouchi, 1979).

### 2.6 Control structures framework

Speklé (2001) provided a wider framework for control structures, through the lens of Transaction Cost Economics (TCE). TCE can be described as a field of study that aims to explain contingencies between transactions and organizations, that is why specific organizations govern specific transactions (Speklé, 2001). In the context of MC, TCE generally assumes that MC structures can be seen as informal, formal, implicit or explicit contracts between the organization and its members, who strive to meet the organization’s goals (Speklé, 2001). The framework that Speklé (2001) proposed uses three variables to explain nine control structure archetypes, consisting of five main types and subsets to these.

The transaction variables are uncertainty, that is how well contributions to the achievement of goals can be forecasted, asset specificity, that is the opportunity loss that would occur, were the investment used in another, not as profitable a transaction, and lastly, the frequency of the transactions.

The uncertainty variable relates to the choice of control structure used, when actions’ contribution is predictable (programmable) or unpredictable. If the contributions are
programmable, that is the organization has sufficient knowledge of the action taken leading to a desired outcome, the control configuration would be more prescriptive or authoritative with clear rules and guidelines. On the other hand, uncertainty and a lack of prior knowledge leads to less specific control configurations (compare: clan controls, Ouchi, 1977) are required. (Speklé, 2001)

The second variable, asset specificity, involves the degree to which the market mechanism determines how general a contribution is; If asset specificity is low, the market influence is stronger and the contribution is of a general kind, and if it is high, the specific organization has high opportunity losses in transactions other than the ones it governs. Higher asset specificity also signifies that employees with specific skillsets are required to perform the organizational tasks, which creates an interdependency between the contributor and the organization. (Speklé, 2001)

The five main control-structure archetypes that Speklé (2001) suggested are:

*Arm's length control*, either hierarchical or hybrid, has moderate programmability and asset specificity. The hybrid type utilizes outsourcing and hostage arrangements in long-term transactions, whereas the hierarchical type aims to retain some in-house activities or access to technology, while still relying on some outsourcing and the market mechanism. Bedford and Malmi (2015) remark that this configuration characterizes larger enterprises with operative divisions.

*Machine control*, which is characterized by high asset specificity and programmable actions, is a hierarchical structure, where predefined norms and standards and mutual dependency between the employees and the organization are emphasized, due to high asset specificity. This structure resembles closely the *machine bureaucracy* structure configuration, proposed by Mintzberg (1979, pp. 314–47), including standardization, detailed monitoring and departmental accountability.

*Exploratory control* can also be hierarchical or hybrid, depending on asset specificity. In this type, information and knowledge of processes is only emerging, which leads to vague guidance in decision making and for measuring performance. Therefore, the control structures aim to increase impactful information-sharing in the organization.

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2 That is clauses in contracts decreeing loss of predetermined financial stakes for the non-compliant party
While performance evaluation in exploratory control is emergent, the control type boundary control is relevant in a situation where activities non-programmable and where performance evaluation is consistently challenging. These controls limit undesirable behavior, mostly based on past occurrences and opportune management notions in the hierarchical type as well as budgets for defining maximum expenditure. This type closely resembles Simons’ (1995) boundary systems.

The final type of control is market control, which by itself is not intrinsic to MC, but can provide MC-related control mechanisms, such as market-based transfer pricing and performance benchmarks. In its pure form this control relies on standards induced by competition and complete influence by the market. (Speklé, 2001)

2.7 PMS – Three frameworks

This section is divided into three subsections, where Otley’s (1999) work, comprising fundamental questions behind PMS frameworks is presented, followed by a review of Ferreira and Otley’s (2009) extended framework, as well as the conceptual model from Broadbent and Laughlin (2009).

2.7.1 PMS framework

Otley’s (1999) PMS framework consists of five fundamental questions, intended to serve as a base that can be applied in research, for analyzing MCSs. The focus of the framework is on management of an organization’s performance, beyond performance measurement.

The first question involves asking what the key goals and objectives, imperative for an organization’s success are and how attainment of them is evaluated. These objectives are established by the stakeholders involved and can take any form – financial or non-financial. (Otley, 1999)
The second question emphasizes the organization’s strategies and plans. Namely, what the key processes and activities for successfully realizing the organization’s strategies or plans are and how performance is measured and evaluated. The aim with this question is to accentuate the relationship that actions and outcomes have in the organization, that is what measures are taken to assure for the organization to achieve its goals. (Otley, 1999)

The third question concerns how the organization chooses to set standards in order to appropriately measure the performance and objectives defined in the first and the second question. This involves both the timeframe in and degree to which the organization expects to reach targets (effectiveness) and what resources are needed in order for this to occur (efficiency). Techniques, used to either increase effectiveness and efficiency can be based on financials, such as benchmarking and target-costing, but can also concern areas such as motivation and goal-setting. (Otley, 1999)

The fourth question reflects what rewards and punishments are used in the organization in order to direct manager and employee behavior towards striving for the objectives. Involving incentives for achieving and discouragements for not achieving goals, these rewards and punishments can be both financial, such as forgoing bonuses for not reaching a budget target, or non-financial, such as reputation, recognition and status. The importance of these factors can also vary across cultures. (Otley, 1999)

The fifth and final question in Otley’s (1999) framework concerns information flow and organizational learning. Specifically, what the organization’s feedback and feed-forward loops are that contribute to learning and adaptation. By reacting on feedback or taking corrective actions ex ante, that is based on feed-forward information, organizations enable learning on all levels, ranging from enhancing simple processes to revising strategies and improving overall performance. (Otley, 1999)
This framework provides a wider perspective on MCSs and highlights their interconnectedness. Ferreira and Otley (2009) list some of the strengths of this framework, which include straightforwardness, offering a certain structure for analyzing MCSs, while being general enough, so as to support being complemented by other frameworks and facilitating dealing with a wide range of data, especially in case studies. Conversely, some of the critique of the framework include it does not address vision and mission as key elements in the control process, being too narrow in the sense that it essentially reflects only what Simons (1995) described as a diagnostic control system. Furthermore, the framework does not consider what information from the control systems is actually used, nor does it consider the fact that control systems are continuously changing. (Ferreira & Otley, 2009)

2.7.2 The extended PMS framework

Ferreira and Otley (2009) have further developed both Otley’s (1999) PMSs framework and Simons’ (1995) levers of control. Like Otley (1999), Ferreira and Otley (2009) constructed a framework that instead of attempting to be an ideal model that is dependent on many contingencies, it functions as a descriptive, comprehensive tool that facilitates analysis of MCSs. The framework is illustrated on the next page.
Figure 2. The PMS framework (Ferreira & Otley, 2009, p. 268)

The extended framework, shown in figure 2 above, consists of 12 questions and addresses 12 different areas or aspects within management control. Questions one to eight can be regarded as more ‘functional’, related to ‘means and ends’, in an organization (Broadbent & Lauglin, 2009). The contextual factors, depicted in the outer contour of the PMS, are addressed in questions nine to 12 and are reviewed in section 2.7.3 and in chapter 3 in greater detail.

The framework focuses on the following 12 questions:

**Q1 – Mission and vision:** The first question is concerned with mission and vision, how they are defined and communicated to managers and employees. Mission and vision, that is overarching organizational objectives and purpose, set a general direction for an organization and are thus important also for performance evaluation. Mission and vision “have importance only insofar as they are communicated and acted upon.” (Ferreira & Otley, 2009, p. 268), they can be communicated formally and informally, and they can be clear or more abstract. The aim of the first question is to establish
how impactful mission and vision are in the organization, in terms of affecting behavior among employees and managers and being used for forming objectives. (Ferreira & Otley, 2009)

Q2 – Key Success Factors (KSFs): The second question addresses the KSFs in the organization. Namely, the question that is posed is what are the fundamental key factors for success and how are they communicated to managers and employees? KSFs are the factors that need to be addressed in order to achieve the vision, mission and different key objectives of the organization. They should consist of a few important factors instead of many, less impactful factors. Ferreira and Otley (2009) exemplify this by describing that a company could use growth in a foreign market as a KSF for becoming a global market leader.

Q3 – Organization structure: The third question relates to organization structure, that is what the traits of the existing organization structure are, as well as how the organization structure affects PMSs and interrelate with strategic management. Ferreira and Otley (2009) explain the basic function of organization structure by drawing on classic TCE, where a fundamental mechanism is improving efficiency by minimizing transaction costs. This, in turn, is established through configurations of structures, processes and relationships, for instance through strategic alliances. Different roles in the organization determine responsibilities and accountability, which, along with strategic choices, is intertwined with choices regarding centralization, decentralization, differentiation and standardization. Thus, the authors argue that organization structure is an important element of control and an important factor in influencing PMSs, in addition to being directly linked to strategy.

Q4 – Strategies and plans: The aim of the fourth question is to help explain the organization’s strategies and plans. As company strategy has been identified as a contingent variable to the design of MCSs, this question focuses on the explicit actions that lead to the desired outcomes, identified by KSFs and communicated through the organization’s mission and vision. Therefore, recognizing how strategies and plans are aligned with the organization’s goals, and how they are communicated
to managers and employees is important, when analyzing company PMSs. Furthermore, identifying which processes and activities are crucial in the attainment of the strategies and plans is also of interest. (Ferreira & Otley, 2009)

**Q5 – Performance measures:** The focus of the fifth question in on how well performance measures (or metrics), also referred to as Key Performance Indicators (KPIs), financial and non-financial, align strategy with operations and on how the choice of performance measures directs employee behavior. Ferreira and Otley (2009) note that this question conflates both KSFs and the interactive use of control systems, described by Simons (1995), as means to affect and direct employee behavior. The relevance of performance measures remains a crucial issue, since the truism “what you measure is what you get” (Kaplan & Norton, 2005, p. 172), that is the mere existence or absence of measures and the act of measuring can by itself direct employee focus. Hence, the way of communicating the importance of performance measures is also of essence. (Ferreira & Otley, 2009)

**Q6 – Target setting:** The sixth question is concerned with target setting. Since degree of success of reaching targets is measured by key performance measures, how the organization sets its targets and determines the required level of performance to reach, are relevant issues to address. Ferreira and Otley (2009) also note that the process of setting targets itself can be as important as the expected outcome itself. Literature also suggests that assigned goals that are more challenging lead to greater effort and that ambiguous goal have the opposite effect (Bonner & Sprinkle, 2002; Locke, Shaw, Saari & Latham, 1981). Atkinson (1958) described the relation of performance (Y-axis) and task difficulty (X-axis), measured by the probability of successfully completing a task, as a function, which forms an inverse, second-degree polynomial curve (as cited in Locke & Latham, 2002, p. 705). The function illustrates that when goals are set too low or two high, performance will be lower than what it would be for a moderately difficult goal (Locke & Latham, 2002). Goal commitment has also been found to be a cornerstone for performance. Commitment, in turn, is affected by factors such as perceived importance of the goal, self-efficacy, that is the believing in one’s abilities to produce a desired result, feedback and task complexity.
Although findings on how participation in goal setting affects performance have been inconsistent, other studies have found that the way that tasks are assigned impacts motivation and that instead of having motivational benefits, participation contributes to increased information exchange. (Locke & Latham, 2002)

**Q7 – Performance evaluation:** The seventh question addresses performance evaluation, ranging from individual-level to organizational-level evaluations and from formal to informal information being used in the evaluation process. Ferreira and Otley (2009) stress the importance of trust and that employees’ perceptions can weigh more than the perception of the ceremonial situation. Subjectivity and objectivity of performance evaluation must be balanced, which results in tradeoffs between identifying flaws in performance measurement, time and potential errors arising from biases. (Ferreira & Otley, 2009)

**Q8 – Reward systems:** Rewards or punishments are often subsequent to the evaluation process of reaching targets. The eight question explicates how financial and non-financial rewards and punishments are used in managing performance. Ferreira and Otley (2009) distinguish between negative, that is punitive, and positive, that is rewarded control activities. The positive rewards include expressions of approval, recognition, promotions and financial rewards, while negative ones might include criticism and refraining from financial rewards. (Ferreira & Otley, 2009)

**Q9 – Information environment:** The ninth question relates the organization’s information flows and networks to its PMSs. Ideally, the information generated in the organization supports the use of PMSs and enables the organization to take corrective actions based on feedback. Feed-forward information is the information that an organization uses to learn to anticipate outcomes and can thus be used to support decision making on acting proactively. In other words, feed-forward information enables evaluating new courses of action and spurs strategic renewal. Since the role of information technology (IT) is increasingly important in modern organizations’ information environment, the effect of various information systems, such as Enterprise Resource Planning (ERP) systems, networks and IT infrastructure
must be considered in the information flows of organizations and as a part of the performance management process. (Ferreira & Otley, 2009)

**Q10 – Use of PMSs:** The aim of the framework’s tenth question is to determine how information, generated by the different control mechanisms, is used at different levels in the organization. Ferreira and Otley (2009) argue that although Simons’ (1995) concept of the interactive use of a control system is the only recent and significant effort in literature that gives importance to how a control system is used, the concept itself is too vague to describe effects resulting from the interactive use of a control system. Ferreira and Otley (2009) draw some parallels between research on strategic validity controls, that is feed-forward controls that are used to revise how strategic intent is achieved, and Simons’ (1995) interactive use of control systems. As mentioned in section 2.3, the concept of interactive control systems has been expanded by Bisbe et al. (2007) into intensive use of information by top managers and operative managers, engaging face-to-face interactions with subordinates, a focus on strategic uncertainties and non-invasive, facilitating and encouraging involvement in processes. The concept of PMS use has also been addressed by (2009), who categorized PMS use into transactional and relational types.

**Q11 – Change of PMSs:** The eleventh question concerns change in PMSs, caused by change of the organization, its strategies, or the environment it operates in. Relevant information regarding change includes whether PMSs have been reformed proactively, with feed-forward information or reactively, with feedback information. Furthermore, the contingencies behind the changes in the PMSs and how the changes have shaped the PMSs are relevant issues to address as well. PMSs might also lag behind the latest developments, as the implementation processes can be protracted. (Ferreira & Otley, 2009)

**Q12 – Strength and coherence of the PMS:** The twelfth and final question interrelates the prominent elements in the preceding 11 questions with the aim to evaluate how coherent and robust the nexus between the different elements are in
a PMS. Even though PMSs consist of components presented in this framework, the components may have incompatibilities in terms of structure or how they are used. Thus, Ferreira and Otley (2009) argue that considering how the different components interrelate is important, when analyzing PMSs and MCSs.

Broadbent and Laughlin (2009) illustrate how Ferreira and Otley’s (2009) model addresses two areas of the PMS environment. Questions one to eight relate to the means and ends, that is the practical measures in an organization, whereas questions nine to 12 relate to the contextual contingencies that shape the means and ends, in questions one to eight (Broadbent & Laughlin, 2009). However, the authors argue that there is too little emphasis on the contextual contingencies, addressed by questions nine to 12, which are essential in shaping the MCSs. Therefore, Broadbent and Laughlin (2009) construct a conceptual model, further developing Ferreira and Otley’s (2009) framework.

2.7.3 A conceptual model of PMSs

The aim with Broadbent and Laughlin’s (2009) model is to conceptually extend questions nine to 12 in Ferreira and Otley’s (2009) framework, in order to emphasize the organizational context that interacts with the PMS design. Broadbent and Laughlin (2009) approach PMSs through models of rationality. According to the authors, PMSs can be described by the process of rationalization, as PMSs determine ends and the means to achieve the ends, in the organization. The fundamental rationalities behind the PMSs and how they direct behavior are empirically defined through two models of rationality, communicative and instrumental rationality.
When communicative rationality underlies a PMS, it has been derived from stakeholder interaction and consensus. In other words, participants have through discourse decided on what the ends and the means to achieve the ends are, in the organization. Broadbent and Laughlin (2009) call this type of a PMS relational. The performance indicators in a relational PMS are characterized by substantive rationality, which means that the measures used can be quantitative, but are likely to be qualitative, by nature. The means used to achieve objectives are characterized by practical rationality, that is conceptual knowledge and physical ability. Relational PMSs are therefore adaptable, as the performance indicators, measures and targets are conceived in a less authoritative and coercive environment. (Broadbent & Laughlin, 2009)

A transactional PMS is derived from instrumental rationality. It is characterized by “a high level of specificity about the ends to be achieved (e.g., through performance measures and targets) and often a clear specification of the means needed to achieve these defined ends” (Broadbent & Laughlin, 2009, p. 289). The PMS design is largely influenced by a specific group of stakeholders, and the performance measures used in it are derived from formal rationality, thus having impersonal and calculative, and quantitative traits. Theoretical rationality, which accentuates theoretical knowledge,
is used to determine which means are used to achieve a specific goal. The targets in the PMSs are set either by the sub-group of stakeholders or an abstract definer. (Broadbent & Laughlin, 2009)

The effect that the context has on PMSs and on questions one to eight in Ferreira and Otley’s (2009) framework, is that the relevance of the questions needs to be evaluated, since not all questions are relevant in all organizational echelons (Broadbent & Laughlin, 2009). Understanding what the PMS is set to measure and control is of importance as well. Ferreira and Otley (2009) note that their framework should be applied on multiple echelons in an organization, in order to gain a comprehensive understanding of the organization’s PMS, how it is used, and how it affects organizational behavior. Broadbent and Laughlin (2009) highlight two particularly important contexts, in which PMSs are generally critical. The first one is a divisionalized organization, in which the PMS is intended to control each subdivision and the organization as a whole. The second one is a situation where the organization effectively controls another organization’s PMS (Broadbent & Laughlin, 2009).

In the case of a divisionalized organization, Ferreira and Otley’s (2009) framework assumes that there is intentionality on all levels of the organization, which Broadbent and Laughlin (2009) argue is a valid assumption. Dualistically, one of the intended features of the PMS is to create intentionality and knowledge of the PMS throughout the organization. Broadbent and Laughlin (2009) note however that individuals on different organizational levels will inevitably consider certain aspects of the PMS to be more important than others. (Broadbent & Laughlin, 2009)

In the second scenario, in which an organization aims to regulate the behavior of another organization, actual answers to the questions in Ferreira and Otley’s (2009) framework might be more complex. Broadbent and Laughlin (2009) hypothesize that these organizations could use transactional PMSs to control its own and its subject’s behavior, while the subject itself could use relational PMSs. (Broadbent & Laughlin, 2009)
Broadbent and Laughlin (2009) discuss two factors that either intervene with or allows the adaptation of a PMS between organizational units: Money and accountability. Broadbent and Laughlin (2009) argue that money acts as a medium for achieving the overarching values contained by the PMS. Moreover, money is also often the unit used to express PMSs’ targets. The authors rationalize that money is a factor that most organizations are dependent on, and that money is a factor that inevitably affects organizational actions and processes, either directly or indirectly. Accountability, on the other hand, is a mechanism which assures that the communication of intentions, concretized by the PMS, is successful. It essentially mandates information to be communicated, in order to establish a reiterative process, in which strategies can be reconsidered and adjusted. However, the authors maintain that the actual role of these two elements can only be answered empirically. (Broadbent & Laughlin, 2009)

2.8 A control taxonomy

In order to develop a deeper understanding of what control mechanisms can be applied at organizations, and to illustrate how organizations can be empirically categorized by examining their control systems, the following MCS taxonomy, conceived by Bedford and Malmi (2015) is reviewed. The taxonomy can facilitate MCS analysis, and bring empirical context to the conceptual models, presented previously (Bedford & Malmi, 2015).

In an attempt to describe common control configurations in practice and the contexts, in which these configurations are applied, as well as the role of accounting in the configurations, Bedford and Malmi (2015) perform an empirical analysis on sample of organizations. The authors underline that empirically derived constructions are bound to context, as firms choose the most internally consistent control structure, which is dependent on contingent factors. The relationship between the control structure and the contingent factors are mostly, but not always linear, and might also be transient. The authors also emphasize that organizations, at any given point in
time, will not have an optimal solution in other than contextual terms, as the control structure choice is a tradeoff between several economic determinants, for instance between performance and costs (Bedford & Malmi, 2015). Ferreira and Otley (2009) made similar remarks on how organizational or environmental change may result incoherencies in an organization’s PMSs.

Bedford and Malmi (2015) use six different categories to broadly define control: 

*Strategic planning* involves defining long-term goals and a general direction for the organization. These are communicated to employees, in order to align employee behavior to advance organizational goals.

*Measurement* enables reviewing organizational behavior and performance in accounting-based, numeric terms, which in turn is used to further influence employee behavior in a more desired direction. As concluded by Ferreira and Otley (2009), even the act of measuring can inadvertently serve as a control function.

*Compensation*, primarily financial, factors in both incentivizing the employee to strive to reach a certain goal that is based on forecasts or expectations and rewarding desirable behavior when outcomes are good. Thus, compensation also serves as feedback for employees of their past behavior.

*Structure* and its attributes such as centralization, vertical hierarchies or flat, horizontal designs all influence employee behavior, communication, conformity and organizational flexibility. Therefore, Bedford and Malmi (2015) argue that structure also influences control by assigning roles and decision-making authority.

*Policies and procedures* determine what is allowed and how tasks should be performed. Bedford and Malmi (2015) cite Ouchi’s (1977) model, where when outputs are known and the processes leading to the output are predictable, standardized policies and procedures can be efficiently enforced. On the other hand, if there is uncertainty about the outcomes and processes, boundary systems (Simons, 1995) can be applied to establish decision-making autonomy within a predetermined, limited area.

*Socio-ideological* controls refer to organizational values, norms and ideas that constitute a control mechanism. Communication of formal values and beliefs, rituals, and input and clan controls are some of the comparable control mechanisms defined
by extant literature (Baliga & Jaeger, 1984; Simons, 1995; Ouchi, 1979; Ouchi, 1977). These controls can be potent, as they enable a certain social pressure within the organization, which pushes employees to a degree of conformity to internal norms. (Bedford & Malmi, 2015)

Bedford and Malmi (2015) use these control configurations and four contextual variables, technology, external environment, strategy and size, to construct five configurations of control structures, based on a sample of firms:

The first control structure, *simple control*, is characterized by informality and centralized decision making, with some vertical hierarchy, closely resembling Mintzberg’s (1979, pp. 305–13) *simple structure* configuration. This configuration permits flexibility and shows that directions defined by top-management are vague and employees are given extensive freedom, while managing through personal contact also occurs. The organizations in the cluster have less emphasis on bureaucracy and have low levels of administrative technology. The cluster exhibits more early-stage companies than the others, which, according to Bedford and Malmi (2015), suggests that there would be less information about processes and outcomes (as in Ouchi, 1977), which would result in the organizations placing more weight on socio-ideological controls. Conversely, the companies in this category show least emphasis on this type of control. The authors offer one possible explanation to this, which is that some companies might not have formed a strong organizational culture in such early stages (Bedford & Malmi, 2015).

The second control structure, *results control*, emphasizes the use of accounting-based information in correcting deviations, employee accountability and performance-based compensation, which Bedford and Malmi (2015) hypothesize might explain the lower emphasis on socio-ideological controls, exhibited by the cluster. The structure’s vertical hierarchy is comparable with Mintzberg’s (1979, pp. 314–47) machine bureaucracy and its control mechanisms to Ouchi’s (1977) output controls, as well as to administrative controls, used by Bruns and Waterhouse (1975) and Merchant (1981) in their papers (Bedford & Malmi, 2015). Strategic planning is implemented from the top down but is less formalized. (Bedford & Malmi, 2015)
The third control structure, *action control*, is consistent with Ouchi’s (1977) behavior control and while similar to the results control structure, has a tall hierarchy with centralized control and emphasizes direct control, in addition to using formal planning, highly formalized rules and clearly defined boundaries as control mechanisms. As opposed to results control, a lower degree of accounting controls directed at individuals and a higher degree of socio-ideological controls are associated with the action control structure. Moreover, the environment, in which the organizations that clustered in the action control category operate, is characterized by instability, whereas those clustered in results controls operate in a more stable environment. (Bedford & Malmi, 2015)

The fourth control structure, *devolved control*, is decentralized with extensive individual autonomy and low hierarchy, while applying socio-ideological controls and, to an extent, boundary controls. Employees are self-organized and participative in strategic planning. The control structure is comparable with Mintzberg’s (1979, pp. 431–67) *adhocracy*. Contrary to Ouchi’s (1977) notions, the results show that organizations in this cluster do not differ from those labeled by results and action controls, in terms of task programmability and knowledge of outcomes. Additionally, the organizations in the cluster are relatively large and the percentage of them that are early-stage is comparable with other clusters. This leads Bedford and Malmi (2015) to speculate that instead of being a transitory phase of a growing company, this could be a lasting configuration. The results indicate that the environment that these organizations operate in is unpredictable and turbulent (Bedford & Malmi, 2015).

The fifth control structure, *hybrid*, has high task programmability and outcome measurability, a strong emphasis on accounting-based measures, compensation and control, both formal and participative strategic planning, and on socio-ideological controls. In other words, this cluster showed a complex combination of control mechanisms. The organizations in the cluster were characterized by larger size, older age and a high degree of administrative technology. (Bedford & Malmi, 2015)
The conclusion of this study is that even though organizations’ control mechanisms are more complex and do not have as clear-cut borders as the frameworks provided by literature, existing frameworks still manage to describe contemporary mechanisms that are used in practice (Bedford & Malmi, 2015).

2.9 Summary

As demonstrated by the literature review in this chapter, extant management control theory provides a wide arrange of definitions and descriptions of different management control aspects. The different control mechanisms and frameworks that were previously presented provide a fundamental understanding of how organizations’ control systems are constructed and can be structured. Control theory has clearly a robust body of literature for future research to build on, but the differences in definitions (e.g., PMS and MCS) and focuses (e.g., strategic or control focus) between the frameworks also need to be distinguished. The focus of this study is on PMSs as defined by Ferreira and Otley (2009). This is motivated by the holistic nature of the definition; examining the PMSs and MCSs of companies holistically provides deeper insights in the corresponding structures at companies and contingencies shaping them (Bedford & Malmi, 2015; Ferreira & Otley, 2009). While the framework of Ferreira and Otley (2009) can according to the authors be used to “to facilitate the description of PMSs design and use in practice, without any prior assumption as to whether the existence or absence of a particular feature is a good or bad thing.” (Ferreira & Otley, 2009, p. 267), the conceptual model of Broadbent and Laughlin (2009) can be used reinforce it. It can “provide a language for analysing any PMS that builds on the PMS conceptualization of Ferreira and Otley (2005, 2009)” (Broadbent & Laughlin, 2009, p. 284). The two models can thus be used as complements in empirical analysis (Broadbent and Laughlin, 2009). Since the two models combined offer both a practical and conceptual foundation for a comprehensive analysis of PMS, they are utilized as the key underpinnings of this study’s empirical and analytical deliberations. The frameworks of Bedford and Malmi
(2015), Simons (1995) and Speklé (2001) also offer several useful insights in control theory and also serve to facilitate empirical analysis.

Finally, as noted, the configurations and the selection of certain control mechanisms are dependent on contextual factors (Bedford & Malmi, 2015). Therefore, a review of relevant contexturalities is necessary, which is presented in the next chapter.
3. Theoretical context

In this chapter, contextual factors that influence and shape the control systems and PMSs in organizations is reviewed. First, international, cultural and then specifically Chinese contingencies are addressed, followed by previous studies in PMS implementation at subsidiaries.

3.1 Challenges in international environments

MNEs can be defined as enterprises that have wholly or partially owned affiliates in multiple countries (Busco et al. 2008; Chang & Taylor, 1999). Consequently, these companies are exposed to different external environments and are heterogenous across countries (Busco et al. 2008). Some external factors behind heterogeneity include country-specific rules and regulations, as well as the economic, political and socio-cultural environments (Roth & Kostova, 2003). However, heterogeneity can also result from intra-organizational differences in the operative environment or in management systems, or by individual-level differences in characteristics, such as values and beliefs, exhibited by employees with multiple backgrounds (Roth & Kostova, 2003). Such heterogeneity may cause uncertainties – and thus increase risks. On the individual level, there exists a risk of workplace conflicts, caused by the differences between individuals’ values, attitudes and goals, while uncertainties arise on the organizational level, concerning the control of subunit behavior and performance (Chang & Taylor, 1999).

Extant literature has discussed some of the challenges that MNEs face. In their literature review of studies on MNEs, Roth and Kostova (2003) list some of these MCS design-influencing considerations, caused by tensions that may arise in MNEs. These include choices between centralization and decentralization of decision making, choices about standardization and differentiation of management practices, control choices concerning ownership, strategic partnerships or competition, balancing shared values with local customs, and balancing efforts of global unity and local
responsiveness of business operations (Roth & Kostova, 2003). Subunits at MNEs might also face cooperative and competitive dilemmas, as they might be cooperating in technological, operational, organizational, and financial dimensions, while being forced to compete for parent-company resources and support, position in the company, and market expansion (Luo, 2005). An additional hurdle that MNEs face can be posed by language. Björkman and Piekkari (2009) studied the impact that language has on implementation of centralized decision making between Western-owned MNEs and their Finnish and Chinese subsidiaries. The authors considered centralization of decision making, formalization, output control and socialization as mechanisms of control. Findings indicate that subsidiaries with lower language skills were subjected a higher degree of centralized control and a higher degree of formalization measures, than subsidiaries with higher language skills were. Furthermore, in contrast to predictions made by Harzing and Feely (2008) in their study, no difference in the use of output controls and language skills was discernible.

In MNEs with often a global value chain, one issue to consider in MA is transfer pricing. Transfer pricing can be described as pricing strategy between divisions, which constitutes revenue for the supplier and costs for the receiver (Drury, 2015, p. 525). Transfer pricing can be used to motivate managers to make sound decisions, to evaluate performance, create divisional autonomy and to move profits between divisions or countries (Drury, 2015, p. 525). Studies have also suggested that transfer pricing affects the design of MCSs in MNEs. Cools, Emmanuel and Jorissen (2008) found that transfer pricing tax compliance does affect the design of MCSs, namely the planning, evaluation and reward controls. Plesner Rossing (2013) used Simons’ (1995) levers of control to examine the effect that transfer pricing has on MCSs and found that all four levers were affected. The results from the case-study implied that management used belief systems and interactive control systems to reinforce values and learning associated with the company’s tax strategy. Furthermore, boundary systems and diagnostic control systems were used to control behavior and monitor profit margins (Plesner Rossing, 2013).
A factor that shapes MA practice, and therefore possibly also the MCSs, is industry (Messner, 2016). Industry can be defined as a sector where comparable products or services are offered by a group of companies (Messner, 2016). One approach to defining a specific industry is associating its practices with those practices that are common for a specific industry. Another approach is to examine the differences in practices that correlate with the related industry. For example, industries might be required to follow certain rules and regulations or be dependent on a certain technology or specific experts, which further induces conformity in organizational practices that might otherwise differ (Messner, 2016). Messner (2016) argues that even though some homogeneity exists within industries, MA practices in different organizations can be expected to largely be shaped by other factors than merely the industry effect. Nonetheless, industry is still an important variable to consider. (Messner, 2016)

Wagenhofer (2016) discusses the possible that the regulatory environment can have on organizational design and decision making. With the EU as an example, Wagenhofer (2016) notes that the goal with many of the regulatory initiatives at the EU is, among others, to harmonize corporate governance through a common corporate law. Areas such as management compensation, risk management, performance measures, effects of reporting non-financial or financial on MA and management accountability are examples of some areas that may be affected directly by imposed regulations (Wagenhofer, 2016). For example, the use of performance measures might be affected by compensation regulations or requirements of transparency. Moreover, managerial accountability, sufficient internal controls and risk management are all factors that can be related to requirements set by regulations that can vary across countries. (Wagenhofer, 2016)

Many studies have considered the influence of national culture on MA (e.g., Chow et al. 1999; Chow, Kato & Merchant 1996; Harrison, 1993), and culture is a widely recognized contingent factor that may affect MCS design (e.g., Chalos & O’Connor, 2004; Chen, Park & Newburry, 2009; Tsui, 2001). Nobes and Parker (2010, p. 575) cite the article of Lawson, Stratton and Hatch (2006), where the authors surveyed global
enterprises to analyze differences in the use of management accounting tools. The authors found that the use of performance measurement, strategic planning, scorecarding, and budgeting as management accounting tools had notable regional differences. The reasons behind these differences could commonly be condensed to the somewhat wide term ‘culture’ (Nobes & Parker, 2010, p. 575). While Ferreira and Otley (2009) mainly refer to organizational culture when addressing ‘culture’, the authors acknowledge that research could also benefit from considering the effects of external, national culture on individual values and behavior, and on an organization’s PMSs. However, Ferreira and Otley (2009) consider culture a contingent variable that predominantly might explain why certain control patterns are more effective than others, and therefore a formal evaluation of culture absences their PMS framework.

3.2 Integration, standardization and control at MNEs

Busco et al. (2008) show evidence for that PMSs and standardization are intrinsic parts in integrating MNEs. The authors define integration as standardization that enables collaboration and a globally unified effort, while acknowledging and preserving local configurations. One measure that MNEs can take to address cultural differences that affect MA practice in foreign subsidiaries is selecting managers whose attitudes are aligned with the perceived attitudes in multinational’s home-country (Lere & Portz, 2005). Expatriate staffing, especially in key positions, has been identified by literature as a cultural control that can induce adoption of values and goals, common to those at the parent company (Chalos & O’Connor, 2004). Schaaper et al. (2013) found that both French and Japanese MNEs send experts for short-term assignments, instead of engaging in costly and difficult expatriation. Socialization practices, such as training, sharing knowledge and reinforcing a common organizational culture are also used as controls, aimed to create common attitudes and shared expectations among managers and employees (Chalos & O’Connor, 2004). Another control measure is communication between the parent company and the foreign unit, which builds trust and can decrease cultural distance between the two (Baliga & Jaeger, 1984; Chalos & O’Connor, 2004). Nobes and Parker (2010, p. 582)
argue that information exchanges should be balanced, and the parent company should provide feedback on the information it has requested from the subsidiary. Other explicit measures to harmonize MA practices within MNEs can include rules, reporting standards\(^3\), and internal benchmarks, whereas more implicit factors can include standardized ERP-systems (Endenich, Hoffjan, Schlichting & Trapp, 2016). Harmonization of Human Resources (HR) management has also been found as a measure of integration (Schaaper, Amann, Jaussaud, Nakamura, & Mizoguchi, 2013).

3.3 Management control in China

Zhang, Liu and Wu (2011) review the development of MCSs in China. The authors also construct a framework to approach management control, in addition to describing issues related to MCSs in China.

Since Chinese enterprises were state-owned until the 1978 economic reform, the notion of management control became widespread only in the 1990s, in China. The economic reforms were effected through two major plenary sessions: The Third Plenary Session of the 11\(^{th}\) Central Committee of the Central Committee of the Communist Party in China (CPC) in 1978 and the Third Plenary Session of the 14\(^{th}\) Central Committee of the CPC, in 1993. While markets became more integrated and globalized, the post-1993 Chinese socialist market economy allowed enterprises to gain knowledge from practices abroad. This, along with two emergent schools of thought on MA and corporate strategy, became imperative for Chinese enterprises to pursue new opportunities in global markets. (Zhang et al. 2011)

Since the 1993 reform, Chinese enterprises have undergone a modernization process, establishing clear ownership structures, and well-established rights and responsibilities for companies. Freer markets have thus shifted management’s focus from maximizing profits to maximizing return on assets and further induced a need for refined management control methods and theory. Zhang et al. (2011) conclude

\(^3\) Content, form and time of reports
that MCSs play an important part in management and internal control in Chinese enterprises. The authors conclude that Western theories are applied and adapted to the local environment, making management control in China fit local needs and requirements. (Zhang et al. 2011)

3.4 Joint ventures

Some evidence about how foreign enterprises establish control in Chinese subsidiaries can be found from joint venture (JV) literature. A JV is formed by an agreement that stipulates obligations and responsibilities between the parties involved in the contract (Chen et al. 2009). A JV can be defined as international when at least one of the parent companies of the JV is headquartered outside the country of the JV’s operations (Groot & Merchant, 2000). Although wholly owned foreign enterprises (WOFEs) were allowed in China since 1986 (Fung, Iizaka & Tong, 2004), international JVs with Chinese partners remained the predominant configuration for foreign enterprises which entered the Chinese market during the early years of deregulation (Puck, Holtbrügge & Mohr, 2009). The reason for this was restricting policies of foreign direct investment in many sectors (Puck et al. 2009). However, in 2004, the majority of new entries into the Chinese market consisted of WOFEs (MOFCOM, 2006, cited in Puck et al. 2009).

JVs form legally independent entities that share equity investments and returns on these investments (Chen et al. 2009). The terms in the JV contracts can also assign managerial rights, define performance expectations and mandate transfer of knowledge (Chalos & O’Connor, 2004). However, it is typically necessary for JV partners to establish control mechanisms, in order to ensure the fulfilment of vaguely contractual or extracontractual activities, and to align objectives between the partaking companies (Chalos & O’Connor, 2004; Chen et al. 2009). The challenges that JVs face are caused not only by physical distance, but also by distance in terms of culture and administration, which need to be addressed in order to establish meaningful control in the JV company (Chen et al. 2009).
The entry choice between forming a JV and establishing a wholly owned subsidiary has largely been considered from the TCE perspective, but some studies have also focused on factors such as cultural distance (López-Duarte & Vidal-Suárez, 2013) and firm or industry related factors (Yiu & Makino, 2002). Several studies have defined output, behavior and cultural controls as control mechanisms used in international JVs (Chen, Paik & Park, 2010; Chen et al. 2009; Dekker, 2004; Groot & Merchant, 2000).

Several studies support the notion that Chinese companies have increasingly adopted Western MA practices when engaging in JVs and facing global market competition. Firth (1996) found that Chinese enterprises engaging in JVs with foreign companies saw a greater degree of change in their MA systems, than similar firms with no joint venture with foreign entities. In their study, O’Connor, Chow and Wu (2004) interviewed managers at Chinese state-owned enterprises (SOEs). Based on the interviews, the authors concluded that Chinese SOEs increasingly adopt “Western” MA and MC practices. Tsamenyi, Sahadev and Qiao (2011) found that Chinese firms pursuing a differentiation strategy and using MCSs with more non-financial measures performed better, which indicates that aligning MCSs with strategy would be beneficial in a Chinese context. Findings from O’Connor, Vera-Muñoz and Chan (2011) show that domestically oriented Chinese companies use MCSs as a way to respond to the threat of foreign entrants, while predominantly internationally oriented Chinese companies use MCSs to formalize procedures within the company.

3.5 Competitive pressure and the market uncertainty

The environment’s effect on implementation of PMSs is notable. Pressure from competitors is a factor that has been addressed by many studies (e.g., Dossi & Patelli, 2008; Kornacker et al. 2018; O’Connor et al. 2011). According to Prahalad and Doz (1987, p. 66), global competition drives building interconnected strategic infrastructures in manufacturing and marketing, in order for companies to attain cost advantages in different markets globally, while also influencing the price of the
products in local markets. Therefore, company headquarters would be inclined to use PMSs to support and incite subsidiary decision making, responding to high competitiveness (Dossi & Patelli, 2008).

Evidence from Dossi and Patelli’s (2008) study imply that global pressure from competition can facilitate the adoption of performance measurement systems and the implementation of local strategies, through utilization of these systems. However, Kornacker et al. (2018) found that higher degrees of competition result in less predictable markets, wherefore the adoption of budget control structures might face resistance from the subsidiaries, if a lack of trust in the structure utility exists. Environmental complexity is also addressed by Mahlendorf et al. (2012). The results from their study suggest that subsidiaries are susceptible to parent company influence, as well as to adopting parent company PMSs, if these PMSs are reactive and adaptable to the local environment. O’Connor et al. (2011) also suggest that competitive pressure forces Chinese companies to adopt MCSs to a higher degree. Thus, pressure from competition could facilitate parent company PMS adoption, if these measures are suitable for the local environment.

3.6 PMS modification and use

Results from the studies of Cruz et al. (2011) and Kornacker et al. (2018) indicate that if PMSs imposed by the parent company are perceived to have low utility, they might be rejected or modified, instead of being directly adopted. The modifications may occur through subsidiaries participating in the design, before the system is implemented, or at subsidiary level, where the system is adjusted or extended to fit local requirements (Cruz et al. 2011; Kornacker et al. 2018). Subsidiary participation in designing performance measures has been found to be positively related to performance measurement system diversity, which implies that the systems are more likely to fit local requirements (Dossi & Patelli, 2008). Findings from Cruz et al. (2011) and Kornacker et al. (2018) suggest that subsidiaries may diversify the parent company-imposed systems, exemplified by rolling forecasting being implemented at
MNE subsidiaries, exceeding the parent company demands. There is however some evidence suggesting that participation in PMS design might have negative effects on performance, in the Chinese context. Tsui (2001) found that a higher level of budget participation results in a negative relationship between MAS information and managerial performance, for Chinese managers. In contrast, this relationship was the opposite for Caucasian managers (Tsui, 2001). However, Western education and experience from abroad among employees could expedite the adoption of foreign PMSs at Chinese subsidiaries (Kornacker et al. 2018).

Robertson (1995, cited in Cruz et al. 2011) argues that globalization does not occur without localization, nor does localization oppose the globalization process. Instead, globalization and homogenization occur while accommodating the local heterogeneities, which results in a complementary and interactive process (Robertson, 1995, cited in Cruz et al. 2011). Cruz et al. (2011) and Dossi and Patelli (2008) have found that the global MCSs can be reproduced successfully at the subsidiary level, but that they are also adapted to the local requirements, and that in addition to being implemented by HQ, PMSs can also be developed organically by subsidiaries. Both studies find that local systems can coexist with systems implemented by the parent company.

3.7 Reward and PMS linkage

Theory regards compensation as an important part of performance management and control, and therefore emphasizes the link between compensation practices and PMSs (Bedford & Malmi, 2015; Bonner & Sprinkle, 2002; Malmi & Brown, 2008). Evidence from O’Connor et al. (2011) suggests that MCSs in Chinese firms are not as strongly linked to compensation, as they are in international firms operating in China. However, some evidence suggests that incentive compensation which is connected to performance measures, has a higher predominance in China, than in Western countries (Merchant et al. 2011). Incentivizing performance with rewards is however a common practice in China (Kornacker et al. 2018; Merchant et al. 2011). Dossi and
Patelli (2008) have concluded that linking performance measurement systems to rewards does not increase parent-company influence on the subsidiary’s decisions, in contrast to findings presented by Mahlendorf et al. (2012). Evidence from Mahlendorf et al. (2012) implies that there is strong link between managerial compensation and parent company PMS influence on subsidiaries’ decisions. Therefore, based on theory and prior studies, MNEs could be expected to use compensation as a mechanism to align managerial behavior with the intended purpose of the PMSs.

3.8 Summary

In conclusion, the parent company could be expected to implement PMSs at its subsidiaries for several reasons, including global operations that is driven by competitive forces (Dossi & Patelli, 2008; O’Connor et al. 2011; Prahalad & Doz, 1987, p. 66). There is a multitude of contextual factors that can influence PMSs, and therefore potentially catalyze their reshaping. These factors include rules and regulations, economic, political and socio-cultural, individual values and beliefs, culture and organizational structure. MNEs also have multiple measures of integrating operations or controlling their subsidiaries. Examples of these include MA tools, such as performance measurement and target setting, standardized reporting, expatriate staffing, communication, reporting and employee training, among others. These measures can be used to mitigate the effects of contextual factors that complicate aligning the subsidiary with the parent company, which is especially important in achieving a globally unified effort at MNEs (Busco et al. 2008). Since localization can be viewed as a complementary process of globalization (Robertson, 1995, cited in Cruz et al. 2011), PMSs could be expected to be modified when implemented at subsidiaries (Cruz et al. 2011). Consequently, HQ implementing control structures at their Chinese subsidiaries may result in adoption, rejection or reshaping of certain structures (Kornacker et al. 2018).
4. Methodology

In this chapter, the methods and motivations behind the selection of methods that are used in this study are presented. Subsequently, some methodological key considerations are discussed, followed by a presentation of the research design of this study.

Research in MA has an established tradition of applying qualitative research methods, which has produced multifaceted theories, wholesome methodological discussion and rich empirical data (Parker, 2012). Nevertheless, Parker (2012) admonishes against insufficient knowledge about the history and the fundamentals in quantitative studies in MA. MA research can be divided into two perspectives: A positivistic research perspective, which includes generalizable and predictive theories about behavior, and a micro-organizational perspective, which treats MA and management control as interdependent and context-bound, characterized by organization-specific configurations (Parker, 2012). Parker (2012) argues that qualitative research enables a deeper understanding of the underlying contingencies of MA. Furthermore, it allows researchers to understand the realities behind generalizations derived from quantitative research and to challenge or revise existing theories (Parker, 2012).

In their paper, Granlund and Lukka (2017) critique the predominant, etic approach that current contingency-based MA research has. The authors argue that more research should apply an emic approach, that is conducting research within organizations, instead of the by and large institutionalized etic approach, which entails making observations from the outside. The authors argue that the emic approach enables new and more detailed descriptions of the uncertainties that MA contingency theory research has found, which contributes to invigorating this area of research. Otley (2016) has made similar notions and argues that a more attentive, tailor-made approach should be taken to better consider organization-specific contingencies in research. Endenich et al. (2011) advocate analyzing MA networks in international contexts through intra-corporate, theory-driven field studies or
detailed case-studies. Following the arguments explained above, this study follows a multiple case study design, involving four MNEs that are headquartered in Finland and have operations in China.

4.1 The multiple case study method

The case study research methodology is well suited to answer *how* and *why* questions (Yin, 2018, p. 13). In order to properly address the complexity of this study’s purpose, posing *how* and *why* questions is essential. Thus, the research questions posed in this study are formulated as:

**RQ1:** Do company HQs manage subsidiary performance through performance measures and target setting and how are the aforementioned performance management structures imposed on subsidiaries?

**RQ2:** Are the PMSs adopted, reshaped or rejected at the subsidiaries? How are these HQ-imposed PMSs actually used at the subsidiaries?

Answering the above research questions of this study requires an understanding of the underlying contingencies and motivations behind the design and implementation of PMSs. Since a qualitative approach and the case study method support acquiring deeper and contextualized knowledge of a subject (Bhattacherjee, 2008, p. 93; Pauwels & Matthyssens, 2004, p. 126), these methods have been chosen for this study.

Pauwels and Matthyssens (2004, p. 126) note that multiple case studies are an important research method in international business research. This type of research focuses on middle-range theory, which involves deconstructing complex realities of an underlying phenomenon and ultimately constructing explanatory middle-range theory (Pauwels & Matthyssens, 2004, p. 126). Single case studies and multiple case studies can be considered to be variants of the same methodological framework, that is case study research (Yin, 2018, p. 54). Yin (2018, p. 61) advocates the use of the
multiple case study design over the single case design, since each case provides additional evidence, making the findings ampler and more robust.

This study follows the multiple case study replication procedure, as described by Yin (2018, pp. 57–8). According to Yin (2018, pp. 57–8), the process can be divided into three phases:

The first phase should preferably consist of *theory development*, followed by *case-selection* and designing the *data collection protocol*.

The second phase involves preparing, collecting and analyzing data for each selected case, replicating the study in multiple cases. This phase results in individual case reports for each studied case.

In the final, third phase, the results from the individual case studies are analyzed and compared, after which theory is modified. The case is concluded with a *cross-case report*. These case studies can consist of either holistic or embedded case studies (Yin, 2018, p. 60).

4.2 Research design considerations

Some of the criticism qualitative research has faced are methodological vagueness and a lack of methodological rigor. In order to mitigate the justifications for such critique, Pauwels and Matthyssens (2004, p. 125) have constructed a methodological framework for multiple case study research with four key elements: Theoretical sampling, triangulation, pattern-matching logic and analytical generalization.

**Theoretical sampling** encompasses deliberately sampling both typical and atypical cases and subjects within cases. Concerning MNEs, this means sampling on multiple levels within the company, ranging from business units and subsidiaries to individual employees (Pauwels & Matthyssens, 2004, p. 129).
**Triangulation** entails integrating multiple sources of data in the research design. Utilizing data from multiple data sources improves the validity of the study, since it reduces random measurement errors. Triangulation can be achieved by combining primary and secondary data sources and by interviewing multiple respondents on the same topic or interviewing the same respondent multiple times. (Pauwels & Matthyssens, 2004, pp. 129–30).

**Pattern-matching logic** essentially means comparing empirical observations with predicted patterns. In case studies, this includes comparing pattern models from events observed in individual cases to each other, and finally to existing literature. (Pauwels & Matthyssens, 2004, pp. 130–1)

**Analytical generalization** is validating the research outcomes by comparing the findings with existing theory. Analytical generalization shows if the results of the study support extant theory or diverges from it. (Pauwels & Matthyssens, 2004, pp. 130–1)

Lacks in any of these basic elements can cause the ongoing, circular research process to fail and result in invalid findings. Caveats in juxtaposing data, theories and patterns in emergent theories from the study, as well as in the data collection, analysis and comparison with existing theories, can all lead to invalid results in the study. (Pauwels & Matthyssens, 2004, p. 131)

Even though multiple case study research is context-bound and intersubjective, and seems to conflict with objectivity, it on one hand represents both detachment from the context, biases and error, and on the other hand commitment to the objective of the study (Pauwels & Matthyssens, 2004, p. 127).

Considering the local contingencies is important in the Chinese context (Tsui, 2006; Zhang et al. 2011). Tsui (2006) exemplifies contextuality as individual-level cognitions (e.g., heuristics, thought processes and linguistic abilities) and organizational-level roles. Furthermore, the societal level resonates values and beliefs through the
government, media, religion and education. These factors, in conjunction with major occurrences, such as discoveries, wars, revolutions and scandals, shape the history, which consequently becomes part of a context. Hence, understanding underlying factors, such as the culture, political sphere, legal system, history, economy and geography are all relevant factors that shape a context. Tsui (2006) advocates first-hand observations of participants and non-participants at local organizations, as the insights provided by actual presence better relying on observations from a distance. The applicability of Western theories in the Chinese context must also be critically evaluated, since many underlying assumptions to theories may differ between contexts, as the reasoning and logic behind theories can be heavily influenced by factors such as culture. Concludingly, Tsui (2006) encourages research that builds on Western management concepts to be applied in the Chinese context. (Tsui, 2006)

4.3 Preparations

In order to conduct a case study successfully, several preparations are needed. Yin (2018, p. 82) describes the first important consideration as assessing the researcher’s values and skills before conducting research. This includes preparing and asking appropriate questions for collecting data, being free from ideologies and biases, adapting to new situations, and conducting research in an ethical manner (Yin, 2018, p. 82).

The first step of conducting a research project is to determine the research area and develop general research questions that are derived from theory (Bryman & Bell, 2015, p. 395; Eriksson & Kovalainen, 2008, p. 26). These research questions can be adjusted and specified during the course of the research, as the research design often needs to acclimate to unexpected deviations and surprises that may emerge (Eriksson & Kovalainen, 2008, p. 26).

The research process in this study was initiated through accruing theoretical knowledge on the topics relevant to this study, in order to enable theory
development in later research phases. Having built a solid theoretical foundation based on MA literature, the research questions for this study were formed.

4.4 Case companies

The subsequent step, following theory development, was the selection of relevant case companies and participants for the study. Since the purpose of qualitative studies is often not to make generalizations, a systematic sampling method is typically not required, whereas accessibility and suitability are more prominent issues to consider (Eriksson & Kovalainen, 2008, p. 51). Since access to companies often constitutes a hurdle for researchers (Eriksson & Kovalainen, 2008, p. 51), the selection of case companies was determined firstly by access and secondly, by the following suitability requirements:

1. The company is an MNE and is headquartered in Finland
2. The company operates in China
3. The company has more than 500 employees globally

After contacting accessible and suitable case companies, a total of four companies agreed to participate in the study. The case companies represented three different industries, and the subsidiaries operated various business functions, illustrated in the table on the next page.
Table 1. Case companies, industries and types of operation

<table>
<thead>
<tr>
<th>Company</th>
<th>Industry</th>
<th>Type of operation</th>
</tr>
</thead>
<tbody>
<tr>
<td>San Industries</td>
<td>Heavy industry</td>
<td>Manufacturing, services, sales</td>
</tr>
<tr>
<td>Senco China</td>
<td>Heavy industry</td>
<td>Sales</td>
</tr>
<tr>
<td>Atlas</td>
<td>Heavy industry</td>
<td>Manufacturing, services, sales</td>
</tr>
<tr>
<td>Maera Ltd.</td>
<td></td>
<td>Fabrication, support functions</td>
</tr>
<tr>
<td>Lin Group</td>
<td>Raw-material industry</td>
<td>Manufacturing and sales</td>
</tr>
<tr>
<td>Lintec</td>
<td>Raw-material industry</td>
<td>Manufacturing and sales</td>
</tr>
<tr>
<td>Helix</td>
<td>Health care</td>
<td>Manufacturing and sales</td>
</tr>
<tr>
<td>Helix China</td>
<td>Health care</td>
<td>Sales</td>
</tr>
</tbody>
</table>

*Group or parent company (bolded)
Subsidiary (regular)*

The participating case companies have been given pseudonyms, in order to preserve their anonymity.

4.5 Participants

Interviewees were determined by theoretical sampling principles of selecting individuals representing both the company HQ and the local subsidiary management, and by interviewee accessibility. This selection principle was also inherent for the research design itself; As Ferreira and Otley (2009) note, and Broadbent and Laughlin (2009) reiterate, the PMS framework of Ferreira and Otley (2009), which utilized in this study (see section 4.6), requires a multi-level analysis of the companies involved, for the portrayal of the MCS to be comprehensive. In other words, interviews should be conducted on multiple hierarchical levels at the company (Broadbent & Laughlin, 2009; Ferreira & Otley, 2009). Due to the notion above, and due to this type of a design being intrinsic for addressing the purpose of the study, interviews were conducted with key employees with insights of the procedures at company HQ, and with and employees in key positions at the subsidiaries, in China.
Table 2. Interviewee grouping

<table>
<thead>
<tr>
<th>Company</th>
<th>Group 1</th>
<th>Group 2</th>
<th>Group 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Senco</td>
<td>VP of Finance, APAC</td>
<td>VP, Greater China</td>
<td>FP &amp; A Manager, Finance</td>
</tr>
<tr>
<td>Atlas/Maera Ltd.</td>
<td>VP of Finance, BA</td>
<td>General Manager</td>
<td>CFO, unit</td>
</tr>
<tr>
<td>Lin Group/Lintec</td>
<td>CFO, BA</td>
<td></td>
<td>Head of HR, APAC</td>
</tr>
<tr>
<td>Helix</td>
<td>Area Manager</td>
<td>Chief Representative</td>
<td></td>
</tr>
</tbody>
</table>

Abbreviations: APAC = Asia-Pacific; BA = Business Area; CFO = Chief Financial Officer; FP & A = Financial Planning and Analysis; HR = Human Resources; VP = Vice President

The first group of interviewees (Group 1) consisted of Finnish managers at the MNEs, who were involved in the company’s control or performance management processes, while having a wide perspective of the MNE’s Chinese subsidiary and its operations. The second group (Group 2) of interviewees consisted of managers at each of the subsidiaries in China, with extensive knowledge of the subsidiary’s operative and financial activities. The third group (Group 3) comprised local managers in performance management, business control and in HR, employed at the subsidiaries.4

4.6 Interviews, interview protocol and questions

Prior to the interviews, a general case study protocol was constructed, and subsequently followed during the interview process. The protocol included an overview or the study, a tentative outline of the study report, protocol questions, that is central questions to remember when collecting data and addressing the research questions, a description of data collection plans and procedures, as recommended by Yin (2018, pp. 94–5). Relevant, publicly available material of the subject organizations was also compiled and studied, prior to the interviews.

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4 For a more detailed table of interviewee information, see Appendix 6
Interview questions were developed from the PMS framework of Ferreira and Otley (2009). The framework was reinforced with notions from Broadbent and Lauglin’s (2009) paper, both in the research design process and in the results analysis. As Broadbent and Laughlin (2009) argue, the questions in Ferreira and Otley’s (2009) framework must be adapted according to the organizational level, at which the interviewees are capable of answering the questions that are posed. Thus, the questions for each group were modified according to the organizational level and the individuals’ roles at the company, in order to ensure that the interview questions were relevant for each group of interviewees. Accordingly, three separate, but similar sets of interview questions were constructed to reflect three different types of perspectives at the organizations. The interview questions for Group 1 were designed to provide insights of HQ’s perspective on managing the subsidiary. The interview questions for Group 2 were designed to provide insights of the local subsidiary’s control relationship with HQ. The interview questions for Group 3 were designed to provide insights of the subsidiary’s local operations, and how the measures implemented by HQ are reflected on a local level. The final interview questions consisted of three distinct areas and eleven question topics, derived from Ferreira and Otley’s (2009) PMS framework:

**I: Strategy, key success factors and organizational structure**
- The role of communicating mission and vision to the subsidiary (Q1)
- Determining and communicating key success factors (Q2)
- Company structure and the role of company HQ (Q3)
- Strategy formulation at the subsidiary (Q4)

**II: Performance measurement and evaluation**
- Performance indicators (Q5)
- Target setting (Q6)
- Performance evaluation (Q7)
- Rewards and anti-rewards (Q8)

**III: Information exchanges and operating environment**
- Information flows (Q9)
- Feedback and emergent strategies (Q10)
- Changes in PMSs and in the operating environment (Q11)
Each question (Q1–Q11) was further clarified with two to seven additional questions added under each question topic. The amount and framing of questions were dependent on the interview grouping. The twelfth question (Q12) of the framework, relating to how strongly the PMS’s components are linked to each other, was omitted from the interview questions, as the question’s purpose is to prompt deliberation of the answers of the preceding eleven questions in the framework.

The final interview agendas, containing a description of the study outline (Appendix 1), the topics and questions (Appendices 2–4) corresponding with the grouping classification (Group 1, 2 or 3,) were constructed for each interviewee group. These agendas were sent to each interviewee in advance. The agendas were reviewed after each interview, and information from prior interviews and document analysis was leveraged in subsequent interviews.

4.7 Data collection

Primary data for this study was obtained through ten semi-structured interviews at each MNE and its subsidiary, in China. Following Tsui’s (2006) recommendations of first-hand observations at local organizations for deeper insights in the subject, the interviews were, when possible, conducted at the workplace of each interviewee. This also enabled utilizing secondary sources, such as documents and informal discussions with employees and other observations, which were used to achieve a higher degree of triangulation and richer data for the study. Each interviewee was interviewed at least once, with one of the interviewees being interviewed twice, and one of the interviews involving two interviewees. The total number of interviewees participating in the study and interviews conducted were both ten. Nine of the interviews were conducted in English and one was conducted in Chinese. All interviews were recorded, enabling later analyses of the answers. The average duration of each interview recording was 56 minutes.
Other important data used in the study include publicly accessible documents, such as financial statements, annual reports, corporate governance reports and integrated reports, published by the case companies, as well as internal documents that were presented during interviews, such as reporting templates and organizational charts. When permitted, the material presented during the interviews was photographed, and in other cases, they were taken detailed notes on.

4.8 Data analysis and case reports

Each interview recording was transcribed in order to enable a meticulous analysis of the interviewees’ answers. The transcribed interviews were analyzed through content analysis. Content analysis “is an approach to the analysis of documents and texts (which may be printed or visual) that seeks to quantify content in terms of predetermined categories and in a systematic and replicable manner.” (Bryman & Bell, 2015, p. 298). The content of each interview was first coded into categories, representing the 11 interview question themes, whereafter pertinent content from the interviews were sorted in each category. Some categories were added or further specified, according to other common topics that arose from the interviews. The answers were then supplemented with content from both public and internal documents of case companies, after which interviews belonging to specific cases were compiled and refined into extensive case report drafts. These drafts contained 17 different categorizations. The broad drafts were further analyzed and condensed into four case reports, which are presented in the following chapter. The case reports are followed by a cross-case analysis, based on pattern-matching logic and analytical generalization, as suggested by Pauwels and Matthyssens (2004, pp. 130–1) and Yin (2018, p. 60). The cross-case analysis was facilitated with the aid of a data matrix (Appendix 5).
5. The cases

In this chapter, each of the four cases are presented separately. Each case report is organized into six different subject areas, to facilitate comparability between the cases.

5.1 Senco

The first case company, Senco, is one of the San Industries group’s several, independent business areas (BAs). The group is a manufacturer and service provider in the heavy industry, employs over ten thousand employees globally and has an annual turnover of several billion euros. Senco accounts for roughly half of the group’s employees and turnover, and the company has been present in the Chinese market for several decades.

Senco is divided into different divisions, in accordance with the product or service offering. The company is also divided into different geographical areas. Case interviews were conducted with the Vice President (VP) of Finance for the Asia-Pacific region (APAC), and at the subsidiary’s, Senco China’s headquarters, with the VP of Senco China and with a local Financial Planning and Analysis (FP&A) manager. Senco China is focused on managing the sales of products and services in China. In addition to operating Senco-owned and staffed units, sales in China and in the APAC region are also operated through an external network of local distributors.

San Industries’ BAs are quite independent, and there is little group-level managing, while Senco is quite integrated as a BA. The group mainly provides supporting, cost-base services, such as administrative, financial, human resources (HR), service center and transaction services to the different BAs. Many of these functions localized, in order to support the local businesses. For example, the Senco finance function operates in several locations globally, supporting local businesses, while still being a
separate function in the organization. In other words, the company has a complicated organizational structure, but it also has defined hierarchy structures within supporting functions, while business units have close horizontal relations with those supporting functions and are grouped under certain units, regions or business divisions. Vertical control structures in business operations are exemplified by boundary systems, which include a need for authorization from a higher level on nonstandard sales terms or sales quantities that exceed certain authorized limits of specific managers. There is also apparent horizontal control in the company value chain, as internal transfers are negotiated independently between units. San Industries has a global code of conduct, as well as group-wide rules and corporate responsibility policies.

Mission, vision and key success factors
Senco is a very mature business both globally and in China, which is evident from the market-leading position of the company. The KSFs of the company are derived from the company’s mission and vision statements, which have changed only slightly during the six to seven years. The company relies on its brand-image and on providing quality solutions, including products and services, to its customers. As a market leader, the company aims to shape the future of the industry, and therefore, predicting customer needs in advance is one of the company’s KSFs, in addition to offering quality, service and innovative solutions to customers.

Strategy and plans
The strategic process in the group is quite HQ-driven, and strategic planning at the subsidiary level is marginal. Senco’s strategies are largely determined at the Senco BA level, and local planning is mostly tactical. The company defines strategies for three to four years, which is initiated by a strategy planning team. The Senco China management can give feedback on the first draft of the strategy, which is ultimately decided by the BA management. A global strategy is set for the whole group, and this strategy is then adapted and concretized locally through local action plans and KSFs, supporting strategy execution.
Strategy is communicated and updated through global, quarterly meetings, normally hosted by the group CEO. After each global meeting, the subsidiary also holds an additional meeting in Chinese, in which the content from the global meeting is translated. Thus, the content is made easily comprehensible to all employees at Senco China. The strategies are also communicated through internal communication channels, and even through strategy maps at offices. Most importantly, the area managers and the local managers are responsible for communicating and illustrating the meaning of the global strategy in the local context, to employees. The strategy communication skills of managers have also been addressed through group-wide management training, which had strong focus on strategy communication. Overall, there is much emphasis on strategy communication at the subsidiary, exemplified by the VP of Senco China:

I would like to see people understand more. You know, [that] they really understand all the dots in our strategy and connect those dots with their daily operation[s]. It's very important for them to understand whatever we do, or whatever they do, it will ultimately contribute to the future. (VP, Senco China)

Strategy execution is also supported by management setting certain targets that are measured with KPIs, derived from local KSFs. Larger strategic changes that are initiated on HQ or BA levels are cascaded down by line managers through chats and discussions with subordinates. Overall, company mission, vision and KFSs are impactful at Senco China.

Performance measures (KPIs)

KPIs are determined by HQ, BAs and then divisions. The KPIs are agreed upon between organizational echelons in a yearly budgeting process, for each budget year. The main KPIs that HQ uses are consolidated aggregates from KPIs, used at BAs. Specific KPIs are set at the regional and local levels, and there might be some special metrics used at specific sales units. However, the primary KPIs used at the Senco sales units are similar, in order to enable comparability between units; Around 80–90% of
the KPIs agreed in the yearly budget process are common between all sales unit entities:

In order to have a comparison between the different front lines, we have similar KPIs and basically we have a quite organized KPI follow-up currently. We have, let's say, quite good tools to follow it up and then we know we are measuring same thing in different locations. (VP Finance, Senco APAC)

However, some standardized KPIs are perceived as “unfair” at the subsidiary level:

So maybe we have different business models in different markets. So some kind of KPIs may apply in this market, but doesn't apply to [the] other market. (VP of Senco China)

The VP of Senco exemplified this with dealerships without Senco staff, only selling products, and units with Senco staff, having the same KPIs measuring their financial performance. In this case, the sales to overhead costs ratio might be on an excellent level at the dealerships, while the positive externalities of controlling the sales process, measured by a customer satisfaction KPI, might be better in the latter, Senco units. This results in problems in comparability, as the KPIs measure different aspects of performance, and cutting costs to enhance financial performance presumably has adverse effects on customer satisfaction, and therefore on future sales.

Standard KPIs at Senco include several financial indicators, such as sales volume, profit and cash flow, and other, non-financial indicators. Global strategy change and adoption is facilitated through incorporation or emphasis of certain KPIs. An example of company KPIs shifting to support the global strategy is the emphasis on incorporating services in sales contracts. Perhaps the most important KPI that is emphasized throughout the company is safety. This indicator is always placed first on slides and presentations and is addressed first in reports and reviews, and it is followed meticulously by the HQ and by the CEO. Furthermore, all employees are obliged to report any incident involving injuries, even in office environments, which underlines the safety emphasis at the company.
Another important KPI at Senco is integrated profit, which includes all costs attributed to a certain product from manufacturing to reaching the customer. This KPI is used for all management compensation schemes at the company, and for the evaluation of unit performance and unit contribution on a company and group level. As the measure also reflects company-level performance, it is aimed to drive unity in the organization, but despite this, it sometimes fails to guarantee cooperation that would be beneficial on the company level. For example, the transfer of products might be hampered by conflicting internal targets and KPIs:

Sometimes in [Senco, case company name removed] the priorities are not the same and the market areas maybe don’t get what they want because [...] they [the KPIs] are not aligned all the way [through the organization], and not in this kind of top level of the organization, but somewhere in the middle management, and that creates lots of unnecessary waste in terms of internal time and internal discussions. (VP Finance, Senco APAC)

The KPIs and targets might be aligned on a local level but fail to be aligned with a different market region. Therefore, internal targets are given a higher priority locally, although the company as a whole would benefit from transferring products into another market region.

Targets and performance evaluation

The targets are set through a “quite traditional”, annual target setting process, and are based on the group’s strategic targets. The targets at Senco are based on prior data on sales volumes and on profitability targets of regions or market areas. The budgets are hence built from the bottom up, and the operational KPI targets are “generic” and based on current or historical performance and improvement potential, or forecasts. At Senco, HQ determines targets for its BAs, and the BAs distribute these targets to the different business divisions in the company. The APAC sales units propose certain budgets, which are then approved by the business division’s central operations, when deemed aligned with strategy formulation.

The targets that APAC management sets for Senco China are quite detailed. These include customer-base growth targets, operational efficiency targets (e.g., technician
utilization rate, invoice lead time, contract attraction rate). Sales targets also assigned for every country, but the consolidated regional performance is primarily followed up. With new product launches, Senco might also set specific sales volume targets for certain countries, which are then reviewed. Almost all targets at Senco China come from upstream in the organization. These targets are mainly long-term targets, measuring profitability, for example. It is very challenging for the subsidiary to negotiate these targets, since superordinates will think it is a “typical strategy” for a sales organization to try to agree on easier targets, in order to easier obtain bonuses, that is creating budgetary slack.

The San Industries HQ also gives general guidelines and sets goals for more comprehensive matters, such as developing Senco’s cost structure. These goals may be connected to key employees’ personal targets, and they are further cascaded down to the local organizations. This is apparent, as both the APAC VP of Finance and Senco China’s FP&A have the same individual target of developing a leaner cost-structure at the company. The FP&A manager perceives personal targets at Senco moderately challenging. The personal targets are reviewed on a scale of one to five, where the number three is the default target, that the employee is expected to reach. Each performance level is consequently connected to monetary incentives.

Deviations from targets always require explanations. If a target is not met, an action plan must be developed by managers, and performance is then later followed up. More weight is placed on analyzing reasons for deviations in quarterly reviews than in monthly reviews.

Incentive systems and individual evaluation

The rules and guidelines for compensation practices and bonus plans for management are set at the group level. However, there is variance in these practices, due to the different cultures and regulations in countries, in which the group has operations. Each country has, for example, separate salary systems, and Chinese managers’ salaries consist to a higher degree of incentive pay, than their
counterparts in the Nordic countries. Individual employees’ performance is evaluated with personal development plans, which in turn are connected to bonuses and salaries. The plans are regularly reviewed and discussed with direct superiors of the employees.

There is clear congruence between individual targets and company-level targets at Senco. For managers, targets typically consist of 60% “hard” financial targets, such as integrated profit, sales volume, cash flow, and 40% of the targets are tied to KSFs and personal targets. An example of a management-level personal target, set by HQ, is the aforementioned cost-savings goal and supporting structural change in the organization. Integrated profit measures how much a certain business unit or area contributes to the company as a whole. This includes the profitabilities of the supplier, the principal entity in Finland and the local entity, which are then jointly calculated to form a measure. For salespeople, incentives are connected to sales volumes and cash flow from the transactions, while other departments reward consistency of performance, with a higher fixed part of income. Management normally has a higher proportion of financial targets in their compensation incentive system than employees do.

Reporting and communication

Reporting is a monthly activity at Senco. Monthly performance reviews are built bottom-up at Senco China, after which they are reported straight to teams in the corresponding business function or division, and through the line organization to Senco’s APAC management team. The APAC management team reviews the report, consolidates reports from the whole region, and then reports upstream to the BA management, which reports further to San Industries management. The reports are consolidated at each reporting level.

Both the timing and the content of the reports is standardized in the whole organization. Senco uses a fixed template for reporting, which consists of five sections: A safety report, an executive summary with a review of the reporting period,
a market outlook, follow-up action plans for any deviations in KPIs, and finally, the key financial information and the KPIs for the reporting period.

Even though KPIs might vary between different divisions, the financial data is standardized, and the contents of the reporting template is agreed on for each budgeted year and updated later, if deemed necessary.

If HQ requires explanations for deviations, APAC management must analyze the cause of it and construct an action plan to address the deviation. Certain problems get more attention than others, and larger problems at subsidiaries are addressed at the regional or HQ levels. One issue related to standardization, consolidation, and limited management attention, mentioned by VP of Senco China, is the lack of feedback on KPIs and deviation-caused action plans:

We are always being measured but we don't know what we can get in terms of business support. I mean, for example, you report this month I’m doing extremely good. But next month I may be failing this target and I will say that ‘this issue, that issue’ in this report, I need to explain, right? But then with this explanation you don’t necessarily see immediate comments or reactions, or even actions from somewhere [sic]. So those messages may just get lost somewhere, until it gets really serious. (VP of Senco China)

Smaller issues are left to local managers to attend to, as only larger problems are addressed by superordinates. However, deviations are a prominent reason behind additional communication between subsidiaries and other management teams.

There are common information systems, used in the entire group. These include, among others, a common ERP system and financial reporting systems. HQ and BA management has access to all the data in the systems, resulting in complete transparency of all transactions in the group. The local teams do not definitively know what data is analyzed by each BA or by HQ, but Senco typically relies on monthly and quarterly reports to review performance. These reports are created by using the common reporting software. Besides standard reporting, some KPIs are monitored more frequently, when deemed necessary.
5.2 Atlas and Maera Ltd.

The second case company, *Atlas*, is a manufacturer and service provider in the heavy industry. The group employs more than ten thousand employees globally and has a yearly turnover of several billion euros. Atlas is divided into several BAs, which are further divided into different business units, according to the type of operations. Atlas’ BAs are independent, owning their own product lines, and independently engineering and selling their products. However, the supply units for the BAs are global in the sense that they support all three BAs. *Maera Ltd.* is a Chinese subsidiary belonging to one of the group’s business units. Maera Ltd. has recently been acquired by Atlas and is a joint venture which employs a few hundred employees. Due to the global nature of the group’s operations, the location of the subsidiary does not determine to which specific unit one business belongs to, as each subsidiary can serve and contribute to several different businesses. The group has a “typical international structure” with support functions such as HR, IT and finance. The finance function, for example, supports the local business operations, provides guidance and drives the business, but is an independent function. The subsidiary has vertical control structures, exemplified by individual authorization domains, where for instance larger transactions require the approval of superordinates. Maera Ltd. is currently going through a restructuring process, through which the company will be integrated to Atlas and contribute to a variety of global functions at the group level. There are group-wide rules and policies at Atlas, codified in, among others, a code of conduct and in corporate responsibility policies.

Interviews were conducted with the Vice President of Group Finance (VPGF) for the one of the group’s BAs, and at the subsidiary, with the General Manager (GM) and the Chief Financial Officer (CFO) of Maera Ltd.

**Mission, vision and key success factors**

Atlas has HQ-defined KSFs and global targets, which are cascaded down to units from the HQ level, and which support the customer-oriented mission and vision
statements of the company. Atlas is one of the industry market leaders globally and has strong presence in China. Due to the restructuring program at Maera Ltd., the subsidiary’s mission and KSF have shifted towards using the local key competencies at Maera Ltd, that is the local employees, to contribute to Atlas Co’s global business operations, while also supporting the existing business lines at Maera Ltd.

Maera Ltd. will contribute to different functions such as finance, engineering, project management, sales, HR and subcontracting. The company also expects to benefit from integration through insourcing Atlas’ global subcontracting network.

Maera Ltd. is essentially completely integrated in Atlas, whereby all corporate policies apply to the company, but due to the restructuring, processes are still being harmonized with group standards. The policies include financial policies and HR guidelines, among others.

Strategy and plans

The strategy at Atlas is developed at HQ level for the whole group, which is then pushed down through the whole organization:

We don’t have a really different strategy process for the local subsidiaries. We have a group strategy level and that’s been rolled out to the subsidiary. (VPGF, Atlas)

Tactical decisions are made on the subsidiary level, through which subsidiaries contribute to the global, corporate strategy. Subsidiaries as legal entities in Atlas are in essence “like vehicles for the group in a certain country” (VPGF, Atlas). The service business is an example of a business that is a local business, and therefore requires presence in countries that services operate in. However, operations in many countries do not require local presence of the group and are instead operated through distributors.

Maera Ltd. has local strategic goals to be successfully integrated to Atlas.

The finance function at Maera Ltd. is for example responsible of building a strict control environment at the subsidiary. This means that all business activities are under certain control and reported by certain metrics. An example of this is that all
larger decisions made at Maera Ltd. need approval from either superordinates at Atlas, or supporting functions, such as from the contract management or financial teams. The importance of having a strict control environment is well illustrated by the VPGF of Atlas:

We are a very finance driven company, you know where one of the key characteristics we have a very strong group reporting practice, and that’s pushed down to the individual units.

(VPGF, Atlas)

This view is reiterated by the CFO at Maera Ltd.:

[With respect to] the finance strategy plan perspective, we will say that first of all, like I mentioned, we will build up a strictly controlled environment. That means every business activity is under certain control and is reported by certain required metrics. (CFO, Maera Ltd.)

Local plans listed by the CFO at Maera Ltd. are also aimed to align the subsidiary with global practices, as they among others include building a self-motivated team that can dedicate themselves to the company and follow the policy environment. Personal engagement is also promoted through training, especially concerning the safety culture that Atlas fosters.

Performance measures (KPIs)

The group uses the same measures regardless of the country, unless regulations prohibit the use of certain metrics. These metrics are decided at the HQ, BA and business unit levels, while local subsidiaries determine some local, specific KPIs, derived from the standardized ones. There is an annual planning process for setting up different performance measures for the year, depending on which issues management wishes to address that year. These are then communicated to employees, while the key focus areas, what is measured and its meaning, and how often it is measured, are explained to employees. Currently, a special focus at Maera Ltd. is safety, which involves increasing safety awareness and inducing the adoption of a safety-oriented culture, among local employees. The main measures monitored
by HQ are order and sales volumes, profitability measures and safety. The latter measure is particularly important in the whole organization, which is apparent also in local action plans at Maera Ltd.

**Targets and performance evaluation**

Atlas has an annual planning process at the HQ level, during which a framework is set for group-level targets. This target framework is built bottom-up from the group-level and BA-level targets, after which it is adjusted by senior management, and then approved by the board of directors. These targets mainly consist of sales and profitability targets. The targets are then distributed throughout the organization, to smaller and smaller units.

As Maera Ltd. is in the middle of an integration process, it is gradually adopting more corporate metrics, in order to increase its understanding of the business and of the comparability between different business units. However, the subsidiary is very much aligned with HQ in target setting; The subsidiary jointly plans and agrees on, for example, financial targets derived from BA or the business-unit level targets. The subsidiary then sets its own specific targets and specifies its own metrics based on its own experience. These metrics are always aligned with and support the corporate-level targets. The subsidiary’s goal is then to make sure that the company’s four or five-year strategy and its incremental targets are reached.

The financial performance of different units is reviewed monthly, or even weekly, through reporting, at monthly management meetings with fixed agendas, and in departmental meetings. At Maera Ltd., targets are compared to the incremental targets set on the business-unit level, after which actions are taken where they are required. If certain targets are not reached, enough attention will be given to the unit by HQ, in order to recover the performance to a desired level. Thus, managerial level performance is under constant evaluation. At Maera Ltd., safety-related metrics are closely monitored and emphasized through monthly safety meetings, in which all
personnel participates in in some way. Based on follow-ups, reviews and meetings, corrective actions are taken if performance fails to meet set targets.

**Incentive systems and individual evaluation**

Atlas has a group HR policy, which determines the ranges and the importance of certain targets on the individual level, and on different organizational levels. In some countries, local regulations prohibit individual targets, and the policy is therefore adjusted to the localities.

An annual individual performance plan is set for all employees at Atlas. These plans consist of a combination of both company-level and individual targets, which are set through discussions between employees and their direct superiors, to ensure that the targets are reasonable and achievable. Performance is reviewed at least twice a year by the employees’ superiors in a process, which starts from reviewing the CEO, moving down through the organization. The targets and actual performance are compared, and development needs are discussed, while the targets are also updated and adjusted if necessary. Completion of these reviews is mandatory, also from an information systems perspective. Reviews are registered in an information system, while some annual, one-time monetary incentive schemes, if any, are partly based on these reviews. The HR system allows monthly follow-ups in tracking personal targets. Safety targets and some key financial targets are monitored more closely than others, as continuous individual performance monitoring, especially managerial performance monitoring, is imperative to the group’s control practice.

Employees at Atlas have at least one unit-level and one upper, company-level target in their incentive plan, which are linked to the individuals’ plans. Individual targets depend on the individual’s role in the organization, and higher level employees’ targets consist of typically of more financial targets. Performance targets include different weighted targets, where group, business unit, local, and individual-level targets each constitute a percentage of the total incentive compensation. Individual target setting principles in Finland and China do not differ from each other.
At Maera Ltd., there are four different compensation system levels, for different organizational roles. There is global guidance on targets, but the exact targets are set locally, by the subsidiary’s management. These targets are always connected to certain KPIs, from the top down. The targets might include safety, cost control, productivity. For example, shop-floor workers’ incentive plans are connected with operative results at the company. As expressed by the CFO of Maera Ltd.:

“Individual performance] must be connected with our daily work, for example, let’s say the financial targets. (CFO, Maera Ltd.)

For management, there is an incremental growth target set by HQ, which is linked to management bonuses. At Maera Ltd., the CFO perceives the targets as challenging, but achievable. Employees that are performing well in the subsidiary are praised, while individuals that are not performing that well measured by certain metrics are given direct feedback. If there is repeated undesirable behavior, the individuals are given warnings. Further disciplinary actions may also be taken if deemed necessary.

The GM of Maera Ltd. notes that since the Chinese and the Finnish cultures are different, time and detailed control is required in the beginning to establish a desired culture at the subsidiary, after which the desired change happens fast. Hence, having transparent performance measures and evaluation processes is of great importance.

Reporting and communication

As quantified by the VPGF, Atlas is a very finance driven company. The company has a very strong group reporting practice, which is pushed down from HQ to the individual units. All units follow the same principles, reporting structures and timetables, as the reporting and control is very strict in the company. According to the VPGF, reporting is especially important for integration, despite operations being globally dispersed. The group has a monthly reporting practice of full profit and loss statements and balance sheet reports. Standardized templates are used throughout
the organization, and the financial reports are required to be timely, since the company will “stop” to wait for any unit that has failed to submit a report on time.

At Maera Ltd., there is regular, monthly reporting to HQ, and meetings, where the financial targets and, KPIs are reviewed. These meetings have fixed agendas, while the structure of the reports is also fixed, enabling comparability. In addition to this, there are multiple other meetings between Maera Ltd., other company functions and HQ, concerning safety and product quality, among others.

There is also frequent, ongoing communication with HQ about the state of business at Maera Ltd., due to the integration process. As a part of the group’s control strategy, standardized reporting was immediately commenced, upon acquisition of Maera Ltd.:

The harmonization of these reports started from the beginning, from [the] first day, and only through that we are able to get these [reports] comparable and exactly understand where the problems are. (GM, Maera Ltd.)

Maera Ltd. business functions report financial information straight to superiors in Finland or Europe, who then report up the command chain to group finance and to senior management. These reports are consolidated at each reporting phase. The VPGF says every unit “makes it work” in the group, referring to complying with the strict reporting requirements.

Atlas has common reporting tools and global ERP, customer relationship management and HR systems, among others. The integration of the information systems at Maera Ltd. with corporate systems is an ongoing process. At Maera Ltd., there are also some local tools built around the corporate tools, which are needed due to specific, local business requirements.
5.3 Lin Group

The third case company, Lin Group, is a company in the raw-material industry, with manufacturing and other operations in a variety of businesses. The company employs over ten thousand employees globally, and it has an annual turnover of several billion euros. Lintec is Lin Group’s subsidiary in China and is one of Lin Group’s several BAs. Lintec’s operations include manufacturing and sales, the subsidiary employs several thousand employees and has already been operating in China for a few decades. The Lintec BA is headquartered in China, but has manufacturing sites in both Asia and Europe, and some management team members of the subsidiary are hence also located in Europe. Lintec is a very independent BA, and its commercial main focus areas are China and the APAC area. The independence of the group’s BAs is illustrated by the group’s transfer-pricing policy, which is purely market-based, signifying that the BAs have essentially no predisposition towards making group-internal transactions. Lin Group has centralized support functions, such as HR, legal and sourcing services, which are common for all BAs in the group. However, these functions are heavily business-focused, signifying that they specialize in certain businesses and supporting specific BAs, as the types of businesses within Lin Group are very diverse. In terms of hierarchy, the company structure is relatively flat, and not as hierarchical as other local companies, which is a very unique advantage in China. The group has a pronounced corporate responsibility policy and a set of goals related to this policy, as well as a global code of conduct for its employees. Interviews were conducted with the CFO of Lintec and the APAC regional head of HR of Lin Group.

Mission, vision and key success factors

The group’s mission and vision statements reflect people centricity and core values at the company, which are also mirrored in the group’s code of conduct, formal company documents, and by the interviewees at Lintec. One of Lintec’s KSFs, listed by the CFO, is the integration of the Western and the Chinese cultures. These two cultures are not completely compatible or directly applicable in either context, wherefore they have to rather be seen as selectively complementary to each other:
The Finnish and the Chinese culture[s] are quite different, and you cannot copy everything from Finland to here. You need to adjust your culture a bit to fit the local culture.

(CFO, Lintec)

Accommodating and fostering Lin Group’s strong company culture of people-centricity is strongly emphasized at Lintec. Another KSF for Lintec is to capture Chinese GDP growth, where localization of business processes plays an important part in. The need for differentiation, or to “have your own element”, as voiced by the CFO, is key in rising above the competition in the crowded market that Lintec operates in. These differentiating elements at Lintec include a focus on service and on customer relationships. Lastly, investment strategy is also very important for Lintec, since making timely investments is imperative in the industry, where competition is tough and the market conditions challenging.

Strategy and plans

Lin Group has a corporate policy supporting BA independence, whereby decision making is largely decentralized from company HQ, and the different BAs execute their own strategies. Larger, strategic investment plans are built up locally, and then presented to HQ, where group-level capital allocation decisions are made. Operational investments are decided on the local level, by the BA management. These are investments that subsume under the BA budget, which is set by HQ. The financial and operative strategies are discussed every other month in meetings with key members from the HQ and from Lintec’s BA.

Group-level strategy is shareholder focused, driving group-level performance and growth, while also promoting sustainability through responsibility and innovation. Examples of means to achieve group strategy targets are a people-centric, individual development strategy, a leadership and management strategy, as well as a sustainability and performance culture in the group’s businesses. Implementation of group-level plans are discussed in every unit, while corporate strategy is communicated by the CEO through different mediums at the company. There are
quarterly teleconferences, held by the CEO, where employees are updated on the company’s current situation and direction. Management also has the responsibility to communicate the corporate strategy:

I have the responsibility to communicate with my team members about corporate strategy, I mean what is the target on the corporate level or what is our focus, our direction on the corporate level. (CFO, Lintec)

The HR function is also involved in communicating the mission, vision and company values, and promote company values that reflects these.

Performance measures (KPIs)

Performance measures used to measure BA performance on a group level are general by nature. These include financial measures, such as profit and cash flow, as well as non-financial measures related to safety and the natural environment (e.g., environmental safety). Key measures at Lintec include profitability measures, production-related measures, cost savings measures, and safety and environmental measures. The support functions’ performance measures, for example the HR function’s measures, are aligned with measures at BAs or business units that they are supporting.

Performance measurement at Lintec is especially important for forecasting, where information is compiled both for internal use and for HQ. Forecasting again is linked to Lintec’s investment outlook, as the company is forced to constantly seek new investment opportunities.

Targets and performance evaluation

Lin Group defines long-term profitability measures and targets and sets one-year targets for each BA. BA targets are generally discussed with BA management, and then ultimately determined by HQ. The targets are based on previous years’ performance and forecasts for the upcoming years. After the target setting process, targets are broken down on the local level at each BA and distributed to different
units on the BA level and on individual manufacturing facility levels. Internal targets are set independently by Lintec. In line with group-level strategies and values, safety is strictly followed up every month, while environmental safety targets are also reviewed meticulously.

KPIs are monitored monthly and divergences with targets are addressed when discovered. The divergences require explanations from managers. For the production teams, there are also monthly communication sessions with the employees, with reviews of KPIs, performance and other indicators. Accordingly, the targets and KPIs are explained and highlighted on several levels in the organization.

Incentive systems and individual evaluation

The group-wide incentive system at Lin Group is a “total reward system”, which means that it consists of a variety of both financial and non-financial targets, of which the non-financial targets are arguably important. Employees have their own, individual incentive targets, which are linked to company-level targets. Two thirds of the individual bonus targets consist group-level targets and at least one third of individual or team targets. The group-level targets are set by the individual’s superior and can be based on an individual development area. The company-level targets largely consist of non-financial targets, instead of financial targets. Only the sales department has a greater emphasis on financial targets. The individual or team targets are “employee-lead”, that is the employee him or herself decides what these targets are, and then discusses and approves them with the manager. Individual targets are regularly re-evaluated and can be changed anytime, if deemed inapt by the employee. Individual performance is formally evaluated at the end each year, based on company results and feedback from peers and superiors. The company also encourages informal one-on-one discussions between employees and superiors.

Reporting and communication

Monthly performance reports are compiled at the BA level and communicated to the CEO and key persons at HQ. The reports are unstandardized between BAs, since the
operations and products in the group are generally not comparable with each other. However, general financial KPIs, such as return on investment and capital employed, are recognizably comparable between BAs, which is emphasized in group capital allocation decision making. Since the Lintec products are also difficult to benchmark externally, due to public data on competitors’ operations being scarce, comparability of the Lintec reports is limited. Reports within Lintec include profitability and market analysis for the sales function, customer market margin reviews, and costs and stock reports, among others.

The Lintec CFO has frequent communication with HQ. There are monthly performance reports, where the BA performance is reported to the senior management team at HQ. Every other month, the CFO also travels to the company HQ for meetings and discussions about key issues at Lintec, that is financial performance, investments and operative strategy. The HR function also has frequent communication with HQ colleagues and has very low barriers for communication.

Information systems within Lin Group have a low degree of standardization. Lintec has a common ERP system with another BA, but these are operated separately, and not used as common communication channels. The most important use case for the information systems at Lintec is forecasting, for development of the BA’s operative areas.
5.4 Helix

The fourth case company, Helix, is a manufacturer of high-end products for the healthcare sector. The company operates globally, mainly through localized sales organizations, consisting of subsidiaries and local distributors. Helix’s subsidiary in China is mainly a sales organization, but increasingly focuses on services in the Chinese market. The company employs several thousand employees globally, while the subsidiary in China has less than 20 employees.

Interviews at Helix were conducted with the Area Manager of China and with the Chief Representative (Chief Rep.) in China. The company structure is relatively flat, with little bureaucracy, as HQ is in close contact with the subsidiary through the Area Manager. The Area Manager works in both Finland and in China, traveling much of the time, and therefore engages in close communication with both HQ and the Chief Rep. The subsidiary has sales, after-sales and registration departments in China. The subsidiary has a minimal finance function, which does not have a business-supporting role, but merely an accounting role. Business transactions at the subsidiary are ultimately managed by the Area Manager and the Chief Rep., while investment decisions have to be negotiated with company HQ. The subsidiary’s budget consists of sales commissions, derived from the subsidiary’s product sales. On a global level, Helix has codified policies, such as a corporate responsibility statement and codes of conduct. However, these are evidently not formally emphasized at the subsidiary. The subsidiary’s PMSs are quite rudimentary, but there is a desire to develop new PMSs to fit the company’s growing needs.

Mission, vision and key success factors

The local subsidiary’s mission is simply to grow in China. The KSFs are derived from the subsidiary’s mission, which is also expressed as a specific target by HQ. The KSFs include successfully motivating and supporting local dealerships, in order to increase sales in China, in addition to providing after-sales services to customers. Furthermore, the subsidiary is responsible for education about the products, provides product support and services, and aims to create strategic partnerships to nurture sales
growth. The company relies heavily on product quality, innovation and sustaining a high-tech edge on the market, which is articulate in the company’s mission and vision statements. The notion of quality is reflected in the training of new employees, which emphasizes the “Scandinavian” quality and perfection. However, there is little emphasis on formal communication of global company policies at the local level.

Strategy

The HQ organizes an annual employee training and brainstorming event, where goals for the next year are set and communicated on to employees. There are also other recurring global events where the company staff gathers and has the opportunity to discuss with other teams from other countries, and exchange ideas, in order to develop new local strategies. The subsidiary’s strategies are mainly developed by the subsidiary itself, while company HQ generally expects that subsidiaries operate independently. The HQ refrains from managing the subsidiary actively.

Performance measures (KPIs)

HQ measures subsidiary performance formally only through sales volume, which is also the most important measure at the subsidiary. The importance of this metric with regard to control is emphasized, as the subsidiary’s operative budget is determined by commissions from product sales, and larger investments are always negotiated with the HQ.

In addition to reviewing its main KPI, sales, the subsidiary also monitors the status of product registration in China, after-sales productivity measures and product quality measures.

Targets and performance evaluation

The target-setting process is commenced at the subsidiary level: First, the subsidiary has discussions with local distributors about the market situation and the forecasts for market growth. This information and these estimates are then reported to and discussed with senior management at HQ, who will then set a target for the year. The
targets are not re-negotiated. These yearly targets are then divided and assigned to local distributors as sales targets.

The subsidiary constantly monitors sales, reviews the performance of local distributors, and searches for areas of improvement. The HQ has monthly meetings with the company’s regional sales departments, where performance is reviewed and compared to the targets that were set in the beginning of the year. The local team at the subsidiary has to find means to improve sales through the distributors, especially when HQ-set targets are difficult. Dealers are typically incentivized through provision of additional, free units with every order placed from Helix. Since sales is reliant on distributors, managing distributors that are not performing adequately is a primary concern for the subsidiary.

Incentive systems and individual evaluation

Individual performance is evaluated by departmental metrics, for example by the number of products certified on time, customer feedback, or increase in sales. The primary incentive for employees is based on a simple bonus scheme, which encompasses sales and departmental metrics. The sales target bonus scheme is very straight-forward, as expressed by the Area Manager:

If we reach the target, we get the bonus. If not, then maybe no bonus at all.

(Area Manager, Helix)

Yearly salaries are increased based on the results of the previous year, constituting an additional monetary incentive for employees. Sales targets are the main KPI for determining the sales organizations’ monetary compensation also globally.

Reporting and communication

Both the Area Manager and the Chief Rep. report to HQ. Standardized, HQ-derived reporting templates are used at Helix, but the templates are quite vague:
Actually, it’s a problem that you can input whatever you want.
(Chief Rep, Helix)

The only reports that HQ requires is a travel report from the Area Manager and a monthly performance report from the Chief Rep. The subsidiary also monitors and reviews local employees’ traveling through travel reports.

The most prominent communication channel between HQ and the subsidiary is the Area Manager. The different departments also communicate directly with corresponding departments in the HQ. On a local level, everything is communicated directly between employees, leading to very responsive communication. The HQ has resources to support the local subsidiaries but are “extremely happy” if the subsidiaries “can handle everything themselves”, as expressed by the Area Manager. Global information systems at Helix are modest; The company has one centralized order system for monitoring the status on orders and payments.
6. Analysis and discussion

In this chapter, a cross-case analysis is first presented, followed by a discussion of the results and their relation to the research questions, existing theory and findings from previous studies.

6.1 Cross-case analysis

In order to provide simplified descriptions of the companies’ PMS structures, they can be roughly divided into control categories, defined by Bedford and Malmi (2015) in their control taxonomy. Based on observations, Senco subsumes under the hybrid control category, as the company is characterized by a complex combination of control mechanisms, including accounting-based controls, socio-ideological controls, compensation control and both formal and participative strategic planning. Lintec has some attributes, such as a higher reliance on socio-ideological controls, less emphasis on standardized behavioral routines and fixed performance targets, which belong to the devolved control category. However, some of Lintec’s traits, such as higher task programmability in many operations, also match the hybrid control structure. Helix would be categorized under the simple control category, characterized by management through personal contacts, weaker socio-ideological controls, low emphasis on bureaucracy and low levels of administrative technology. The PMS structures at Atlas resemble hybrid controls, while the ones at Maera Ltd. could be attributed to result controls, with a high emphasis on accounting-based controls. However, the control type at the subsidiary seems to be transitioning into hybrid controls, in pace with the integration and HQ influence. In conclusion, there are both similarities and differences between the PMSs at each case company. The most notably differing case company in terms of control structure is Helix, while Senco, Atlas and Lintec all have several traits in common.

All case companies exhibited clear boundary control systems. Senco and Atlas both have formal, vertical hierarchies, in terms of reporting and decision-making boundary
controls at the companies, while Lintec operates independently from HQ. In Lintec’s case, only larger, strategic capital allocation decisions require HQ involvement, in terms of negotiations and approval. At Helix, transactions are managed by the subsidiary’s management, while investments are negotiated with and decided by HQ. There is also an element of market control (see Speklé, 2001) at both Senco and Lintec, which is driven by market-based transfer pricing policies at the companies. While all companies had formal and codified corporate responsibility policies and codes of conducts, the extent to which these were enforced at the subsidiaries differed in the case of Helix, where little emphasis was placed on formal communication of the codifications.

Mission, vision and KSFs

Similarities can be found between the case companies’ aim for unity, through common mission and vision statements and values, that is socio-ideological controls (Malmi & Brown, 2008) or belief systems (Simons, 1995). Of the companies, Senco and Atlas have global mission and vision statements, which are translated into KSFs and adjusted to the local business environments, by local managers. This is aligned with Ferreira and Otley’s (2009, p. 269) definition of KSFs being “a codification of the vision and mission in more concrete terms and in a more compressed timeframe”. The KSFs are explicitly highlighted through locally adjusted KPIs and targets, which are cascaded down from HQ. Senco’s and Atlas’ communication of company mission, vision and KSFs is similar and HQ-driven.

At Helix, the subsidiary has instead self-set KSFs, derived from operative experience, while the company’s mission is simply to grow in China. The company’s mission and vision seem inapt for being formally applied to the company’s subsidiary, since the global mission and vision definitions fail to directly accommodate sales operations. However, there is a notion of values that are informally communicated to local employees through interpersonal management, which is facilitated by less formal processes and a low number of employees at the subsidiary.

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5 An example of a decision-making boundary control observed at the companies was transactions that exceed an authorized amount require authorization from superordinates.
At Lintec, socio-ideological controls, that is core values, are stressed by management, while group mission and vision, which are very general by nature in order to be applicable at the company’s diverse BAs, are also translated into KSFs at the local level. As opposed to those of Lintec, the company mission and vision at Atlas and Senco are more articulate, enabled by the homogeneity of the companies’ BAs. The mission and vision are communicated formally at all companies but Helix and are apparent key considerations in management decision making at the subsidiaries.

Strategy

The strategic process differs between the case companies. At Senco and Atlas, the process is HQ-driven, and there is some participation from the subsidiary, mainly through feedback. The global strategies at these two companies are then set by HQ and readjusted to the local setting by local management. At Senco, an effort to clearly illustrate global strategies through locally derived, strategy-derived KSFs exists. Lintec and Helix are clearly more independent from HQ and also create their own strategies, while being vaguely guided by HQ. For Senco’s and Atlas’ global business practices, a high level of company integration is essential, which is underlined with common strategy formulation. In contrast, the Lintec BA is very differentiated from Lin Group’s other businesses and does not require the same degree of integration with other BAs. Hence, group-wide strategy formulations can be challenging to create at Lin Group, and instead require local and industry-based strategy formulation. In Helix’s case, the subsidiary’s small size, its organizational structure, and the role of the Area Manager might enable a lesser need of explicit control and formal strategy formulation from HQ. At Senco China, strategy communication is an integral part in enhancing employee engagement and aligning employees with the global strategy. Atlas’ strategy communication at its subsidiary Maera Ltd. largely resembles Senco’s but has a stronger emphasis on establishing a formal control environment, mainly through strict reporting practices. Helix lacks formal strategy communication, while Lintec’s strategy is communicated formally to employees by management.
Performance measures and target setting

All the case companies’ subsidiaries exhibit performance measures and targets, which are directly set by HQ, and are very general by nature. These include KPIs such as profit, sales volume and cash flow. The metrics are complemented by a variety of other KPIs, which in Senco’s and Atlas’ case are standardized to a high degree, while Lintec’s and Helix’s KPIs are locally determined. All companies have a bottom-up, yearly target-setting process, where past performance, market information, opportunities and threats are evaluated and compiled into a group or company target.

All companies also have some specific metrics that are explicitly emphasized throughout the organization. In Helix’s case, the most important metric is sales, while Senco, Maera Ltd. and Lintec all emphasize safety-related KPIs and the importance of a safety culture, in addition to common financial measures. Of the companies, Helix has the simplest HQ-imposed performance measurement system; The only target that HQ sets for the subsidiary is an annual sales target, measured by one KPI. The KPIs that Lin Group HQ uses for target setting and evaluating Lintec’s performance are multifaceted, consisting of both financial and non-financial targets, but are also very general by nature, enabling Lintec to independently develop more intricate operative KPIs.

As opposed to Lintec and Helix, Senco China and Maera Ltd. display more coercive, HQ-imposed performance measurement systems and targets. At Atlas, the current main objective is to completely integrate Maera Ltd. with the company. This is enforced through a strict control environment and strict reporting standards. Many KPIs and targets at both Senco and Atlas are influenced by HQ, as they are either cascaded down through BAs or set directly. The cascaded targets and specific goals are enforced through standardized reporting and consequent, monthly evaluations. At Maera Ltd., more specific targets are set locally, while HQ also sets incremental targets for certain managers at the subsidiary. At Senco, all the targets and KPIs are aimed to reflect Senco’s strategy and are explicitly connected with KSFs. Senco’s APAC management sets detailed targets for its subsidiary in China. These are
measured by company-wide, standardized KPIs, resulting in that adjusting the targets or KPIs can be very difficult from the subsidiary’s perspective. In some cases, coercively imposed KPIs were regarded as “unfair” and detrimental to positive externalities, such as customer relations, other than short-term financial ones.

In summary, all four companies’ performance is reported to HQ and evaluated on a monthly and on a quarterly basis. The targets that are set by HQ or at another, higher level in the organization are further developed into several adapted targets at the local levels at all case companies. The targets are measured by a range of KPIs which are also developed into more comprehensive systems locally. Subsidiary targets are typically negotiated with upper echelons at all companies but Helix, where targets are mostly acquiesced to.

Evaluations, actions and incentive systems

All case companies have monthly performance reviews, which encompass reviewing the performance with standardized, comparable reports. At Senco, Atlas and Lintec, managerial performance, which is often linked with operative performance and other important KPIs, is also evaluated regularly, ranging from weekly to half-year performance reviews. Inadequate performance receives management’s attention, and deviations are consequently addressed by, for example, requesting explanations from accountable managers. At Senco, the process includes explaining the reasons behind deviations and consequently designing an action plan for correcting the deviations.

All case companies have employee incentive systems that are explicitly connected to the local KSFs, measured by specific KPIs. Furthermore, Senco, Atlas and Lintec all have global HR policies, and incentive plans derived from the policies include both company or group-level targets, as well as individual or team targets. The company and group-level targets indicate an intention to establish a collaborative, global effort and a strong link to the main KPIs of the company. Despite the intention, as shown in Senco’s case, frictions can arise when company-wide profit is undermined by
conflicting local targets. This has been the case, despite managerial incentive systems and bonus plans also including company-wide targets, in order to align managers' incentives at different BUs.

Albeit the compensation being determined by global HR guidelines at Senco, Atlas and Lintec, the compensation practices generally vary across regions, partially due to local regulations. Goals that HQ specifically wishes to address are linked to managers’ individual performance plans on different levels in the organizations, enabling a more direct type of control. Examples of these explicit targets are cost savings targets at Senco on both the APAC and subsidiary levels, and establishing a strict control environment at Maera Ltd.

Individual incentive systems are negotiated between employees and managers at Senco, Atlas and Lintec. All companies highlight employee engagement in the individual target setting process. Lintec, for example, regards the process as employee-driven, instead of relying on a traditional top-down approach. At Lintec, many of the individual targets consist of self-set, non-financial targets, and can be re-adjusted at any given time by the employee. Senco and Atlas also highlighted the achievability of goals and a high degree of personal involvement in setting individual targets. These targets are reviewed during employee-manager discussions twice a year and adjusted in the process, if deemed necessary. At Helix, the individual incentive plans consist of some departmental metrics and annual sales figures.

All case companies address inadequate individual performance through individual discussions with employees. While not frequent, occasional repetitive or extreme “bad behavior” can be addressed through “anti-rewards”, for example through withholding financial compensation from employees. However, the primary approach for corrective actions is candid discussions with employees.

Reporting, communication and information systems

The role of information systems, such as ERP, reporting and HR management systems is noteworthy in enabling collaboration, standardized reporting, and managing individuals at Senco, Atlas and Lintec. However, there are differences among the case
companies. For example, some local-level reporting has to be supplemented by additional systems at Senco and Maera Ltd., whereas Lintec’s ERP system is common with only one of many BAs globally, and is operated separately by the two BAs, instead of being operated collaboratively. Helix on the other hand has a very simple order system, which is monitored and accessed only by HQ and the Area Manager.

Standardized financial and operative reporting is an important control element at all four organizations. Reporting is characterized by standardized form and time, which is the group-wide practice at all four companies. However, the level of detail and depth of the reports vary across case companies. At Senco and Maera Ltd., the comprehensive reports are compiled at the subsidiary levels, consolidated and reported to the next echelon of the organization. Financials are reported through the finance functions, while operative reports are forwarded upstream to relevant BA, business line management teams or to HQ. For instance, as Maera Ltd. has many supporting functions, each function will report to a corresponding function located in China or Europe, while the subsidiary as a whole will also report to its corresponding BA. At Lintec, the company has less detailed, general-level reporting, and reports directly to HQ. Helix has the least formal reporting structure of the four companies and reports directly to HQ. In addition to formal reporting, all companies have some informal communication with HQ. Helix's communication with HQ is constant, while Maera Ltd. is given ample attention through near daily dialogues between the subsidiary and the HQ, largely due to the incomplete integration phase of the subsidiary.

As illustrated in the analysis above, the case companies have many similarities, but also notable differences in terms of PMS composition and control emphasis. The role of company HQ with regard to controlling the subsidiary also differs between the MNEs. In the next section, the results are discussed in relation with the research questions of this study and compared to findings from prior research.
6.2 Results discussion

The purpose of this study was to provide practical insight in the control relationship between company HQs and foreign subsidiaries. The first research question (RQ1) posed in this study was “do company HQs manage subsidiary performance through performance measures and target setting and how are the aforementioned performance management structures imposed on subsidiaries?”.

The cross-case analysis shows that all four case companies have HQ-imposed PMSs, but that their complexity and the extent to which HQ is involved in implementing PMSs is largely dependent on the individual company. Furthermore, all case company HQs manage their subsidiaries through performance measures and target setting. However, as stated, the PMS structures differ as for emphasis at different companies. To address the second part of RQ1, the companies’ PMSs are reviewed as packages, instead of as independent parts of a control system, as suggested by Ferreira and Otley (2009) and Malmi and Brown (2008).

Ferreira and Otley (2009) assert that an organization may have well-defined goals, expressed in mission and vision statements, and clear KSFs, but developing, communicating and implementing strategies successfully is key in aligning organizational efforts. This is critical, since KPIs are induced from KSFs, strategies and objectives. At Senco and Atlas, the strategic process is HQ-driven, and there is some participation and feedback from the subsidiary level. While participation might facilitate adoption of control systems (Malmi & Brown, 2008), the participation process can induce reshaping before or after implementing PMSs at the subsidiaries (Cruz et al. 2011; Kornacker et al. 2018). The above notions are evident, as the global, HQ-derived strategies at Senco and Atlas are decoded and adjusted to the local setting by local management. This finding is also similar to those of Busco et al. (2008).

Since the Lintec BA acts as an independent company, as opposed to a BA in a highly integrated group, this notion is not valid for Lintec. However, socio-ideological controls, such as group values, are inherent to Lintec and Lin Group, and while these are adapted to the local environment, HQ’s influence on these is significant.
Therefore, strategy development at the subsidiary may be controlled to a degree by these belief systems, which give managers and employees a general direction through organizational purpose and values (Simons, 1995, pp. 36–7). At Helix, the subsidiary has seemingly little focus on company mission and vision, but as indicated in the interviews, the subsidiary had informal ways of communicating certain values in the organization. This touches on Ferreira and Otley’s (2009) notion that despite an organization lacking clear mission and vision statements, existing views on vision and mission may still be communicated to employees informally. All case companies engage in employee and manager training, an input control, through which organizations can foster the creation of common values in the organization (Baliga & Jaeger, 1984; Chalos & O’Connor, 2004). At Senco, for example, the leadership training had an emphasis on strategy communication, with an aim to increase employee understanding daily tasks and strategy and increase engagement through formal and informal strategy communication, which could increase adoption of HQ-imposed PMSs.

All case companies utilize KPIs that are derived from their overarching organizational goals. Standardized reporting and linking KPI-based targets to incentive systems are explicit actions that are driven by HQ and which emphasize and promote certain aspects of company strategy at each case company. In other words, HQ may choose to influence a specific area of improvement or to facilitate new strategy adoption at subsidiaries through introduction of new or emphasis of existing performance measures. At Senco, this is demonstrated by HQ enforcing service-related KPIs at the sales function, in order to promote a shift towards a service-driven strategy. Further findings from Senco show that while company HQs intend to align different business units globally, challenges arise when subunits are forced to both compete and cooperate (Busco et al. 2008; Luo, 2005), resulting in suboptimal outcomes at the company level.

Reporting remains a key function in enforcing KPIs and setting targets at Senco and Maera Ltd. Both organizations have complex matrix structures, which entails functions reporting upstream within the same function (e.g., the finance of a
subsidiary reporting to the regional finance function, and units reporting upstream to other units (e.g., a subsidiary reporting to regional management). These types of structures enable direct connections between subsidiaries and HQs, but also horizontal connections between units (Busco et al. 2008). Therefore, communication at Senco and Atlas is more complex, while standardized financial reporting is evidently an important element in creating a cohesive image of different units across the value chain for the company HQ.

Standardized KPIs at Senco China and Maera Ltd. are used for regular target setting, as well as for subsidiary, function, unit and employee performance evaluation. Lintec has greater freedom in determining internal KPIs, while HQ only oversees a few important ones and sets long-term and one-year targets for the company. Helix’s performance is measured in sales volume, by company HQ, while local KPIs and targets are set independently. At Helix, the subsidiary’s PMS is very rudimentary, likely due to the subsidiary size and its type of operations, which involves largely outsourcing sales to local distributors. Thus, with regard to KPIs, the extent to which HQs controls their subsidiaries seem to vary largely due to company structure. As Senco and Atlas have geographically dispersed units contributing to the same BA or product line, implementing certain PMSs, such as integrated profit at Senco, serve to facilitate lateral cooperation between geographically dispersed units (Busco et al. 2008). The same degree of HQ influence is absent at Lin Group, likely due to the differentiated nature of the Lintec business, while Helix’s subsidiary sales operations are independent from a complex value chain. Therefore, the type and degree of control likely differs between the case companies. All case-companies utilize reward systems, which are coupled with KPIs and targets that reflect organizational performance, company values or individual goals, and seem to be an important part in aligning managers and employees with company strategy. These finding are similar to those of Mahlendorf et al. (2012), who found that linking manager compensation systems to PMSs is an important part of HQ-driven, decision-influencing use of PMSs at the Chinese subsidiaries of some MNEs.
Expatriate staffing and its potentially meaningful role as a means to control subsidiaries has been recognized by extant literature (Chalos & O’Connor, 2004; Lere & Portz, 2005), and is a relevant consideration in this study as well. Thus, the General Manager at Maera Ltd. and the Area Manager at Helix have potentially important roles in disseminating HQ values and facilitating implementation of HQ-promoted practices at the subsidiaries. Ostensive parallels can be drawn between the PMSs used at Maera Ltd. and findings from previous studies concerning JVs, which have identified especially output, behavior and socio-ideological controls as control mechanisms used in international JVs (Chen et al. 2010; Chen et al. 2009; Dekker, 2004; Groot and Merchant, 2000). While Maera Ltd. and Helix had imperative roles for expatriates, expatriates absence key roles in the mature businesses of Senco China and Lintec. At Helix, the Area Manager essentially operates in both Finland and China, whereas expatriation of General Manager at Maera Ltd. is presumably linked directly with the acquisition of the subsidiary, and therefore a need for abundant HQ control and guidance. Thus, the managers at Maera Ltd. and Helix arguably play important parts in facilitating PMS adoption at the subsidiaries.

In conclusion, HQs use a variety of methods to determine KPIs and targets, and to enforce them at subsidiaries. The explicit methods include aligning employees with company strategy by communicating and connecting company strategy and KSFs to KPIs, and enforcing the use of standardized KPIs through reporting, targets, common information systems and individual incentive systems. Furthermore, the extent to which HQs choose to control their subsidiaries seems to be strongly influenced by the role of the subsidiary in collaborating with other, geographically dispersed units.

The second research question (RQ2) in this study was “are the PMSs adopted, reshaped or rejected at the subsidiaries? How are these HQ-imposed PMSs actually used at the subsidiaries?“.

The PMSs use can be roughly described by Broadbent and Laughlin’s (2009) conceptual model, where the extremes of the PMS-use spectrum are represented by transactional and relational traits. A relational PMS is adaptable, as the performance
indicators, measures and targets are conceived in a less authoritative and coercive manner. A transactional PMS is characterized by functionality and well-specified outcomes, and often specified means to reach desired outcomes.

Firstly, the nature of the PMS seems to differ between intended PMS use cases, within the case companies. Broadbent and Laughlin (2009) define this as “context”, referring to the impact of what the PMS is intended to control, on the nature of the control measures. For instance, individual employee evaluation at all case companies mostly involved relational use of PMSs, characterized by negotiable and adjustable KPIs and individual goals. However, for managers, whose individual performance plans consisted of company and unit-level financial targets to a higher degree, the PMS use was more transactional by nature.

All case companies had a set of clearly specified KPIs, which are emphasized by the company HQ and enforced through socio-ideological controls, standardized reporting and incentive systems. Furthermore, all companies also reshape these metrics into more comprehensive management systems in order to measure, evaluate and control performance locally. The companies have certain core KPIs, which are reviewed throughout the whole organization, while less critical indicators are developed locally. In top-down core KPI and core target setting, as well as in the evaluation of larger entities, such as subsidiaries, business units and BAs, a more transactional view of the PMSs is evident. At Senco and Atlas, one of the main reasons for standardized reporting was enabling comparability, which further allows discovering inefficiencies and taking corrective actions. While the two companies had a high degree of emphasis on these diagnostic control systems, there was a clear notion of local management’s intentions to develop interactive control systems, as defined by Simons (1995). The focus of the interactive control systems seemingly supported enhancing processes at the subsidiaries, while new strategy development would remain at the HQ level. Requiring explanations and action plans on deviations, which was a part of all case companies’ evaluation process, also showed HQ-induced interactive use of diagnostic control systems. Lintec, however, has stronger focus on interactive control systems and on feed-forward controls (Ferreira & Otley, 2009;
Otley, 1999). These controls appear to be instigated by the competitive environment and the market conditions, which force the independent subsidiary to explore new strategies. Although competitive pressure has been considered to increase or facilitate PMS adoption from HQ (Dossi & Patelli, 2008; O’Connor et al. 2011), Lin Group’s company structure and differentiated operations seems to mitigate PMS adoption from HQ. At Senco and Maera Ltd., the premise of competitive forces and global competition driving PMS adoption appears more feasible. At Helix, there is a notion of operational uncertainty, due to the regulatory environment and the market conditions, as well as due to the operational complexity, caused by a distributor-reliant business model. These factors might inhibit a transfer of PMSs between HQ and the subsidiary, and instead necessitate construction of customized PMSs at the subsidiary. Even if this notion is supported by previous studies (Cruz et al. 2011; Kornacker et al. 2018; Mahlendorf et al. 2012), another reasonable explanation is simply that the size of the subsidiary enables informal management and emergent formal management. These structures closely resemble a combination of the boundary and exploratory control types, defined by Speklé (2001). Furthermore, perceivably the most significant control mechanism at Helix is a type of boundary control, where the subsidiary is essentially controlled by a budget that consists merely of sales commissions of products sold, while investments are negotiated with HQ. This, in combination with informal, intrapersonal management and the subsidiary’s size appear to be feasible explanations for the low degree of formal PMSs at the subsidiary.

At Senco China, the PMS uses had both relational and transactional characteristics. Albeit KPIs are negotiated and there is participative target setting to an extent, many of the KPIs and targets are coercively implemented at the subsidiary level. A clear, HQ-defined strategy, global policies, codes of conduct and stricter reporting also reflected the transactional nature of these PMSs. Interestingly, there is a stark contrast between the acquired and transitioning Maera Ltd. and the other companies, in terms of PMS objectives. The objective at Maera Ltd. was primarily to establish a strict control environment through strong emphasis on reporting and easily graspable metrics, after which focus would be shifted on operative issues. This
finding supports the notion of common accounting systems being imperative in managing and harmonizing different organizational units, especially post-acquisition (Granlund, 2003). In contrast, the other case companies rather had a focus on operative issues and had a less coercive approach on imposing PMSs. Broadbent and Laughlin (2009, p. 289) describe transactional PMSs being “often organized as projects […] to achieve a particular end state through a defined set of means”. Though very complex, the integration process of Maera Ltd. could be regarded as a project with an objective for which the means, that is implementing group reporting standards and establishing compliance with the group control standards, are well specified by HQ. Thus, the PMS use at Maera Ltd. could be characterized as transactional, while also having some relational traits, and ultimately transitioning towards a relational PMS. Both Lintec’s and Helix’s HQs manage their subsidiaries on a very general level, and the two companies’ subsidiaries have therefore extensive freedom to independently determine specific KPIs and internal targets. At Lintec, there was more emphasis on relational use of PMSs than on transactional use, especially in individual and managerial evaluation. However, the communication of values and the use of certain KPIs have transactional traits. Broadbent and Laughlin (2009) have also noted that lower echelons might reflect different characteristics of PMS use than the organization as a whole. At Helix, there was significantly more emphasis on transactional use of PMSs, perhaps due to the clear goal formulation and the simple structure of the subsidiary. However, the changes in the competitive landscape in China are also forcing Helix to further differentiate itself from competition, which could be facilitated by adoption or development of PMSs.

Case findings indicate that companies may adopt, reshape and reject HQ-imposed PMSs, but also organically develop certain PMSs. There are also indications suggesting that PMSs surface from lateral relations at Helix and Senco, instead of from vertical ones. This notion resonates with findings on lateral knowledge sharing complementing incomplete PMSs at organizations (Busco et al. 2008). There is a clear top-down approach in target setting at all companies, and despite friction between the subsidiary and higher management entities regarding some targets and KPIs, the
metrics are still mostly accommodated at the subsidiary level. However, this might in some cases create a conflict between individual incentives and company incentives.

One possible enabler for the case companies adopting imposed PMS structures is participation in the target-setting process; Even if targets are not easily adjusted, prior research indicates that targets conceived through two-sided involvement are better received by employees (Malmi & Brown, 2008). Some evidence from O’Connor et al. (2011) indicates that while PMSs are used at subsidiaries, they might be used merely to meet formal requirements, instead of being used for actual decision-making. The observed unfair or inapt, HQ-imposed KPIs at Senco are an example of a similar situation; as these PMSs are deemed as deficient, they may be decoupled from decision making, that is rejected at the local level. However, upper echelon management attention on these performance measures may potentially result in the measures being reluctantly used at the subsidiary, despite the inherent lack of utility they have for decision making.

Reshaping or adaptation of potentially more abstract controls, such as mission, vision and values, was evident at most of the case companies. In order to facilitate adoption of group-level strategies, strategy-derived KSFs were accommodated to local operations by local managers at Senco. Lin Group’s socio-ideological controls were influential and strongly communicated to Lintec, but they were also accommodated to the Chinese context through combining desirable traits and values from both cultures to form the subsidiary’s own identity. Some reshaping of controls concerning compensation, was also evidently caused by distinct, local regulations. The results of this study also suggest that targets that are set by HQ or at another higher level in the organization are further developed into several adapted targets at the local levels, while the range of KPIs is also developed into a more comprehensive system locally. This finding is similar to those of Cruz et al. (2011) and Kornacker et al. (2018); global systems are not undermined by local forces but instead received and accommodated, or further developed to suit local demands.
Many of the HQ-imposed controls were evidently adopted without distinct reshaping at the subsidiaries. These controls included formal reporting, corporate policies and a large portion of HQ-set KPIs and targets, as well as individual incentive systems. However, there exists a degree of uncertainty in determining whether some control components in a PMS have been directly adopted or reshaped, and more in-depth case studies could provide clearer evidence in this matter.

In conclusion, HQs use a variety of methods to determine KPIs and targets, and to enforce them at subsidiaries. The explicit methods include aligning employees with company strategy by communicating and connecting company strategy and KSFs to KPIs, and enforcing the use of standardized KPIs through reporting, targets, common information systems and individual incentive systems. Moreover, companies conceivably have varying degrees of engagement in each of the areas above, which shows that every company has its own identity in terms of PMSs.
7. Conclusion

This study provides insights in how Finnish MNEs control their Chinese subsidiaries through PMSs and how these systems are perceived and used at the subsidiaries. The PMSs of four case companies were analyzed with the extended PMS framework of Ferreira and Otley (2009). The results show that MNEs have HQ-imposed PMSs, but that their complexity and the extent to which HQ is involved in implementing these PMSs is largely dependent on the individual companies. Common control measures that HQs use to manage their subsidiaries are performance measurement, target setting and performance evaluation, which are enforced through formal reporting, reward systems, and guided by socio-ideological controls and boundary systems. Some performance measures and targets are generally negotiated at the organizations, while others are imposed on subsidiaries coercively. The performance measures and targets are typically cascaded down to the subsidiaries through the hierarchical structures at the companies, but they may also be set directly by HQ. Furthermore, when the performance measures set by HQ are simple, local measures that support the local operations may be created at the subsidiary level.

Contextual factors, such as company size, structure and integration, its position in the market, industry and type of operations conceivably affect adoption and independence of PMSs at subsidiaries. Unity of global operations, organizational structure complexity, common value chains and resource sharing are evidently important reasons behind HQs choosing to impose PMSs on subsidiaries. In these cases, standardization and comparability appear to be key motives behind PMS implementation in global organizations and the PMS use to support company strategy. However, some challenges in aligning lateral units’ interests with company interests were also observed, indicating that PMS use failed to conform with intended use. Similar to evidence from previous studies (Cruz et al. 2011; Kornacker et al. 2018), results from this study show that PMS structures are adopted, reshaped and rejected at subsidiaries, and also that PMSs are developed organically at subsidiaries. The organic PMS development may be effectuated by competitive pressure. Some findings also indicate that PMSs might develop from lateral relations...
at companies. Finally, despite observing many similarities between the case company PMSs, the results highlight the value of analyzing PMSs as holistic systems. This is due to their complex, unique nature, and due to the multitude of underlying contingencies that might affect the shaping of different controls within the PMSs. Therefore, while generalizations may provide direction and useful insights for future research, neglecting specific factors which fail to fit in a model results in limited applicability and limited descriptive power of a given factor.

The PMS framework developed by Ferreira and Otley (2009) provided a practical foundation for forming interview questions and to perform a thorough analysis of company PMSs. In conjunction with extant literature on MCSs and PMSs, the framework enabled an analysis considering MCSs or PMSs as “packages”, resulting in a more cohesive interpretation of the case company PMSs. However, this study also has several limitations. Firstly, the PMSs as packages approach is, as argued by Malmi and Brown (2008), challenging as for condensing and describing rich, intricate systems in one paper. Secondly, the case study method has several inherent limitations (Bhattacherjee, 2012, p. 93). Due to the restricted access to the case companies, findings might be distorted by data scarcity. The depth of the case studies also remained moderate. Thirdly, the concept of PMS use at companies is a complex subject, necessitating a narrow focus and extensive efforts from researchers; the scope of this study is limited in this sense. Research about how PMSs are used at subsidiaries remains scarce (Kornacker et al. 2018). Therefore, following a similar, cross-sectional field study approach, more detailed evidence on the HQ-intended use and actual use of PMSs at subsidiaries could be garnered by future studies. Particularly, the possibility of discreet rejection of PMS elements could be examined. While it is formidable to consider PMSs as packages in a multiple case study design, this approach is challenging, as it requires extensive data and deep, structured analyses of the PMSs. Thus, this research area could benefit from further analyses of PMS rejection and reshaping, how coherent PMSs implemented at subsidiaries remain, and how informal management complements formal PMSs. As this study did not address how effectively the PMSs are used at the subsidiaries, the contingencies behind PMS adoption and use efficiency offer potential directions for future research.
Another interesting direction for future studies would be to further explore the role of subsidiaries in contributing to global PMS formulation. Thus, many unexplored, attractive research opportunities remain within the rich domain of PMSs.
Svensk sammanfattning – Swedish summary

Moderbolagskontroll över utländska dotterbolag genom prestationstyrningssystem:
En multipel fallstudie av finska multinationella företag och kinesiska dotterbolag

Inledning och problemområde


Syfte

Denna forskningens syfte är undersöka huruvida multinationella moderbolag använder prestationssstyrningssystem för att kontrollera deras dotterbolag. Studien bygger på en forskningsdesign som föreslagen av Kornacker m.fl. (2018), vilken beaktar både moder- och dotterbolagsperspektiven i analysen. Den första forskningsfrågan för studien är:

**Forskningsfråga 1:** Använder moderbolaget prestationmätning och mål för att styra prestanda i dotterbolagen samt hur implementeras dessa ovannämnda system hos dotterbolagen?


Således, definieras andra forskningsfrågan i denna studie som:

**Forskningsfråga 2:** Antags, omformas eller avslås samt hur används de implementerade prestationssstyrningssystemen hos dotterbolagen?

Teori

Studien bygger på teori i ekonomistyrningssystem, kontrollsystem samt prestationssstyrningssystem. Termen prestationssstyrningssystem avgränsas enligt Ferreira och Otleys (2009) definition, enligt vilken dessa system omfattar konstant utvecklande formella och informella mekanismer och system, vilka organisationen använder i kontrollsyfte och för att styra företaget. Dessa mekanismer stöder strategiutveckling samt en lärande organisation och omfattar analys, planering,

I: Strategi, centrala framgångsfaktorer och organisationsstruktur
- Rollen av att kommunicera missionen och visionen till dotterbolaget (Fråga 1)
- Fastställning och kommunikation av kritiska framgångsfaktorer (Fråga 2)
- Företagsstruktur och moderbolagets roll (Fråga 3)
- Strategiformulering i dotterbolaget (Fråga 4)

II: Prestationssmätning och evaluering
- Prestationssmätare (Fråga 5)
- Fastställning av mål (Fråga 6)
- Evaluering av prestation (Fråga 7)
- Belöningar och straff (Fråga 8)

III: Informationsutbyte och den operativa omgivningen
- Informationsflöden (Fråga 9)
- Återkoppling och nya strategier (Fråga 10)
- Förändringar i prestationssstyrningssystemen och i omgivningen (Fråga 11)

Den 12:e frågan i ramverket uppmanar att analysera hur de olika elementen i frågorna ett till 11 är sammankopplade och hur starka dessa kopplingar är (Ferreira & Otley, 2009).

Metod

kontextbundna realiteter (Bhattacherjee, 2008, s. 93; Pauwels & Matthyssens, 2004, s. 126) och multipelfallstudier erbjuder ytterligare insikter i underliggande fenomen (Yin, 2018, s. 61), är valet av multipelfallstudiemetoden välgrundad.

Fyra finska multinationella företag och deras kinesiska dotterbolag undersöktes i denna studie, i vilka totalt tio intervjuer utfördes. De intervjuade delades i tre grupper enligt det perspektiv de representerade: Den första gruppen hade förstahandsinsikter av moderbolagets perspektiv, den andra gruppen bestod av ledare för de kinesiska dotterbolagen och den tredje gruppen bestod av individer som hade ett lokalt perspektiv av dotterbolaget i Kina. Intervjufrågorna baserades på ramverket av Ferreira och Otley (2009).


Intervjuerna transkriberades och analyserades med övriga data genom innehållsanalys, för att kvantifiera och kategorisera upptäckter på ett systematiskt sätt (Bryman & Bell, 2015, s. 298). Fyra skilda fallstudierapporter skapades genom analysen, varefter en korsanalys mellan studierna upprättades med stöd av en datamatris.

Resultat och diskussion

Resultaten visar att alla studiens dotterbolag har prestationsstyrningssystem som implementerats av moderbolaget, men att deras komplexitet och utsträckningen till vilken moderbolaget är involverad i att implementera systemen beror i hög grad på det enskilda företaget. Vanliga kontrollåtgärder som moderbolaget använder sig av för att styra dotterbolag innefattar prestationsmätning, formell fastställning av mål.
och prestationsevaluering. Dessa kontrollåtgärder genomdrivs vanligen genom formell rapportering, belöningsystem och påverkas likaså av sociokulturella kontroller samt gränskontroller i företagen. Vissa prestationsmätare och mål förhandlas mellan dotterbolaget och moderbolaget, medan andra bestäms direkt av moderbolaget. Kontextuella faktorer som likaledes identifierats i tidigare studier och som till synes påverkar mottagandet av prestationsmätningssystem i dotterbolagen innefattar företagsstorlek, struktur och grad av integration, marknadsposition, industri och typen av affärsverksamhet. Därutom verkar organisationsstrukturkomplexitet, gemensamma värdedjor och resursdelning mellan enheter utgöra faktorer som påverkar till vilken grad moderbolaget anser att dotterbolagskontroll måste utövas. I dessa fall är standardisering och jämförbarhet nyckelfaktorer bakom strävan efter en högre grad av kontroll i dotterbolagen. Fastän flera likheter fanns mellan kontrollsystemen som analyserades i denna studie, visar resultaten ändå vikten av att betrakta prestationssystem som omfattande helheter. Eftersom systemen är komplexa och enastående till sin natur, förlorar prestationssystemen kontextuella kopplingar, ifall analysen förenklas till en för hög grad.
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Appendix 1. Accompanying letter

General information

Outline
The study examines the headquarters-subsidiary control and management relationship of Finnish companies and subsidiaries in China.
The focus of the study is on how performance management systems are developed, implemented, shaped and used at the subsidiaries, and what HQ's role is in the process.

The study is conducted through interviews, with interviewees representing both company headquarters and the local subsidiaries, in China. A total of four Finnish multinational companies will contribute to the study.

Interview
The interview questions are divided into three sections:
i. Strategy, key success factors and organizational structure,
ii. Performance measurement, evaluation and rewards, and
iii. Information exchanges and operating environment.

These sections consist of subject-areas and sub-questions to these areas.
The questions are aimed to provide a comprehensive understanding of how the company’s control and performance management systems are designed, as well as the factors that shape these systems. Please see pages 2–4.

Additional information

- The interview questions are provided to you in advance, so that you will have time to familiarize yourself with the topic and the questions
- The duration of the interview will be around one hour
- The interviews will be recorded (if not objected), the information will be kept confidential, and it will only be used by me, for the purpose of this study. The recordings will be deleted after the study has been completed
- The information that you provide will not be published anywhere, other than in this thesis, in which case the anonymity of the interviewee and the organization will be respected

This study is conducted as a part of my master’s thesis in accounting, during spring 2019.

Thank you for agreeing to participate!
Appendix 2. Interview questions sent to Group 1

Page 1.

Interview questions Set 1

**Abbreviations:**
HQ = Parent company headquarters
S = Subsidiary

I: Strategy, key success factors and organizational structure

Q1
Could you describe what the company’s current mission, vision and key success factors are?
In what ways are the company’s mission and vision communicated from HQ to S?

Q2
What are the key success factors of the subsidiary?
How are they determined?
Does HQ influence which the key success factors for the subsidiary are?

Q3
What characterizes the organizational structure of the company? Between HQ and S?
How does it affect the control relationship between HQ and S?

Q4
Could you describe the strategy formulation and strategic planning processes at the company?
How is HQ involved in planning and implementing strategies at S?
How does S influence the strategic planning process at HQ?
What are the most important factors considered in S’s strategic planning?
Interview questions Set 1

II: Performance measurement and evaluation

Q5
What key performance measures does HQ use to evaluate S’s performance?
Are these measures actively communicated to S?
What are the key performance measures at S?
Are they seen as important at S? How are they emphasized?
To what degree is HQ involved in the process of determining performance measures for S?
How does the operating environment of S affect the choice of performance measures?
Are the measures adjusted to the local environment, how?

Q6
Does HQ set targets for S?
How are these targets determined for S?
To what degree is HQ involved in the process of setting targets for S?
How is achievement of the targets measured?

Q7
How is managerial and employee performance evaluated at the company?
What factors are considered in the evaluation process?
What information is the evaluation based on?

Q8
What incentive systems are used for managers at S?
Are these incentives linked to performance measures or certain targets? How?
Can or does HQ take actions to correct managerial performance at S? By what means?
Interview questions Set 1

III: Information exchanges and operating environment

Q9
How does communication happen between HQ and S?
What important information is communicated to HQ from S?
Are there any information systems that have been implemented by HQ at S?
To what degree has S participated in the design of these systems?
How are these systems influenced by localities?

Q10
How is the information from S’s control systems used at HQ?
Is the information based on feedback or forecasts?

Q11
What challenges does the Chinese environment present for S?
How do these challenges affect the design of control systems at S?
Has this environment changed recently, how?
How does these changes affect performance management of S?
Appendix 3. Interview questions sent to Group 2

Page 1.

Interview questions Set 2

**Abbreviations:**
HQ = Parent company headquarters
S = Subsidiary

I: Strategy, key success factors and organizational structure

**Q1**
Could you describe what the company’s current mission, vision and key success factors are?
In what ways are the company’s mission and vision communicated from HQ to S?
How are they communicated within S?

**Q2**
What are the key success factors of the subsidiary?
How are they determined?
Does HQ influence which the key success factors for the subsidiary are?

**Q3**
What characterizes the organizational structure of the company?
How does it affect the control relationship between HQ and S?
How does it affect the design of control systems in S?

**Q4**
How would you describe the strategy formulation and strategic planning processes for S?
How is HQ involved in planning and implementing strategies at S?
How are strategies and plans communicated to managers and employees at S?
What are the most important factors considered in S’s strategic planning?
II: Performance measurement, evaluation and rewards

Q5
What are the key performance measures used at S?
To what degree is HQ involved in the process of determining performance measures for S?
How are different performance measures communicated on different levels at S?
Are they important for management? For other employees?
How are performance measures on different levels linked to key success factors or strategy at S?
How does the operating environment affect the choice of performance measures?
Are the measures adjusted to the local environment, how?

Q6
How are different targets determined on different levels at S? How are they measured?
Is HQ involved in the process?

Q7
How is managerial and employee performance evaluated at S?
What factors are considered in the evaluation process?
What information is the evaluation based on?

Q8
How is managerial performance rewarded at S? And other employees’ performance?
Are these incentives linked to performance measures or certain targets? How?
What means are used to correct the performance of managers and employees at S?
Are there any penalties for bad performance?
Interview questions Set 2

III: Information exchanges and operating environment

Q9
How does communication happen between HQ and S?
What important information is communicated to HQ from S?
What information systems are used at S?
Are they important for managing operations?
Are there any systems required by HQ?

Q10
How is the information from different control systems used on different level in the organization?
Is the information used for corrective actions or for future decision making?

Q11
What challenges does the Chinese environment present for S?
How do these challenges affect the design of control systems at S?
Has this environment changed recently, how?
How does these changes affect performance management at S?
Appendix 4. Interview questions sent to Group 3

Page 1.

Interview questions Set 3

Abbreviations:
HQ = Parent company headquarters

I: Strategy, key success factors and organizational structure

Q1
Could you describe in what ways are the company’s mission and vision communicated to employees at the company?
Do you perceive them as important?

Q2
What are the key success factors of the company?
How are key success factors communicated to employees?

Q3
What characterizes the organizational structure of the company?
How does the organizational structure affect control systems at the company?

Q4
How would you describe the strategy formulation and strategic planning processes at the company?
How are strategies communicated from managers to employees?
How are strategies and plans communicated among employees?
Who are involved in the strategic planning process?
II: Performance measurement, evaluation and rewards

Q5
What key performance measures are used at the company?
How are they determined?
How are different performance measures communicated to employees?
Are they important for management? For other employees? Why?
How does the operating environment affect the use of certain performance measures?

Q6
How are different targets set at the company?
How are management and employees involved in setting targets?
Are the targets difficult to reach?

Q7
How is employee performance evaluated at the company?
What factors are considered in the evaluation process?
What information is the evaluation based on?

Q8
How is employee performance rewarded at S?
How are these rewards linked to performance measures or certain targets?
How is bad performance addressed at the company?
Are there any penalties for bad performance?
Interview questions Set 3

III: Information exchanges and operating environment

Q9
How does communication happen between managers and employees?
What information is communicated?
What information systems are used at the company?
Are they important for managing operations? Why?

Q10
How is the information obtained from different control systems used?
Is the information used for corrective actions or for planning future decision making?

Q11
What challenges does the Chinese environment present for the company?
How do these challenges affect the design of control systems at the company?
Has this environment changed recently, how?
How does these changes affect performance management and control at the company?
<table>
<thead>
<tr>
<th>Mission, vision and KSFs</th>
<th>Senco</th>
<th>Maera Ltd.</th>
<th>Lintec</th>
<th>Helix</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>HQ</strong></td>
<td>The company has a global mission and vision statement. Mission, vision, business and HQ-driven KSFs are derived from mission and vision, and is based on extensive experience as an industry leader.</td>
<td>Atlas has HQ-defined key success factors and global targets. Cascaded down to units from the HQ level. Expectations that the customer-oriented mission and vision statements of the company are contributed to globally.</td>
<td>The group’s mission and vision statement reflect people centricity and core values at the company, which also mirrored in the group’s code of conduct, official documents, and by the interviewees at Lintec.</td>
<td>The company relies heavily on product quality, innovation and sustaining a high-tech edge on the market. No observable formal communication of mission, vision and KSFs.</td>
</tr>
<tr>
<td><strong>Subsidiary</strong></td>
<td>Mission and vision unaltered from HQ. Mission and vision are communicated through a general teleconference, through internal communication and material and by managers. Emphasis on strategy communication in management training.</td>
<td>Mission and KSF’s have shifted towards using the local key competencies at Maera Ltd to contribute to Atlas’ global operations. Integration to Atlas and a strict control environment as main objectives.</td>
<td>Mission and vision general by nature, from HQ. KSFs include: Nurture corporate culture of people-centricity. Capture Chinese HDP growth. Differentiation in the market (customer service).</td>
<td>The local subsidiary’s mission is simply to grow in China. The KSFs are derived from the subsidiary’s mission. The KSFs include successfully motivating and supporting local dealers in order to increase sales in China, in addition to providing after-sales services to customers.</td>
</tr>
<tr>
<td><strong>Strategy and plans</strong></td>
<td>Strategic process is HQ-driven. Group strategy is split into BA strategies, which is split into BU strategies, illustrated through KSFs for each company level.</td>
<td>The strategy at Atlas is developed at HQ level for the whole group, which is then pushed down through the whole organization.</td>
<td>Lin Group has a corporate policy supporting BA independence, decentralized decision making, capital allocation decided on group level. Shareholder focused, driving group level performance and growth, while also promoting sustainability through responsibility and innovation.</td>
<td>The HQ refrains from managing the subsidiary actively. However, frequent communication with the subsidiary allows informal communication.</td>
</tr>
<tr>
<td><strong>Subsidiary</strong></td>
<td>Local planning is merely tactical. The subsidiary gives some feedback on the strategy plan. Company strategy is interpreted and given meaning to at the local level, as locally formulated KSF. Strong emphasis on strategy communication to employees.</td>
<td>Tactical decisions are made on the subsidiary level, through which subsidiaries contribute to the global, corporate strategy. Local strategy to establish complete integration with Atlas. Strict financial strategy, has a personal engagement strategy locally.</td>
<td>Implementation of group-level plans are discussed company in every unit, while corporate strategy is communicated by the CEO through all mediums at the company. Management has the responsibility to communicate the corporate strategy/investment strategies require HQ approval and financing.</td>
<td>The subsidiary’s strategies are mainly developed by the subsidiary itself. Potential strategy development from internal relations. Little direct strategy development from HQ.</td>
</tr>
<tr>
<td><strong>Performance measures</strong></td>
<td>HQ sets KPIs for the different BAs, which are then cascaded down through the organization. Safety and integrated profit are examples of universal KPIs, used in the whole group.</td>
<td>The group uses the same measures regardless of the country. Communicated to employees (key focus areas, what is measured, its meaning and how often it is measured). KPIs decided HQ, BA and business unit levels. Annual planning process for setting-up KPIs for the year.</td>
<td>Performance measures used to measure BA performance on a group-level are general by nature. These include financial measures, such as profit and cash flow, as well as non-financial measures related to safety and the natural environment (e.g. environmental safety).</td>
<td>HQ only measures subsidiary performance through sales volume.</td>
</tr>
<tr>
<td><strong>Subsidiary</strong></td>
<td>The APAC regional management sets specific KPIs for the subsidiaries. These include sales volume, profit and cash flow, and other, non-financial indicators.</td>
<td>Local subsidiaries determine local and specific KPIs, derived from the standardized ones. Increasingly adapting HQ metrics. Main measures monitored by HQ are order and sales volumes, profitability measures and safety. Complemented by local KPIs and targets.</td>
<td>Key measures at Lintec include profitability measures, production related measures, cost savings measures, and safety and environmental measures. The support functions’ performance measures, e.g. the HR’s measures, are aligned with business area or unit measures, which they are supporting.</td>
<td>The budget is determined by a set sales commission. Larger investments are always negotiated with the HQ. Main KPI is sales. Also monitors the status of product registration in China, after-sales productivity measures and product quality measures.</td>
</tr>
<tr>
<td>Source</td>
<td>Evaluation and actions</td>
<td>Incentive systems and Individual evaluation</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Core</td>
<td>If a target is not met, an action plan must be developed by managers.</td>
<td>Group-wide incentive plan consists of a combination of both company-wide and individual performance metrics. Both units and company-level targets in incentive plan are determined by the company’s management.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Subsidiary</td>
<td>Decisions from targets always require explanations.</td>
<td>Group performance is evaluated by departmental managers, who set goals and incentives for all departments. If performance metrics are not met, the performance evaluation is subject to the departmental managers, who determine the financial and nonfinancial targets.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>HQ</td>
<td>Safely-related metrics are closely monitored and emphasized through monthly safety meetings, for all employees.</td>
<td>The group-wide incentive system at UN Group is a top-down, performance-based system, which rewards the performance metrics of both company-wide and individual performance.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Core</td>
<td>Financial performance of different units is reviewed through management meetings with board agenda and in management meetings held under the umbrella of UN Group. The targets and strategies used in these meetings are based on the targets set for the subsidiary.</td>
<td>The company’s targets are set locally, by the subsidiary’s management, who determine the financial and nonfinancial targets. Only the human resource department has to provide the nonfinancial targets.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Subsidiary</td>
<td>Performance is measured and compared to the targets set for the organization. These targets are very much the umbrella targets for the subsidiary, which perform well when they are achieved.</td>
<td>The individual performance is evaluated by departmental managers, who set goals and incentives for all employees. If performance metrics are not met, the performance evaluation is subject to the departmental managers, who determine the financial and nonfinancial targets.</td>
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Table B.
<table>
<thead>
<tr>
<th>Reporting and communication</th>
<th>Senco</th>
<th>Maera Ltd.</th>
<th>Untec</th>
<th>Helix</th>
</tr>
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<tbody>
<tr>
<td><strong>HQ</strong></td>
<td>Standardized reporting (time and content) at Senco. Common reporting tools and a common ERP system. Horizontal communication between business units and vertical communication through business functions.</td>
<td>Very strong group reporting practice, which is pushed down from HQ to the individual units. All units follow the same principles, reporting structures and timetables. A means to integrate operations through standardization, despite operations being globally dispersed.</td>
<td>Monthly performance reports are compiled on the BAs' level and communicated to the CEO and key persons at HQ. The reports are not standardized since the operations and products in the group are generally not comparable to each other. However, general financial KPIs are comparable between BAs.</td>
<td>The only reports that HQ requires is a travel report from the Area Manager and a monthly performance report from the Chief Rep. Standardized templates are used at Helix for the reporting, but the templates are quite vague.</td>
</tr>
<tr>
<td><strong>Subsidiary</strong></td>
<td>Bottom-up reporting, with standardized templates and timely reporting. Common reporting tools, software and ERP system in the whole organization.</td>
<td>Regular, monthly reporting to HQ, where the financial targets and key performance metrics are reviewed. These meetings have a fixed agenda and fixed material for reporting, which enables comparability between reports. Daily, direct communication with HQ.</td>
<td>Reports within Untec include profitability and market analysis for the sales function, follow-up on customer market margins, costs and stocks among others. The CFO has frequent communication with HQ, and frequent travels to HQ.</td>
<td>Most of the communication between HQ and the subsidiary happens through the Area Manager. The different departments also communicate directly with corresponding departments in the HQ. On a local level everything is communicated directly between employees, leading to very responsive communication.</td>
</tr>
<tr>
<td><strong>PMS analysis</strong></td>
<td>The company's strategies are supported by linking strategy-derived KPIs to KPIs, which are further linked to individual incentive systems. Specific corporate strategies are also directly linked with individual's incentive plans. Some socio-cultural controls, very localized. Observed disconnect in aligning units' incentives horizontally.</td>
<td>The company is highly integrated, as the operations require collaboration between several units globally. Therefore, the group drives a common strategy, to which local units contribute. The group uses standardized KPIs on all levels, which are driving strategy implementation, and which are connected to individual incentives. Maera Ltd. is currently transitioning. Emerging socio-cultural controls to support the PMSs.</td>
<td>Values and policies are important at Un Group, which are used in conjunction with general targets, to control Untec. The subsidiary is very independent, but still has incremental, long-term and yearly targets to reach, which are set by HQ. Strong socio-cultural controls, which are localized and which support the PMS.</td>
<td>Helix's sales organization in China is quite small, and depends on local dealers. The HQ formally controls the subsidiary through a sales target, and an investment approval process. The HQ also has informal control over the subsidiary, since the AM is essentially working between HQ and the subsidiary. Low emphasis on explicit socio-cultural controls.</td>
</tr>
<tr>
<td><strong>PMS use</strong></td>
<td>Bedford and Malmi: Hybrid Spekki: An element of market control, Hybrid arm's length control</td>
<td>Bedford and Malmi: Atlas – Hybrid Maera Ltd. – Result control transitioning to Hybrid Spekki: Hybrid arm length's control</td>
<td>Bedford and Malmi: hybrid</td>
<td>Bedford and Malmi: Simple Spekki: exploratory and boundary control</td>
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<tr>
<th>Company</th>
<th>Interviewee title</th>
<th>Nationality</th>
<th>Unit</th>
<th>Experience at company</th>
<th>Interview language</th>
<th>Interview date(s)</th>
<th>Interview duration (minutes)</th>
<th>Interview location</th>
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<td>Senco</td>
<td>VP of finance, APAC</td>
<td>Finnish</td>
<td>APAC, Finance function</td>
<td>30 years</td>
<td>English</td>
<td>26/02, 04/04/2019</td>
<td>60, 40</td>
<td>Online interview</td>
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<td>Senco</td>
<td>VP, Senco China</td>
<td>Chinese</td>
<td>Subsidiary, China region</td>
<td>8 years</td>
<td>English</td>
<td>28/02/2019</td>
<td>45</td>
<td>China</td>
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<tr>
<td>Senco</td>
<td>FP &amp; A manager, Finance</td>
<td>Chinese</td>
<td>Subsidiary, Finance function</td>
<td>6 months</td>
<td>Chinese</td>
<td>28/02/2019</td>
<td>75</td>
<td>China</td>
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<tr>
<td>Helix</td>
<td>Area Manager</td>
<td>Finnish</td>
<td>HQ, subsidiary</td>
<td>7 years</td>
<td>English*</td>
<td>02/03/2019*</td>
<td>70*</td>
<td>China*</td>
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<td>Helix</td>
<td>Chief representative, CN</td>
<td>Chinese</td>
<td>Subsidiary</td>
<td>11 years</td>
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<td>Maera Ltd.</td>
<td>General manager</td>
<td>Finnish</td>
<td>HQ, Finance function</td>
<td>25 years</td>
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<td>28/03/2019</td>
<td>60</td>
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<td>Maera Ltd.</td>
<td>CFO, subsidiary</td>
<td>Chinese</td>
<td>Subsidiary, Finance function</td>
<td>12 years</td>
<td>English</td>
<td>05/03/2019</td>
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<tr>
<td>Maera Ltd.</td>
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<td>5 years</td>
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<td>Lintec</td>
<td>Head of HR, APAC</td>
<td>Chinese</td>
<td>Subsidiary</td>
<td>15 years</td>
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<td>China</td>
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<td>Lin Group</td>
<td>CFO</td>
<td>Chinese</td>
<td>HR function</td>
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<td>English</td>
<td>07/03/2019</td>
<td>45</td>
<td>China</td>
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</tbody>
</table>

Abbreviations:  
APAC = Asia-Pacific  
BA = Business Area  
CFO = Chief Financial Officer  
FP & A = Financial Planning and Analysis  
HR = Human Resources  
HQ = Headquarters  
*Interviews conducted in one session, with both interviewees present.