Revising control and aligning interests

A case study of a headquarters shifting control exertion on a foreign subsidiary

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ABSTRACT

In this study, a process in which a headquarters was changing its way and extent of control exertion on a foreign subsidiary was investigated from an agency theoretical perspective. Two particular characteristics of principal-agent relationships were particularly scrutinized; information asymmetry and aligning interests. These issues were investigated in-depth through interviews, direct observations and document analysis, in order to examine whether they were identified by the headquarters as major problems and accordingly triggered the change initiative. The agency theoretical perspective was subsequently related to theories on organizational interest alignment, in order to examine whether the agency theoretical prescriptions on appropriate control mechanisms seemed appropriate with respect to individuals’ motivation to align their interests’ with organizational goals. The findings suggested that hedonic intrinsic motivation, which is achieved through enjoyable, self-decided and competence-enhancing work tasks, played a more important role than extrinsic rewards, which is contrary to agency theory which emphasizes extrinsic incentives.

Keywords: Agency theory, foreign subsidiary, agent problems, information asymmetry, aligning interests, organizational interest alignment, control, control mechanisms, incentives
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1. Introduction

In June 2011, a Swedish company arranged a meeting to which the management from the local headquarters as well as from its German subsidiary attended. The headquarters’ management perceived that some of their ideas’ and strategies were not implemented as intended at the German subsidiary. This was demonstrated by the subsidiary’s tendency to retain outdated production routines and old fashioned work procedures. The Swedish headquarters conceived the German subsidiary as to have become a “satellite”, disconnected from the parent company’s overall strategy and stuck in old fashioned habits of doing things. The financial result provided by the subsidiary was accordingly below expectations. It was thus decided that the subsidiary, which during its 16 years of existence had been operating highly autonomously, henceforth was going to see changes in the level and way of governance from its Swedish headquarters.

The question of how and to what extent a parent company should engage itself in a foreign subsidiary’s operations emerged as a managerial dilemma at the Swedish headquarters. They faced a situation in which they wanted to make concrete changes in the subsidiary’s production methods and work procedures, but also to increase cooperation between the Swedish company and the German subsidiary. A visionary goal with the change was to have the two units work as an entity rather than as separate companies. The dilemma highlighted the notion that reaching the optimal balance between delegating and maintaining control, that is to say, to govern effectively to an extent neither more or less than necessary, is an essential challenge that parent companies face.

Research on relationships between parent firms and foreign subsidiaries has during recent years increasingly made use of agency theory to gain understanding and make suggestions about subsidiary managers way to act and how to be governed (Kim et al., 2005; Mudambi and Navarra, 2004; O’Donnell, 2000; Makadok, 2003; Schaffer and Riordan, 2003). Agency theory has been argued to be useful in these contexts since the relationship between a headquarters and a foreign subsidiary resembles that between a principal and an agent (Nohria and Ghoshal, 1994). A basic premise within agency theory is that a party acting on behalf of another is inclined to behave opportunistically (Eisenhardt, 1989). This premise has been referred to in international business research when characterizing the conditions of subsidiaries pursuing their own objectives, even though they formally act on behalf of their headquarters (their owners) (Mudambi and Navarra, 2004).
1.1 Problem formulation

Agency theory assumes that a principal must apply certain control mechanisms to align the agent’s interest with those of its own. Agents are expected to seek to maximize their own utility, and since this goal is not always congruent with that of its principal, the agent accordingly sometimes deviates from the interests of its principal (Kim et al., 2005; Eisenhardt, 1989). In the context of foreign subsidiary governance, it has been claimed that foreign subsidiaries are prone to pursue their own interests rather than to merely serve as mechanical executers of headquarters’ requests (Mudambi & Navarra, 2004). The foreign subsidiary’s managers are, thanks to their firm-specific and local market-specific knowledge and the fact that the headquarters managers are largely detached from the foreign operations, in a position where they can disregard some of the interests that headquarters requests (Kim et al., 2005). It is possible primarily because they are uneasy by headquarters to control and their actions are difficult to monitor evaluate because of their significant local information advantage.

1.2 Purpose

The paper’s purpose is to apply an agency theoretic perspective while investigating how a headquarters, confronting a situation where they must perform significant adjustments of existing control mechanisms to govern its foreign subsidiary. What factors led up to the decision to revise the current balance and how do they align their interests with those of the subsidiary’s management?

1.3 Research question

How does a headquarters effort to revise the balance of control with a foreign subsidiary unfold?

1.4 Contribution

There seems to be a lack of research which empirically has studies an actual process in which a headquarters is engaged in forming a set of control mechanisms, and deciding on the
extent and intensity they should be used in the relationship with a particular foreign subsidiary. By exploring such a process, agency theoretical assumptions will be tested as to how prevalent they seem to be, and whether they seem to impact the revision of control mechanisms. The study will therefore contribute to existing literature, by examining the extent to which agent problems tend to affect the choice of control mechanisms in a headquarters-foreign subsidiary relationship.
2. Theoretical framework

2.1 Agency theory

Agency theory started to become a widely used theoretical framework in corporate governance literature in the end of the 70’s, much due to an influential article by Jensen and Meckling (1976). They conceived shareholders as principals and corporate managers as their agents (Zajac et al. 2004). Agency theory addressed issues such as managers engaging in their own private projects and pursuing their own agendas, while disregarding the interests of the shareholders. This was perceived as managerial opportunism and agency theory became a framework that prescribed how self-interested behavior could be curbed (Perrow 1986; Daily et al. 2003). The subsequent literature on agency theory has focused on how agent-relationships effectively can be designed so as to achieve optimum relationship structures (Shapiro 2005; O’Donnell, 2000; Mudambi & Navarra, 2004).

Separation between ownership and control

As corporations over the years have grown in size and organizational complexity, the issue of control has become more apparent. Control issues have especially arisen due to the general tendency amid companies to separate ownership and control. Companies act on competitive marketplaces where they seek profits and simultaneously expose themselves to potential losses. Shareholders/owners are thus willing to bear the risk that follows by owning stakes in a company, but are more seldom the ones’ who operatively manage the company. Instead, a contractual relationship is created between managers (agents) who agree to manage the risk and run the company on behalf of the owners (principals) (Jensen and Meckling, 1979; Jensen et al. 1985; Fama et al. 1983). Hence, ownership is separated from control and interdependency between the parties is formed.

Companies are suitable to examine from an agency theoretical perspective, since the managers at different levels, and employees at different levels, generally are obliged to act on behalf of someone else above them in the corporate hierarchy. They therefore tend to
contain numerous of principal-agent-like relationships, each one different to another, but still fundamentally similar in terms of interdependence and hierarchical inequality (Shapiro, 2005).

**Agency theory in headquarters-foreign subsidiary relationships**

The relationship between a headquarters and a foreign subsidiary is a salient example of a relationship in which control is separated from ownership, and where significant interdependence prevails between the committed parties. It is thereby, from an agency theoretical perspective, a relationship in request of mechanisms that foster an alignment of interests (Björkman et al. 2004, Kim et al. 2005). Assuming that there are costs as well as benefits in delegating control and discretion to a foreign subsidiary’s management, headquarters seek to reach the optimal trade-off between delegating control and maintaining it, to make sure the subsidiary acts so as to maximize the entire company’s welfare rather than its own (Jensen and Meckling, 1992; Mudambi & Navarra, 2004). Various instruments of organizational control are usually set up to attain this desirable stage of control equilibrium Björkman et al. 2004, Kim et al. 2005; Mudambi & Navarra, 2004).

Because subsidiary managers act on behalf of headquarters managers, although being inclined to intuitively act as utility maximizes of their own, they are perceived as agents from an agency theoretical perspective (Kim et al., 2005). Hence, they are assumed to have goals of their own, goals which cannot always be expected to be aligned with those of the company as a whole. As a result, subsidiary managers are from an agency theory perspective expected to make decisions that are not always congruent with the headquarters requirements (Chang and Taylor, 1999; O’Donnell, 2000; Ghoshal 2005; Daily et al. 2003). Geographical distance naturally aggravates headquarters ability to observe a foreign subsidiary’s actions and proceedings. Foreign subsidiaries are moreover situated in local environments which the headquarters’ management generally is not equally acquainted with, and they tend to dispose over a range of internal skills and competencies which are firm-specific (to the subsidiary) and to the local market in which they act (O’Donnell, 2000). These circumstances, characterizing international intra-firm relations, both increase headquarters inability to assess whether their subsidiaries’ actions’ best serve the firm’s
interest, and whether their subsidiaries act in accordance with assigned directives (O’Donnell, 2000; Rugman and Verbeke, 2001).

A summation of how agency theory can be applied on headquarter-subsidiary relationships can be framed as follows:

*The separation of ownership and control leads to relationship conditions similar to the ones that characterize the classical agent-principal model.
* The enhanced information asymmetry, caused by geographical distance and local specific conditions, is believed to enable subsidiary managers to disregard the headquarters interests and instead pursue own agendas.
* Governance mechanisms are put in place to minimize information asymmetry and achieve interest alignment, so as to reduce the risk for subsidiary managers to pursue own agendas and disregard the headquarters interests (Kim et al., 2005; Mudambi & Navarra, 2004)

Hence, after identifying information asymmetry and a subsequent enhanced risk for unaligned interests, these two issues will be reviewed separately, as well as how they are prescribed by agency theory to be effectively addressed through control mechanisms.

2.2 Principal-agent characteristics in headquarter-foreign subsidiary relationships

2.2.1 Information asymmetry

Information asymmetry between headquarters and a foreign subsidiary is generally greater the more responsibilities the subsidiary has and the more activities it performs. A subsidiary that is fulfilling all of the functions of manufacturing, marketing and research & development usually has a bulk of decision-making information that headquarters is not acquainted with. Asymmetrical information increases the difficulty for headquarters to assess their subsidiary’s performance. For instance, if a parent company detects flaws in a foreign subsidiary’s output, lack of information access hampers the possibility to determine whether the flaw was due to negligence or due to an unforeseeable and hardly avoidable event.
Hence, the parent company cannot assess whether the subsidiary’s undertaken actions were appropriate or the most desirable ones’. Because subsidiary managers know that the headquarters’ management generally cannot determine what the actual causes to flaws are, it has often the option to blame poor performance on incidents beyond control (Kim et al., 2005). Headquarters usually attempt to circumvent issues of asymmetrical information by designing specified performance targets which the subsidiaries are expected to meet. However, even specified performance targets may be inadequate to elicit maximal efforts from the subsidiary’s management and the other employees. It depends on the quality of the measurements and whether they are actually verifiable (Mudambi and Navarra, 2004).

2.2.2 Interest alignment

The problems addressed by agency theory are those which potentially emerge when the principal’s and the agent’s interests can come into conflict with each other, and when it is complicated or costly for the principal to observe how the agent acts (Eisenhardt, 1989; Kim et al., 2005). Whereas information asymmetry is what enables a conflict of interests between headquarters and its foreign subsidiaries, opportunistic behavior is what presumably makes asymmetrical information so detrimental. When an agent’s actions are not directly observable, which allows for hidden actions to take place, ground is laid for opportunistic behavior to occur (Hendrikse, 2003; Kim et al., 2005). The assumption of opportunistic or self-interested behavior is derived from the classical economic model of man (Shapiro, 2005), which conceive human beings as rational, selfishly motivated and inclined to behave opportunistically when such a behavior will benefit them (Ghoshal 2005, Daily et al. 2003). Humans are assumed act in accordance with their own particular interests and objectives (Fama 1980), and will operate opportunistically as long as it maximizes their own welfare (Heath 2009). To change a person’s actions and behavior therefore require extrinsic incentives deployed to guide a person’s behavior in a pre-determined direction (Prendergast 1999).

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2.2.3 Controlling behavior or output

Within agency theoretical research applied in organizational contexts, solving agent-problems ultimately comes down to the question of how to design effective control mechanisms and appropriate incentives, so as to induce the agent to act and behave in ways that maximize the principals’ welfare, that is, to align the agent’s interests with those of its principal (Jensen and Meckling, 1976; Eisenhardt, 1989). The level of governance required is dictated by how severe the principal perceives the “agent problems” to be (Chang and Taylor, 1999). Which type of governance most suitable to apply depends on how the problem is characterized and on the surrounding circumstances (O’Donnell, 2000).

Within research on organizational control, a distinction is generally made between output/outcome control and behavior control. From an agency theoretical perspective, controlling primarily an agent’s behavior is preferable when the principal wishes to direct and guide the agent’s behavior (Ouchi, 1979; Björkman, Barner-Rasmussen and Li, 2004). Output-focused control is more appropriate when the principal wants evidence to see whether the agent’s performance meets performance targets or not (Daily & Dalton, 2003).

Behavior control consists primarily of monitoring activities and supervision. In headquarters-foreign subsidiary relationships, headquarters exert control mainly through monitoring. Monitoring generally refers to the activities or mechanisms applied by headquarters to attain information about the activities and decisions made by the foreign subsidiary’s management. Direct supervision is difficult and costly due to the absence of proximity. A way to circumvent this obstacle is to have expatriate managers at the subsidiary, who are supposed to act in the best interests of the headquarters and thus reliably monitor the actions of the local co-managers (O’Donnell, 2000). However, so called bureaucratic monitoring is more common in headquarters-foreign subsidiary relationships. Bureaucratic monitoring refers to the mechanisms which headquarters apply to collect information regarding a subsidiary’s management’s actions and decisions (O’Donnell, 2000) and contains usually rules, programs and pre-determined work procedures (Ouchi, 1979). Effective
monitoring, as defined in agency theoretical based research, reduces the likelihood that a foreign subsidiary deviates from its assigned directives (O’Donnell, 2000; (Kim et al., 2005).

Outcome control is applied through the use of performance measurements and usually rewards on the basis of achieved outcome. It thereby consists of various incentives, in organizational context usually economic incentives (Björkman, Barner-Rasmussen and Li, 2004.

In the context of headquarters-subsidary governance, a combination of outcome and behavioral based control mechanisms has been advocated in order to achieve interest alignment and to minimize information asymmetry (Björkman, Barner-Rasmussen and Li, 2004; Tosi and Gomez-Mejia, 1989; Tosi et al., 1997). Two aspects tend to affect what is most suitable; the level of outcome measurability and the level of task programmability. If the tasks to be controlled are less programmable, whereas the outcomes are readily measured, then outcome control is the appropriate strategy to apply. Reversely, if tasks are easy to program and pre-determinable, whereas outcome is difficult to evaluate, then behavior control is generally advantageous to apply (Björkman, Barner-Rasmussen and Li, 2004; O’Donnell, 2000; Roth & O’Donnell, 1996).

Besides control mechanisms aimed at either behavior or outcome, it has been suggested that so called clan mechanisms are an alternative means by which to effectively control another actor. Clan mechanisms refer to socialization as a kind of control exertion. Clan control can be achieved if the controlled party is committed to, or perhaps even indoctrinated into, the norms and values which the controller holds. Clan mechanisms thus reduce the need for bureaucratic/more concrete control mechanisms (Ouchi, 1979).

Agency theory places heavy emphasis on the economic incentives as key motivational triggers to the contracting parties in a principal-agent relationship. The theory suggests that economic incentives of the agent should be aligned with those of the principal, in order to maximize the total economic payoff (for the principal). Agency theory thus prescribes that individuals’ economic incentives should be channeled to productive use. That is achieved
when the agent’s economic incentives are aligned with the overall organizational goals, and when the agent’s behavior is monitored so that the agent’s inclination to rather serve its own interests is minimized (Eisenhardt, 1989; Dalton, D. & Canella, 2003; Gomez-Mejia et al. 2005.

2.3 Aligning organizational goals with individual interests

Organizational interest alignment represents the degree to which the individuals’ within an organization are motivated to behave in line with organization’s goals (Gottschalg and Zollo, 2007). Gottschalg and Zollo (2007) have highlighted the processes through which interest organizational alignment can be achieved. They call attention to the agency theoretical assumption that individual goals not always correspond with the organizational goals, and claim that an individual’s motivation to behave in a specific way is determined by two elements 1: the degree to which the behavior helps the individual to meet his/her personal goals and 2: the relevance this goal is perceived to have to the individual. They suggest a three-category taxonomy which they claim to comprehend the different mechanisms through which organizations may influence individuals’ motivation.

2.3.1 Extrinsic motivation

Extrinsic motivation is driven by the goal of attaining extrinsic work rewards or outcomes (Brief & Aldag, 1977), such as money, power and recognition. The importance of extrinsic motivation depends on the prevailing reward system which determines the work rewards (or sanctions) that the individual obtains depending on how he or she acts, as well as how important they are considered to be by the individual employee (Gottschalg & Zollo, 2007).

2.3.2 Hedonic intrinsic motivation

Hedonic intrinsic motivation is driven by the goal of being engaged in pleasing (Lindenberg, 2001), self-decided and competence-increasing behavior. Its importance varies correspondingly with the degree to which the individual perceives the character of the work-
task and the task context as positive or negative. This type of motivation can thus be influenced by designing desirable work tasks. The impact of hedonic intrinsic motivation depends on the importance that the individual ascribe to being occupied with enjoyable, self-determined and competence-increasing work tasks.

2.3.3 Normative intrinsic motivation
Normative intrinsic motivation is driven by the goal to behave in ways that are compliant with norms and values. Employees are normatively intrinsically motivated to engage in, or refrain from a certain behavior, depending on whether that kind of behavior is congruent with the organization’s norms and values. Normative intrinsic motivation has been described a version of Ouchi’s (1979) concept clan control, as it is related to individuals’ proclivity to be internalized into organizational norms and values, which subsequently comes to guide their behavior in a way that is preferable to the organization (Gottschalg & Zollo, 2007).

This three-category taxonomy is suggested to contain the primary mechanisms through which an organization may influence its individuals’ motivation to engage in behavior that is congruent with the organization’s goals, and to subsequently implement strategic directives and realize the organization’s objectives. In addition to the three main motivational determinants to interest alignment, Gottschalg & Zollo argue that personnel selection also may affect the ability to achieve organizational interest alignment. It is by consciously employing people disposed with a composition of motivational preferences that already fit the organization’s norms, values and goals (Gottschalg & Zollo, 2007). The taxonomy is illustrated by figure one.
FIGURE 1
Antecedents of Organizational Interest Alignment
3. Methodology

3.1 Qualitative research approach

Conducting a case study is preferable as methodological approach when an investigation has the overall aim to acquire a deeper and more comprehensible understanding of a particular phenomenon. A qualitative approach allows the researcher to infiltrate the surface of the research object and to understand why things are the way they are, and why some things happen while other things do not (Yin, 2003). Since the study’s objective is to apply a well-established theory and some of its underlying assumptions in a very specific organizational setting, Yin’s (2003: 40) suggestion to make use of a single case study appears as the most suitable approach to apply. It allows for assumptions to be tested and alternative explanations to be considered as well. Whereas agency theory, the basic theory applied in the study, is old, its application in the particular setting of headquarters-foreign subsidiary relationship is relatively new. A single case study is suitable for research that explores a phenomenon in a new and/or unusual context (Eisenhardt & Graebner, 2007). A case study is also a preferable approach to examine contemporary events, where behavior cannot be manipulated, which made the approach suitable since the research object in some respects was undergoing a change process. Interviews were the most effective way to obtain data, since agency theory’s center of attention is the relationship between the agent(s’) and the principal(s’) perception of things (Wright et.al, 2001). To explore several individual perceptions about the new control mechanisms and its expected effects, therefore required individual interviews wherein respondents were able to elaborate on their personal perceptions and experiences.

Gillham (2001) puts forward several arguments to why a qualitative approach facilitates an in-depth analysis. It is an approach that is suitable when other methods, such as experiments, are not practically feasible. It is also suitable when little is known about the selected phenomenon, and it facilitates exploring phenomenon’s which are of a complex nature that are difficult to investigate with a more controlled approach. It also allows for
getting under the skin of a group of people or an organization, to find out how things are perceived to happen from the inside Gillham (2001).

The interviews were semi-structured, which was an appropriate approach in order to have the respondents talk about the relevant topics, but to allow them to freely elaborate about their thought and opinions. Semi-structured interviews do however entail a risk for bias, since the researcher is potentially exerting personal influence on the collected data, and the analysis of the data. Since the researcher interprets the data subjectively, with a specific personal frame of references and values, the data could potentially be interpreted differently of another person (Saunders et al, 2009; Yin, 2009). Still, the selected approach was, all things considered, decided to be optimal in order to accurately answer the research question.

### 3.2 Case description

The company was offered to be anonymous if they considered it would potentially encourage honesty in their responses, which is advised by Saunders (et. al, 2009) and Yin (2009). Some of the respondents advocated anonymity which was thus agreed.

<table>
<thead>
<tr>
<th>Unit</th>
<th>Role of informant</th>
</tr>
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<tbody>
<tr>
<td>Headquarters</td>
<td>Executive Vice President (EVP)</td>
</tr>
<tr>
<td></td>
<td>Chief Executive Officer (CEO)</td>
</tr>
<tr>
<td></td>
<td>Production Manager (PM)</td>
</tr>
<tr>
<td></td>
<td>Founder/Owner (Officially CEO at subsidiary due to legal formalities, but operatively part of the headquarter’s management team)</td>
</tr>
<tr>
<td>Foreign subsidiary</td>
<td>Operating Manager (OM)</td>
</tr>
<tr>
<td></td>
<td>Marketing Manager (MM)</td>
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<tr>
<td></td>
<td>Production Manager (PM)</td>
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<tr>
<td></td>
<td>Swedish expatriate</td>
</tr>
<tr>
<td>External</td>
<td>HR Consultant</td>
</tr>
</tbody>
</table>
3.2.1 The choice of case

To attain the inside perspective that partly motivated the qualitative approach, data from inside had to be accessed. That is generally difficult to obtain to outsiders which are not a part of the study object. The company that serves as research object in this study was approached several months before the actual study was to begin. It was chosen due to a very basic sampling frame (Yin, 2009); it was a company with a headquarters with subsidiaries abroad, and where an obvious separation of ownership and control prevailed, meaning that the foreign subsidiary was operatively managed by no one which belonged to the headquarters management. An e-mail conversation was initiated where the researcher explained why the company was suitable to serve as a research object. A meeting was subsequently arranged where the researcher was presented to the EVP. This was done in order to become familiar with the company and the company’s managers well before formal interviews was going be hold, with the intention to create a trustful relationship between the researcher and the people who was to be interview objects. The researcher had no link to the company in terms of personal or professional relationships. Having no familiarity to the organization serving as research object, reduces the likelihood for biases that may occur if the researcher has had a relationship with the object (Fox, Green, & Martin, 2007: 105). The research topic was decided without any involvement of the organization, although some of the ideas’ and inspiration behind it was derived from informal meetings with the EVP, who described the company and the main challenges it currently faced.

The case company was suitable for the research topic for several reasons. A change in control exertion was just being conducted, the major owner had during recent years successively reduced his operative engagement in the German subsidiary and finally entirely handed over the operative responsibility to a person without ownership stakes in the company. The separation of ownership and control had thus become much apparent and was an up-to-date issue that was currently dealt with. The ongoing process of revising control mechanisms to achieve interest alignment made the company suitable to observe through an agency theoretical perspective. The salient separation of owners and managers was a rationale for selecting this single case because it contained circumstances that are
highlighted within agency theory. Since the selection of the case company was based on the fact that the relationship between headquarters and a foreign subsidiary was in focus, and composed salient principal-agent characteristics, the selection can be described as information-oriented (Flyvbjerg, 2006:230).

3.2.2 Data Collection

To collect data that would validly enable the purpose of the study to be fulfilled, several methods frequently used in case studies were applied (Eisenhardt & Graebner, 2007). Interview targets were chosen based on the research topic and theoretical orientation. The purpose of the study naturally required managers from headquarters as well as from the German subsidiary to be interviewed. All interviews were conducted face-to-face, the Swedish managers and the HR manager at the Swedish headquarters, and the German managers as well as the Swedish expatriate at the German subsidiary. The interviews were semi-structured, in-depth interviews with top-management representatives. Hence, information, opinions and perceptions of the current shift in control exertion and newly established control mechanisms as perceived from both sides of the relationship were obtained. To interview people who can contribute with perceptions and opinions from diverse perspectives is an essential aspect in limiting the risk for bias in investigations heavily depending on interviews (Eisenhardt & Graebner, 2007).

The Swedish headquarters’ management consisted of the CEO, EVP the Production manager and the founder, which made them natural interview targets. At the German subsidiary, the management consisted of the Operating manager, the Marketing manager and the Production manager, which made them natural interview targets. These people were relevant to interview since the communication between the Swedish headquarters and the German subsidiary was primarily conducted between the two management teams. Furthermore, a clear principal-agent relationship between the management of headquarters and the subsidiary consisted, since the German company is fully owned by people in the Swedish management, primarily by the founder. The focus on managers, and excluding other employees, is in accordance with how agency theory generally is applied within headquarters-subsidiary relationships. However, additional interviews with the Swedish
expatriate at the German subsidiary, as well as the HR consultant, were motivated. The Swedish expatriate could deliver an inside perspective from the German subsidiary as well as from the Swedish headquarters, and thus provide comparisons. Since using expatriates perceived as an effective control mechanisms in agency theory, this also made her views and perceptions relevant to study. The HR manager was relevant to interview since she played a major role in the relationship between the two management teams. She was hired for the specific purpose to give advice on how the changes in control exertion should be applied, and she had inside perspectives from both the Swedish headquarters and the German subsidiary.

All interviews were rerecorded after the participant had agreed on it. Ahead of each interview, the participant was briefed about how the interview would structure, and the basic purpose with the interview. The questions were open-ended, and focused to a specific theme, which is recommended in explorative case studies (Kvale & Brinkman, 2009; Yin, 2009). In total, nine interviews were conducted, each within a time span between 45-65 minutes. The interviews with the Swedish managers, the HR manager and the Swedish expatriate were conducted in Swedish, whereas the interviews with German managers were conducted in English. The questions were customized to ask “how” instead of “why”, which is advised by Yin (2009) since they are perceived as more open, whereas “why”-questions potentially is perceived as more hostile.

Before formal interviews were held, two initial meetings were arranged between the author and the Executive Vice President. These meetings were held for the purpose of deciding on which people who were desirable interview targets. These meetings were informal and different in the sense that they didn’t follow the same outline as the subsequent formal interviews. Meetings of this kind are in general, as well as in this specific case, an efficient way for the author to identify an appropriate research problem and a research question (Saunders et al., 2009).
3.3.1 Documents

Document analysis is a often used method as part of triangulation, which refers to the “combination of methodologies in the study of the same phenomenon” (Denzin, 1970, p291). In this case study, three sources of evidence are used: interviews, passive participant observation, and documents. Using multiple sources allows for potential convergence and potential corroboration of the collected data (Bowen, 2009). Examining findings gathered by use of a variety of methods, reduces the potential impact of biases which might exist in a single case study (Bowen, 2009). As Patton (1990) points out, triangulation of methods is essential to single case studies, so as to avoid accusations that the findings are artificial outcomes of a single method, source or due to the researcher’s bias.

In 2011, the Swedish headquarters started to send newsletters to the Swedish employees. The newsletters contain general news about the company, such as current projects, upcoming projects, industry news and whatever concerns the company. In 2012, the German subsidiary also started to create newsletter specific to the German subsidiary. All newsletters, both the Swedish and the German ones’, are translated to English by the company itself, and each number has been reviewed since the meeting in which the change initiative was determined, which was approximately one year ago. The information about general tendencies in terms of the change process and how the two versions of newspaper corresponds to each other, allows the research to build a certain image of how the change process and the relationship between the companies has developed over time.

Documents can provide data regarding the context in which the research participants operate, such as employees within a company. Documents can also serve as witnesses to past events, provide background information as well as historical insights. Such information and insights potentially help the researcher to understand and the historical circumstances which may have led up to or affected the current phenomenon being investigated (Bowen, 2009). Bowen (2009) explicitly points out that the data gathered from documents can be used to contextualize the data that is collected in interviews. The newsletters which were
examined in this case study was considered not contain sufficient information to motivate a categorization of each theme, as in the analysis of the data collected from interviews.

3.3.2 Direct observation

Direct observation entails observing actual behavior, rather than having it reported or recalled from another actor. The observer records as much behavior as possible and considered relevant, such as actions, conversations, and descriptions. A direct observer tries to be unobtrusive in order not bias the observations (Yin, 1994; Stake, 1995).

3.3 Structuring the empirical data

The review on previous literature regarding agency theory and specifically agency theory applied in headquarters-foreign subsidiary relationships, ended with four main concepts. The concepts were conceived to accurately explain different control approaches and their effects on agent-relationships. Categorizing concepts from preceding literature on the subject is appropriate and helps to structure the empirical data (Eisenhardt, 1989; Eisenhardt & Graebner, 2007; Saunders et al., 2009). The empirical data was coded according to this categorization. The findings from interviews, documents and observations were then analyzed based on the categorization.

3.4 Operationalization of the theoretical framework

Principal-Agent characteristics

Previous studies on headquarters-foreign subsidiary relationships that have drawn upon agency theory, suggest that the apparent separation of ownership and control make them archetypal principal-agent relationships. Foreign subsidiaries are assumed to have interests conflicting to the headquarters’, which make them pursue own agendas and disregard some of the directives from headquarters. Principal-Agent relationship characteristics were operationalized into the variables interest alignment to examine and compare the current
state of alignment with the state before the changes in control were initiated. Previous research also indicates that the reason foreign subsidiaries are able to disregard their headquarters’ interests is because they are difficult to monitor and because they are in possession of local-specific information which is difficult for headquarters to acquire and to properly assess. This is in agency theoretical terms described as information asymmetry, which thus became the second operationalized variable within the theme of principal-agent characteristics. Depending on how managers at the headquarters perceived the problems, previous research on agency theory suggests control mechanisms to be either behavior-focused or outcome-focused. Therefore, the type of control mechanisms was the third variable in the theme of principal-agent characteristics.

Antecedents to employees’ interest alignment with organizational goals

Previous research indicates that aligning interests between a headquarters and its foreign subsidiaries’ is an overall task to reduce problems in the relationship. Preceding research that has focused on organizational goal alignment, suggests that a three-category taxonomy containing employees’ extrinsic, intrinsic and hedonistic motivations determines their proclivity to align their interests with the organizations as a whole. Questions linked to these motivational factors among the subsidiary’s managers were consequently motivated.

Not all themes were discussed with all of the respondents, since not all themes and variable could valid to ask each respondent. For example, questions regarding antecedents’ to interest alignment were not asked to the Swedish management, but only to the German management, since it was the German managers’ that were tried to be aligned by various means.
The data analysis was begun soon after each interview. The analysis was thus an ongoing process which occurred in parallel with the collection of data. This was preferred to avoid an overwhelming amount of data to be analyzed at the end (Darmer & Freytag, 1995). The analysis was done with conscience openness to responses which may contradict the presumed findings, as suggested by Yin (2009). The data was thus categorized into the categories and variables which the questions were related to, while irrelevant data was excluded (Yin, 2009; Saunders et al, 2009).

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<th>Themes</th>
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4. Findings

4.1 Principal-Agent characteristics

4.1.1 Interest alignment

Swedish management

The Swedish managers all mention several reasons to why they initiated the change process about one year ago. The most frequent explanations are that the German subsidiary had been going in a different direction than the Swedish company. They had developed different production methods, they were not using the information system properly and they had attracted a different kind of customer base than the Swedish one, which enhanced the differences between the Swedish and the German company (EVP, PM, Founder). The production manager (PM) describes the Swedish company as to have gone through a process of rationalization in work procedures and production flow, a process which the German management had not implemented at the subsidiary. He thinks it was due to lacking synchronization between the two companies, for which he believes the Swedish as well as the German management was responsible. He says that traditionally, the Swedish and the German company have been working too much as separate companies, rather than as one international company. He says “It has been too much we and them perspectives, from both sides”. The founder identifies the core problems as managerial issues completely, not necessarily attributed to the German management, but primarily to himself and his colleagues in the Swedish management. He says the Swedish management, him included, has been lacking in their communication, by being too vague in their directives to the German managers and educating them insufficiently about new work procedures and production methods.

The Swedish managers all say that the initiative to change work procedures at the German company still is an ongoing process. The EVP says that “We’ve had a tremendous development in the work flow here in Sweden, now we basically want to copy paste that
The Swedish managers also want to switch the German managers’ mindsets from thinking in terms of themselves as a separate company, to regard themselves as a unit in an international company in which collaboration with the Swedish headquarters is both necessary and perceived as beneficial (Founder, EVP). They believe that the German managers share their goal with the organizational change. The EVP says that the German management is as the eager as the Swedish’ to execute the changes and to increase the collaboration. The CEO points out that a main challenge in the ongoing change process is to integrate a mantra amongst the German managers and the rest of the German employees: that “change is good”. The founder describes the changes in work procedures to hinge on a change of mindset. He says: “It is about coming to work in the morning, and first turn on the machines, and then go for a cup of coffee. Not the other way around”.

German management
At the German subsidiary, the Operating manager (OM) is in charge of the management team, to which also the Marketing manager (MM) and the Production manager (PM) belong. The Swedish founder is formally the CEO because of judicial concerns (Founder, OM), but is not operatively in charge.

The German managers all mention that historically, the Swedish company and the German company have been working very separately, as two different companies, which the Swedish managers’ eventually wanted to change. The OM believes that the strategic divergence between the two companies has been a natural development, rather than a conscious strategy pursued by him and his managerial colleagues in Germany. He says that “If a company is spread out over different countries, they will automatically develop differently and choose different strategic directions”.

However, all of the German managers think the Swedish management’s goal with the change is not only to increase cooperation and implement a change of mindset amongst the employees, but also to homogenize work procedures and the two companies’ overall business strategies. The OM says that a major reason to why the production flow is more
efficient at the Swedish headquarters is that decisions about major investments, new business strategies and new production methods are essentially decided at the Swedish company. He points out that those decisions so far have not been communicated effectively enough to the German company. The OM perceives the change initiative as well to be a decision ultimately taken by the Swedish management, but that he supports it and thinks it is positive.

The PM and MM believe that the difference in productivity levels between the Swedish and the German company primarily is caused by their different kind of customers. According to them (PM & MM) the German customers demand more manual intervention in the production process than the Swedish customers, which aggravates a rationalization of the production process. They say they have not had an intention to develop different work procedures or production methods than the Swedes’.

4.1.2 Information asymmetry

Swedish management

The Swedish managers say that the information they received from the German subsidiary prior to the change was insufficient (CEO, Founder, PM). The CEO says that the Swedish management realized how badly informed they actually were during a visit they made together at the German subsidiary about a year ago, a visit that ultimately came to render the change process. During the visit, the Swedish managers identified obvious inefficiencies in the work procedures and in the production process (CEO), and noticed that the products they produced did not hold the same quality standard as the products produced at the Swedish headquarters (PM). Outdated work proceedings prevailed because “they had never been questioned” (CEO). All of the Swedish managers say that the information they get through telephone conversations and e-mails cannot replace the face-to-face meetings which they all say is necessary to have with the subsidiary managers (CEO, PM, MM, Founder). The information they receive from telephone and e-mails is described by the PM as too superficial, in the sense that it does not inform of what is really going on at the subsidiary, but rather tend to consist of information which the German managers think that they want to hear (PM).
The CEO says that now, as the change process has progressed for about a year, he gets adequate quantity and fairly accurate information about what is going on at the German subsidiary. However, he still feels uncertain in some respects. He says: “I can do visits and get loads of information about what is going on, but I would need to be physically there all the time in order to really get deep insights about the market, to meet customers and to study competitors, and to know what kind of selling techniques that actually work over there”. However, the CEO feels that he gets significantly more information about the German operations now compared to a year ago, primarily due to the Swedish managers’ visits, but also due to what he describes as a general improvement in communication between the two companies. He also says that the information he gets now is better much thanks to the two Swedish expatriates who now work at the German subsidiary, who provide him with relevant comparisons in work procedures between the companies.

The PM points out that now when he has started to visit the German subsidiary every second week, he can compare the information he gets in his telephone and e-mail conversations with what he actually observes during his visits. He perceives that the information he gets through e-mails and telephone conversations now, after he has started to increase his visits, include more questions from subsidiary managers, such as: *should we do like this? What did you say regarding this?* He perceives that to be a striking change compared to previously, when the subsidiary managers rarely asked questions and instead usually said that everything was working fine and that they were following his instructions. Hence, he finds the day-to-day proceedings at the German subsidiary to be easier for him to assess now. He says that since the information he gets nowadays is more verifiable, due to the short space of time between his visits, he can trust it more. However, he feels that not even his visits give him entirely truthful information about what is going on at the German subsidiary. He believes that they put more effort in their work during the time of his visits, and suspects that he does not get to see how things are actually carried out when he is not present. He says that the Germans’ have been using the information system more since the change was instigated, which provides him with adequate information about their work.
procedures and production methods. He is however not yet entirely pleased with how the information system is used at the German subsidiary.

The founder says that he has been missing what he describes as qualitative and intellectual information about the projects going on at German subsidiary. He claims that now after he has started to make long-lasting visits at the German subsidiary, he has a greater understanding of why things work the way they work, but he too believes that he does not get to see how things go about when he is absent. The EVP thinks that she after the change has a more comprehensive perception of the German subsidiary, thanks to improvement in communication and her frequent visits.

**German management**

The managers at the German subsidiary all believe that they have certain information about local market conditions, customers, competitors and internal work proceedings which is not easily shared with the Swedish headquarters. They all say that some information cannot easily be communicated through e-mails and telephone. The OM and PM say that more frequent visits by the Swedes have made the communication between the two companies easier, but they both still think that some information specific to the German market is practically impossible to inform them of, since it requires an enduring presence. None of the German managers claim to have any interest in consciously withholding information from the Swedish managers. The MM thinks that from a marketing perspective, it is difficult to explain German customers’ special demands to the Swedish colleagues. She believes that she holds information which she has acquired through continuous meetings with customers which cannot be transmitted through words to her Swedish colleagues, and which cannot be acquired through sporadic visits.
4.1.3 Behavior-based and outcome-based control mechanisms

Swedish management

Everyone in the Swedish management says that historically, there have been few control mechanisms in place to control the German subsidiary. The founder refers to an expression: “Vertrauen ist gut, kontrolle ist besser” which in direct translation means: “Trust is good, control is better”. He describes it as a mantra permeating German business culture which he wanted to avoid when he set up the German subsidiary in the nineties. He says that up to 12 employees, relying on trust and withholding control turned out as a successful strategy. As the number of employees exceeded 12, he felt the policy had become counter-productive.

He says: “I think there is an intersection point at 12 employees, I did not successfully manage the transition from 12 to more employees at the German company”. He says that when he handed over the operative responsibility for the German subsidiary to the current Operation manager, he also handed over the model of loose control leadership, a way of managing which he says was complete opposite to the “Vertrauen ist gut, Kontrolle ist besser” which he says still is the archetypical German leadership style. Now, after the change initiative was taken about a year ago, he says a move towards more control has clearly taken place. He says: During the change process we have increased our visits and started to educate them about how we want them to do things, unlike before when we just gave them some directives and trusted them to educate themselves. Before, we gave them directives and they would say ‘yes of course, we will do this and implement that’. But then nothing happened. I would say that we have not completely abandoned the idea that trust is better than control, but we have realized that control sometimes is necessary and unavoidable in some aspects of leadership”. She CEO says that the German company has performance goals, but adds that those results goals rarely have been attained, which has made them somewhat informal and not distinctively applied.

In addition to the frequent visits, a psychologist has been hired to interview every employee at the German subsidiary (EVP, Founder). The purpose was to gain understanding about what each individual wanted to accomplish with their current work and professional careers in general, and what they thought of the changes that was to take place at the company. The founder explains: “We want to create a harmonious working environment, so we need to
know these things”. The Swedish management has also started to document the directives they give during visits, which enables them to precisely follow up how the changes in production and general work procedures have been carried out since their last visits when they return. The founder states that output control will be intensified as a means to execute the necessary changes. He says that daily and weekly performance goals will be set up and communicated to the German employees. He says that such kind of performance measurements, as produced quantity per employee and various sales measurements, are also measured at the Swedish company but not communicated openly since it is not required. He says that the fact that the productivity at the German subsidiary is significantly lower, made them decide to henceforth communicate specifically how efficient the production is going, and put in place daily and weekly individual goals. Performance based provision so far has not existed, and there are no plans to introduce it in the near future. There have so far existed performance goals for the German company as a whole, but no individual ones’.

4.2 Antecedents to employees’ interest alignment with organizational goals

German management

4.2.1 Extrinsic motivation

None of the German managers say that there has not been any performance-based provision in the past or currently. Neither do they think that performance based provisions would motivate them to work harder or to achieve better at work. The MM says economic incentives would be difficult to all the sudden apply, since it would be a quite dramatic shift from the prevailing organizational culture, towards a more competitive and performance oriented environment. All of the German managers perceive that working autonomously is a motivation in itself. None of them wished for a reward system in terms of provision based on individual performance to be introduced. The OM thinks that a provision-based bonus to the company as a whole potentially would have been a good idea, but does not have a specific opinion about it. The MM and PM believe it probably would have encouraged them to some degree, but not significantly increase their current motivation to work hard and to do their
best at work. The MM and the PM did not have an opinion about whether concrete measurements of their productivity rates or other performance measurements would increase their productivity.

4.2.2 Hedonic intrinsic motivation

Everyone in the German management perceives their work activities as enjoyable, self-determined and competence-enhancing. The MM and the PM think they eventually will be used to the changes in work procedures and production methods, and consequently be able to master them without supervision or guidelines from the Swedish headquarters. Although they say that implementing new work routines derived from the Swedish company temporarily reduce their degree of self-determinacy with respect to their work, they consider implementing new methods is more competence-enhancing than usual, which they think inspire them. They did not know whether the new production methods were superior to the ones’ they have been applying previously, but state that it is reasonable to implement them since they have been working well at the Swedish headquarters. The German managers do not think that increased supervision has made their work activities less enjoyable or stimulating, since they expect positive outcomes and to become more autonomous in their work procedures after they learnt certain new techniques.

4.2.3 Normative intrinsic motivation

Everyone in the German management says that there are certain norms according to which they feel themselves expected to behave. They perceive the company as “Swedish”, in the sense that it is not so much German in its organizational culture, but rather there are Swedish norms that prevail even at the German company. They all mention that the organizational hierarchy as flat, which they consider as significantly different to common German business culture. They all find it difficult to explain how that affects the practical work, but the OM gives as an example the Swedish way of communication, which he finds less distinct than German communication, which sometimes makes it difficult to interpret.
He believes that if German culture prevailed, the communication between the headquarters and the foreign subsidiary would be more concrete. On the other hand, he enjoys the Swedish cultural influence and like the fact that the hierarchy is not so rigid, which the PM and MM also describe as positive.

**4.3 Additional interview 1. Swedish expatriate at the German subsidiary**

**4.3.1 Interest alignment**

The Swedish expatriate has been working at the German subsidiary for six months. She says that early on, she realized that they worked entirely different at the German company than at the Swedish headquarters. She does not think that the German managers consciously have pursued different strategies and production methods than at the Swedish headquarters. But she believes that they probably would have worked more similar to the Swedish headquarters if they in the past had been more controlled and as monitored as they have been during the change process.

She states that although she started to work at the Germany Company for strictly private reasons, she was by the Swedish management given an informal mission to encourage her German co-workers to implement the new work procedures. She says that a significant development has taken place since she first got there; more and more work procedures start to become more like the Swedish ones’. She says that initially, she perceived some reluctance among her local colleagues to perform the necessary changes, but when improvements became visible it also became easier to proceed with the changes. She however thinks that there is still a lot left to do, and that the challenge to implement a new way of thinking at the German subsidiary remains: to replace the categorization in “Swedes” and “Germans” and replace it with a “We mentality”. She also sees differences in work procedures when the Swedish managers are present, compare to when they are not, much because of the hierarchical mentality which she claims to permeate German business culture. She says that “*when they (Swedish managers) are here, things get done. People become more alert and start doing things. At least that is my feeling*.”
4.3.2 Information asymmetry

The Swedish expatriate says that the Swedish production manager now continuously monitor how the information system by the German staff, and during his visits he controls whether the intended productions methods are applied. She also says that the Swedish production manager sometimes do random sample tests to make sure that the Germans’ do not go back to old habits. She says the information flow has become better compared to her initial months at the German subsidiary, much thanks to the increasing visits by Swedish managers.

She says that ‘we’, referring to herself and the other Swedish expatriate, repeatedly have to point out why the new procedures should be implemented. Whereas she perceives the German management to intellectually understand the necessity to implement the changes, and that they honestly want their employees to employ them, she is less sure of whether they are inclined to actually execute them, pointing out that directives to apply the new production methods and to use the information system are more strictly commanded during the Swedish managers’ presence, than during their absence.

4.4 Additional interview 2. HR Consultant

4.4.1 Interest alignment

The HR consultant describes her role in the change process as to underpin its implementation. She was asked by the Swedish management about one year ago to help them identify problems at the German subsidiary and help them initiate the changes they wanted to implement.

She does not want to tell all of what she knows that caused the change initiative. But she points out that since the Swedish mangers obviously felt a need to increase their presence at the German subsidiary, it had to do with the Swedish management requiring more control. Not least in order to monitor the change process. She says some divergence has occurred between the companies primarily due to cultural differences. She says that Germans in general are used to a business climate unequal to Swedish business climate, so when as for example a Swedish company chooses to apply a completely different way of managing, the
German staff might get a bit perplexed. She says that if control is not exerted, then people who are used to rigid control exertion, which Germans tend to be, think it is a sign that they can do pretty much what they want. Hence, she does not think that it is possible to apply a Swedish model of control exertion at a German company, instead she believes it requires a different kind of leadership.

4.4.2 Control mechanisms – output or behavioral

The HR manager had conducted individual interviews with each employee at the German subsidiary, where the employees got to talk about who they were, what they did and what thought about the change process. The HR consultant says that the change initiative was taken by the Swedish management. She believes that the performance measurements and the performance goals which will be introduced is a natural complement to the improvements in production methods and work procedures that are indented to be achieved. She believes that the Swedish management has linked the output control, the productivity measurement and performance goals, to the behavioral aspects, namely to what extent the new production methods and work procedures are applied. She also points out that the absence of performance based provision is uncommon in German business culture, but she cannot assess whether such incentives would be appropriate to achieve greater alignment between the Swedish headquarters and the German subsidiary. She says that she believes that the German managers are motivated more by enjoyable work tasks and freedom at work, rather than economic incentives.

4.5 Direct observation – The information system

The Swedish production manager says that the information system is the most concrete control mechanism through which the company’s different activities are monitored. He demonstrates the information system which is used by the Swedish headquarters as well as the German subsidiary. The production manager has developed the information system together with an IT-expert. He explains that the information system since about one year ago keeps track on every step in the production process, and that it is now implemented at
the Swedish headquarters as well as at the German subsidiary. It enables real-time monitoring of the production processes, which also was his ambition when he developed the system. He says that he now, thanks to the information system, can keep track on every project in the production, and give signals to stop or go whenever he wants. Previously, the system was only used to type in orders, but the production process that followed was not documented and especially the German projects were impossible for the Swedes to monitor. The information system now provides information about when production is initiated, what kind of project it is, and the person who has initiated the production. The information is illustrated by green, yellow and red lights, each color indicating whether the production process is running, if it is temporarily on hold or whether it has stopped. He explains that by developing a system that keeps track on every step in the production process, and which is used at the Swedish headquarters and at the German subsidiary, facilitates homogenization of the production methods at both sides, which has been an essential goal during the last year. On the computer screen, real-time information about several projects that is currently in production in Sweden and Germany is illustrated, and at which stage of the process each project is in. It also shows which people that are involved in the project and who has turned on the machines. He says a problem is that the Germans’ do not use the information system as much as the Swedes. He illustrates that during a production process, the people who are involved in the process must repeatedly type in certain information in to the system, so that the system can keep track on the process. The Germans’ tend to not do this as much as the Swedes, resulting in that the German’ activities are more difficult to keep track on. The Production manager illustrates how each step in the production process should be typed in, there is information about design, layout, original, printing, packaging, distribution and assembling, each activity requires to be documented in the system. He shows three different steps, each one which takes about 10 minutes to type in.

4.6 Internal newsletters

The newsletter is published once a month, a Swedish as well as a German version. The focus of each newsletter is primarily at projects and news regarding the internal company, that is to say, the Swedish newsletter is focused at Swedish projects, whereas the German version
is focused at German projects. However, every newsletter, in the Swedish as well as the German version, contains a column by the CEO in the Swedish version, and the Operating manager in the German version. These columns are more general reflections about the company as a whole, including the “other company” from each perspective. The German subsidiary started to publish internal newsletters about a year ago, hence approximately at the same time the change initiative was taken. The Swedish headquarters has been publishing newsletters for approximately three years.

The Swedish newsletters
Organizational interest alignment
During the last twelve newsletters, which encompass news and projects during the last twelve months, the Swedish CEO writes much about what he calls major investments and big project being initiated at the Germany subsidiary. In one of the first newsletters for 2012, he writes that “we are pacing up the rate of change” and refers to the German subsidiary’s implementation of what he calls investments in new technique. He says the spirit at the German subsidiary is positive and that the heavy demands from German customers remains to be a challenge which they must stay innovative to meet.

The Swedish CEO repeatedly emphasizes the founder and his ambition with the company. The CEO writes for example that the company now is “at the stage where our founder dreamt of 30 years ago”. In the same number, he writes that he is glad that the cooperation with the German subsidiary has increased, and he also writes about some projects currently running at the German subsidiary, which he describes as being characterized by new innovative ideas and techniques. In a subsequent newsletter, the Swedish CEO writes that since the last newsletter, major improvements have occurred at the German subsidiary in terms of increased production volumes. He says that the exciting development at the German subsidiary continues.

In one of the newsletters, two pages are about a project carried out in the German subsidiary and says that he believes “some kind of revolution” to be taking place at the German subsidiary. The Swedish CEO mentions improvements in production techniques, and
ends the column by saying that the company, referring to the German and Swedish together, continues to carry the dream that the founder once had. A trend in the Swedish CEO’s columns is that texts about the German subsidiary start to come up more frequently as time progresses.

The German newsletters

Organizational interest alignment

The German OM also refers repeatedly in his columns to the founder and the founder’s ideas and visions with the company. The German operating manager mentions changes and improvements often. He says that the German company during the last two years has dared to invest heavily in the future, by referring to new production techniques and new big projects. He writes that the investments in production surely will inspire and challenge the staff, and that it now will become important to together find cost-efficient construction methods. In one of the last newspapers reviewed in this study, he writes that operating manager writes that this year, company history is being written, referring to the major changes being conducted, whereas he does not explicitly mention what the changes are. He ends by saying that the German company has taken a big leap during the last year, and improved production as well as made important investments in new machines.

In a subsequent newsletter, the German operating manager emphasizes that he is glad to have an innovative staff, which remains creative and positive despite a tight budget. Despite not mentioning the Swedish company, as much as the Swedish CEO mentions the German subsidiary, the German Operating managers in one newsletter writes that the German and the Swedish company are sitting in the same boat, which he says calls for cooperation. This is written in a context where he emphasizes the need to always keep an organization in motion, to always keep up with trends and never relax.
5 Discussion

5.1 Principal-agent relationship characteristics

5.1.1 Information asymmetry

Information asymmetry seems according to the findings to have been a major reason to why the change initiative was taken by the Swedish management. None of the Swedish managers were satisfied with the quantity of information they received about the German subsidiary’s operations prior to the change process. This finding supports previous research indicating that headquarters-foreign subsidiary relationships in which the foreign subsidiary performs the full spectrum of potential activities, instead of just carrying out a particular activity such as R&D or selling, tend to be characterized by a high degree of asymmetrical information supply (Kim et al., 2005). The quantity as well as the local-specific nature of the information makes it difficult for headquarters to acquire and to accurately assess (Kim et al., 2005; Rugman & Verbeke, 2001), which the empirical findings in this investigation supports as well. A high degree of information asymmetry should accordingly enhance the probability that the agent, even when the agent role is assumed by a foreign subsidiary (Mudambi & Navarra, 2004; O’Donnell, 2000), pursues its own interests rather than those of the principal’s. The headquarters initiative to make changes in its control exertion indicates that the pervasiveness of asymmetrical information was identified as the primary cause to why strategies and work procedures significantly differed between the two companies, despite the headquarters’ ambition had been to homogenize work procedures, strategies and production methods. Regardless of whether this divergence occurred due to lacking interest alignment, as discussed previously, or due to a natural divergence which came to evolve unconsciously, the empirical findings indicate that the headquarters’ ambition to homogenize strategies and work procedures had not been properly fulfilled, and that they themselves identified information asymmetry as the primary issue to be addressed in the subsequent choice of control mechanisms. How the problem is perceived by the controlling party should according to Ouchi (1979) decide which control mechanisms that are appropriate to put in place.
5.1.2 Interest alignment

The Swedish management indicates that the organizational change was initiated due to the German subsidiary’s tendency to go in another direction than they were in terms of strategy, work procedures and production methods. The divergence could, based on Mudambi and Navarra’s (2004) findings, be viewed as a consequence of the subsidiary’s potential quest to operate independently. However, the German Operating manager says to embrace the headquarters initiative to homogenize work procedures and increase cooperation, which the Swedish managers also perceive him to do. That could be a sign that the cooperative deficits and diverging work procedures have its origins in lacking leadership capabilities, rather than a lack of interest alignment between the companies. However, an agency theoretic perspective assumes the subsidiary’s OP to formally serve his principal’s interest and show off good intentions whilst being watched, but to (at least partially) disregard them when not being monitored (Björkman et al. 2004, Kim et al. 2005). The fact that physical visits became the primary means by which the Swedish managers endeavored to increase its control exertion indicates that some doubts in the German management’s intentions to actually execute the changes did exist. The fact that the Swedish Production Manager, the founder as well as the Swedish expatriate, say that what happens at the German subsidiary is different when Swedish managers are present, compared to when they are not, indicate that some degree of resistance might occur amid the German staff despite formal compliance. That is in accordance with how agency theoretic assumptions about principal-agent relationship expect them to act, as well as agency theoretical derived assumptions on headquarters-foreign subsidiary relationships (O’Donnell, 2000; Björkman et al. 2004, Kim et al. 2005).

That the German managers express the intention to perform the changes requested by the Swedish managers to increase their productivity levels, highlights the condition of interdependency between the two parties. Both the Swedish and the German management say that the German subsidiary historically has acted highly independently. The German managers have been delegated significant discretion and decision making power, but still, when describing the problems in the relationship, the OM refers to the Swedish headquarters as the center of essential decision making. That potentially supports the notion that in a headquarters-foreign subsidiary relationship, overall strategic decisions are ultimately made by headquarters, whereas decision making in which local-specific
information is required, is handed over to subsidiary managers. The fact that a change process was initiated relates to the trade-off situation which Jensen & Meckling (1976) characterized as a fundamental characteristic of business relationships in which control is separated from ownership, and which Mudambi & Navarra (2004) as well as Kim et al. (2005) have elaborated on in a headquarters-foreign subsidiary context. The Swedish headquarters seems to have perceived that the costs of delegating control had exceeded the benefits. They had reached the tipping point at which when the agent’s unobservable behavior harmed more than the benefits accrued through low costs.

5.1.3 Behavior-based or outcome-based control mechanisms

The Swedish as well as the German managers stated that the German company traditionally has been working highly autonomously, with just few directives and very limited control exerted by the Swedish management. Information systems have historically been absent and performance goals have only existed for the company as a whole, although described as informal. These conditions would, from an agency theoretical perspective, assume that the subsidiary managers have had insufficient incentives to pursue their Swedish managers’ directives due to lack of monitoring and tangible rewards (Kim et al., 2005; O’Donnell, 2000). The notion that the two companies have diverged in terms of strategy and work procedures indicate that so might have been the case. This finding that few control mechanisms have been used is however not that surprising in the light of previous research on circumstances affecting the appliance of control mechanisms. As O’Donnell (2000) states, direct supervision is usually associated with large expenses and therefore difficult in headquarters-foreign subsidiary relationships. The Swedish CEO pointed out that he to some degree doubts his ability to accurately evaluate the information he got about the German operations, because of the local market and firm-specific conditions that prevailed. Hence, the absence of rigid outcome measurements might be an effect of a potential difficulty to assess outcome, which has been stressed by Björkman et.al (2004) to be a common problem in headquarters-foreign subsidiary relationships. Bureaucratic control mechanisms, such as information systems, have been applied during recent years and underpinned monitoring of
production methods, but has not been used properly by the German staff, which might be an indication that there is a problem in interest alignment. The level of outcome measurability might also have been affecting, since, as the Swedish CEO points out, the Swedish management does not have a proper insight into the local German market conditions, and a low level of outcome measurability, which in this case is an inability by the Swedish management to accurately evaluate how effective the German subsidiary is, makes outcome control uneasy to apply.

As the HR specialist points out, are also cultural differences between the two companies' staff in terms of business leadership. That might aggravate an internalization of social norms and valuers, the clan control which Ouchi (1979) has suggested to be an effective alternative to the more costly bureaucratic control mechanisms.

Following the change process, Individual performance goals will be communicated on a weekly and even daily basis. This seems as a step towards more rigid control, which is also manifested by more frequent visits by the founder, the EVP and the production manager. From an agency theoretic point of view, the performance goals represent control mechanisms aimed at output (Farrell, 2003, Eisenhardt, 1989). Measuring outcome is believed to induce the agents, in this study the subsidiary managers, to put the level of effort required to achieve the desirable outcome (Mudambi & Navarra, 2004). The physical visits should be viewed as control aimed at controlling behavior; the production manager wants to make sure that the German staff embrace his directives and do not fall back to old routines. Even the Swedish expatriates at the German subsidiary, although not taking part at the managerial level, have been asked to monitor the implementation of new directives and how the change process in carried out. Hence, the change process has involved a combination out behavioral and outcome control mechanisms, which according to O’Donnell (2000) most effective in headquarters-foreign subsidiary relationships. However, the choice to not introduce any economic incentives is against traditional agency theoretical assumptions how to align individual interests with organizational goals (Kim et al., 2005; Mudambi & Navarra, 2004).
5.2 Aligning organizational goals with individual interests

5.2.1 Extrinsic motivation

The interviews made it clear that no extrinsic rewards have been applied by the Swedish headquarters in order to influence the German employees’ motivation. No extrinsic reward system was either planned to be used in the near future. This finding is especially striking from an agency theoretic perspective. Agency theory assumes that people in general highly appraise the utility of tangible rewards, and prescribes incentive plans as necessary means to achieve goal congruence in principal-agent relationships Eisenhardt, 1989; Gomez-Mejia et al. 2005. The necessity for economic incentives to achieve interest alignment in headquarters-foreign subsidiary relationships have also been emphasized in previous research drawing from agency theory (Mudambi & Navarra, 2004; Björkman et al. 2004; Kim et al. 2005). The choice made by the Swedish management to not apply a reward system based on performance is according to themselves that they do not judge the German managers or rest of the German employees to be motivated by extrinsic tangible rewards. It correlates with the German managers comments, and it is rational with respect to Gottschalg & Zollo’s (2007) notion that extrinsic rewards only increase motivation to the extent that the employees actually value such rewards (Gottschalg & Zollo, 2007). One of the German managers pointed out those introducing economic incentives would lead to a more performance oriented environment, which she believed would conflict with the prevalent organizational culture. That is a notion worthwhile reflecting upon with respect agency theory, which so heavily prescribes economic incentives as necessary when monitoring is difficult and costly (Dalton, D. & Canella, 2003; Gomez-Mejia et al. 2005). It may indicate that the assumptions on human inclination made within agency theory actually might have to be adjusted with respect to circumstances, such as change processes and organizational history or culture. However, the Swedish management’s struggle to implement the changes in work procedures and production methods may be a sign that agency theory’s assumptions are more accurate than what the interviews have been indicating.
5.2.2 Hedonic intrinsic motivation

The German managers perceive their work activities as enjoyable and to a large extent self-decided. The production manager thought that her degree of freedom in decision making was slightly decreasing along the change process, which according to Gottschalg & Zoll (2007) would negatively affect the interest alignment between herself and the Swedish management’s. The OP did not feel as the demanded changes would impact his perception of his individual work activities, which should consequently neither encourage nor discourage him to actively support the change. As Mudambi and Navarra (2004) state, drawing from assumptions within agency theory, the subsidiary managers’ personal interests should be tied to the directives given by headquarters. Thus, the initiated changes should accordingly align his interests with the organizational goals set by the Swedish management. The empirical findings suggest that this has not been done. He perceives his own work activities as not being changed, and he emphasizes that whereas the changes are aimed at general work procedures and production methods, all he can do is to give directives and monitor the process. This is an interesting finding which connects to Gomez-Mejia’s (2005) suggestion that a principal must actively channel an agent’s (an individual’s) incentives to productive use. The OP’s prescribed work tasks have not been directly tied to the implementation of changes, only to give directions about implementing them. A way of control exertion derived from Gomez-Mejia’s (2005) suggestion, complemented by Gottschalg & Zoll’s (2007) notion that hedonistic intrinsic motivation plays an important role to individual’s proclivity to align their interests with the organizational interests, would thus be to channel incentives to the level of achieved implementation of the new work procedures and production methods.

5.2.3 Normative intrinsic motivation

The German managers all say there is a Swedish organizational culture which they claim to characterize even the German subsidiary. They point out that the typical hierarchical conditions at German organizations in their company is replaced with a flat organization characterized by lose control. However, none of the German managers could describe how it affected their general behavior or if it affected their work procedures. According to the
theory on normative intrinsic motivation, employees are inclined to act and refrain from certain actions based on whether the behavior is congruent with prevailing norms and values within the organization (Gottschalg & Zollo, 2007), a phenomenon which Ouchi (1979) refers to as clan control. The findings in this investigation suggest that although a set of values and norms exist, which in this case the German managers perceived as Swedish organizational culture to contain, the values and norms do not necessarily offer guidance in behavior. The German managers perceived Swedish organizational culture as to be characterized by lose control. The OM also pointed out that he finds Swedish communication to be less distinct, relatively vague and occasionally difficult to interpret.

5.2 The information system

The information system was introduced almost coincidentally with the headquarters initiative to increase their control exertion. It indicates, with respect to Ouchi’s (1979) discussion on control mechanisms, that the Swedish managers’ perceived a need for more behavioral control. Information systems are according to Ouchi (1979) a form of bureaucratic control and as the PM explained, it provides information about whether the production methods that the German managers have been commanded to apply, actually are applied, and to what extent. The information system however required manual efforts from the people involved in the production. If it was not used properly, it became significantly less effective. The information system which was observed during this investigation required to be updated continuously during a production process, which does require the people involved to be inclined to actually put in an effort for it. As was noticed during the direct observation, the people who used the system could be identified, which made it relatively easy for the production manager to conclude who did not use the system sufficiently. The information system therefore served its purpose only partially from an agency theoretical perspective, because although it to some extent solved information asymmetry, it still did not solve the problem of aligning the subsidiary’s employees, including their managers, interest to actually make use of it. This notion brings to light the difficulties associated with monitoring a foreign subsidiary, as has been stressed in previous research (Mudambi & Navarra, 2004; O’Donnell, 2000). To what extent the information system in fact
was used, nonetheless gave the PM indications about what whether the German managers
gave directives to implement the new procedures, and monitored that their directives was
executed. The direct observation thus gave some relevant insights about how information
systems may be used as a monitoring mechanism in headquarters-foreign subsidiary
relationships.

5.3 Internal newsletters

5.4.1 Information asymmetry

None of the newsletters, not the Swedish or the German ones’, explicitly contained
information about problems with how the two managements’ perceived their information
access. This is not surprising since the newsletters are hardly meant to be a forum for self-
critique and problem solving. However, the notion that the German internal newsletter was
first produced about coincidentally with the change initiative, could in itself be interpreted
as an outcome of information asymmetry as a perceived problem. The German newsletters
give insights into local projects and market news regarding the German subsidiary, which
might have been a way for the Swedish management to circumvent the problem stressed by
Mudambi & Navarra (2004) and Kim et. al (2005) about assessing a foreign subsidiary’s firm-
specific and market- specific information. As Mudambi & Navarra (2004) and Kim et. al
(2005) claim, local-specific information is difficult to evaluate by headquarters. To initiate
newsletters in which such information is published once a month, should increase
headquarters’ managers’ knowledge about the local conditions at the German subsidiary,
and thus underpin evaluation and assessment of their activities and performance. It also
gives the Swedish headquarters information about how the OM is communicating with his
employees, at least officially, in terms of how the implementation of new production
methods is described. Since the newsletter is published at the company’s intranet, it is
accessible to headquarters’ staff as well as the subsidiary’s. The fact that both the Swedish
and the German newsletters are translated into English, supports the notion that the
newsletter might be a part of reducing the level of information asymmetry between the two
companies.
5.4.2 Interest alignment
The newsletters, both the Swedish and the German ones’, clearly followed up how the change process was progressing at the German subsidiary. The Swedish CEO and the German OM continuously emphasized the positive effects that the change had, and they both expressed positive reflections about how the changes were developing and they both wrote about improvements in productivity. Two have both the Swedish CEO and the German OM to express opinions about the necessity to implement the changes, and the positive effects it from their perspective seem to have, could be a way to stress the two companies’ interdependence and thus highlight the common interests they have in terms of investments and projects. The notion that the Swedish managers tend to repeatedly stress this, supports the notion made by Ghoshal 2005 and Daily et al. (2003) who in previous research on headquarters-foreign subsidiary relationships have argued that goal congruence is not automatically achieved in such a relationship. Instead, which the great emphasis the Swedishah CEO places on on the German activities in his columns, there seem to prevail a need to stress the fact that the two companies share the same interests and strive towards the same goal. This seemed to be equally stressed by the German OM in his columns in the German newsletters.

5.4.3 Control mechanisms
The newsletters themselves can be viewed as control mechanisms in terms of what Ouchi (1979) conceptualize as clan control. The Swedish CEO and the German OM continuously refer to the founder and his dreams, although now explicitly describing what the dreams contained. Describing the founder and his visions for the company is however likely a sort of socialization of employees to embrace the organization’s culture, and perhaps the norms and values which they interpret the founder to have. As opposed to bureaucratic control mechanisms, the newsletters’ information about the company’s history, what the founder dreamt of and the texts about the need for innovative staff, goes well into Ouchi’s (1979) notion of how employees, by relating to the organization’s norms and values, may act in accordance with how they perceive the prevailing norms and values can be executed in behaviors and actions. Whether the pieces about the founder and his visions actually had an impact on the German manager, although being the one writing the pieces, is difficult to tell.
The fact that he does writes about it might be of a genuine feeling that he actually runs a company with a vision, norms and values which he shares, or because it is what he believes the Swedish management wants him to write. An agency theoretical perspective would assume, due to its assumption about human inclination (Eisenhardt, 1989; Shapiro, 2005) that since the newsletter is public, and watched by his principal (Swedish management), he should be inclined to write what he expects his principal to wish for, regardless of whether he actually believes in it and acts in accordance with it.

5.4.4 Extrinsic, Intrinsic and Hedonistic motivations

The newsletter gave limited information which can be validly interpreted to relate to the three motivational antecedents of organizational interest alignment. Extrinsic rewards are not touched upon at all. However, the Swedish CEO and the German OM repeat that the changes which are occurring are exciting and challenging, which is a form of appealing to hedonic intrinsic motivation. As Gottschalg & Zollo (2007) point out, a way of aligning individuals’ interests with those of the organization, is to design work tasks which are perceived by the individuals to be self-decided and competence-increasing, and align these tasks with the organizational goals’. The fact that the managerial columns in the newsletters highlight the importance and excitement to execute the current changes, and implement the new production techniques, would thus according to Gottschalg & Zollo (2007) be means by which the Swedish management induce the German managers, including other employees, to find their work tasks purposeful and therefore act in accordance with their assigned directives. Appealing to norms and values in the newsletters would, as discussed previously, relate to clan control and which Gottschalg & Zollo (2007) refer to as endeavors to influence the employees (including managers) normative intrinsic motivation.
6. Conclusion

The purpose of this thesis was to apply an agency theoretical perspective on a situation in which headquarters decided to revise their control exertion on a foreign subsidiary. The empirical investigation revealed that agency theoretical assumptions seemed to validly reveal some of the problems which were identified by the headquarters management. Information asymmetry seemed to play a significant role, since headquarters’ management was unsatisfied with how much information they got from the foreign subsidiary, and unsure of how to evaluate the information they received due to the local market and firm-specific nature of the information. The empirical findings suggest that a divergence also was identified as a problem; the German subsidiary did operate differently than the Swedish headquarters wanted them to. They had taken a strategic direction which was also unwanted by the Swedish headquarters, and the headquarters’ management also perceived that the changes they wanted to implement in terms of production methods and work procedures, were not implemented as fast or effective as they wished they would been. Hence, goal incongruence seemed to prevail to some degree, which supports previous research drawing from agency theory, which claims this to be nearly unavoidable.

The change in control exertion carried out by the Swedish management, in order to implement changes in production methods and to align subsidiary managers’ interests with their own, was reviewed through agency theoretical lenses as well as with respect to specific theories on how to achieve organizational interest alignment. The revision of control mechanisms resulted primarily into intensified behavioral control through physical visits by Swedish managers and the employment of an information system. The Swedish managers however perceived that the information system was inadequately used by German employees, which brought to light the notion that interests between the parties were not aligned properly and thus reduced the efficiency of the information system.

Outcome control was also introduced following the revision of control exertion. Individual performance goals were going to be introduced at the foreign subsidiary yet had not been so at the time the investigation was conducted. The introduction of performance goals without
adding economic incentives to achieve them was a finding which contradicts agency theoretical prescriptions on how individuals should effectively be guided to act in accordance with their principals’ interest, since agency theory advices the use of extrinsic rewards.
7. Managerial implications and suggestions on future research

This study indicates that agency theoretical assumptions regarding information asymmetry, difficulties in aligning interests and how they affect the choice of control mechanisms are valid to regard when deciding on how and how much a foreign subsidiary should be controlled. When headquarters confronts the challenge to maintain control but also delegating control to foreign subsidiary managers, an appropriate set of control mechanisms should be aimed at reducing information asymmetry, which seems to effectively be achieved through physical visits. More low cost bureaucratic control mechanisms, such as applying in information systems, seems as an effective supplement. However, aligning interests seems to be a prerequisite in order to have bureaucratic mechanisms such as information systems to be useful, since they require subsidiary managers to have incentives to use them. These incentives should, based on this study’s findings, be designed in accordance with how the foreign subsidiary’s managers are primarily motivated; by extrinsic rewards such as economic incentives, or work tasks which allow them to engage in enjoyable, self decided and competence-enhancing behavior.

Future research could complement this study by relating these agency theoretical assumptions and problems to theories in organizational change. Whereas agency theory in this study has been related to theories on organizational interest alignment, it should be interesting to investigate how it can be applied in a more specific setting of organizational change.


8. Literature


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Appendix 1

Principal-Agent characteristics (Asked to the Swedish management)

1. Information asymmetry

How well do you think the information flow between the Swedish and German company works out?
   - Has it changed during the last year, if so, how?

Do you think that you get all the information that you need from the German subsidiary?
   - Has it changed during the last year, if so, how?

In what ways do you obtain information about the German subsidiary’s activities?
   - Has it changed during the last year, if so, how?

Are you able to accurately evaluate the information you get from the German subsidiary?
   - Has it changed during the last year, if so, how?

2. Interest alignment

Do you perceive the German managers as to be inclined to execute directives coming from the Swedish management?
   - Has it changed during the last year, if so, how?

Do you perceive the German managers to share your ideas’ about the company’s strategic direction?
   - Has it changed during the last year, if so, how?

Do you perceive the German managers to implement the changes in production and work procedures as you wish them to?

Do you have any vision for the German company?

Do you believe there is a difference between the German managers’ vision with their subsidiary, and the vision you have with the company as a whole?

3. Control mechanisms – output or behavioral
How have you exerted control on the German subsidiary in the past?

How come you chose to revise your control exertion?

What changes have you done in terms of control exertion, since you decided to make changes?

How did you reason when choosing these particular changes?
Appendix 2

Principal-Agent characteristics (Asked to the German management)

1. Information asymmetry

How well do you think the information flow between the Swedish and German company works out?
   - Has it changed during the last year, if so, how?

Can you readily share information about your work with the Swedish managers?
   - Has it changed during the last year, if so, how?

Do you consider the Swedish managers to be knowledgeable about the German market conditions?
   - Do you consider it to have changed during the last year, if so, how?

Do you think they can accurately evaluate the information you provide them about conditions specific to the German company or specific to the German market?
   - Do you consider it to have changed during the last year, if so, how?

2. Interest alignment

Do you think that you share the Swedish managers’ goals with the German company?

Do you feel that your strategic direction is aligned with the strategy pursued by the Swedish company?
   - Has it changed in any way during the last year, if so, how?

What do you think were the reasons to why the Swedish management initiated a revision in control exertion about a year ago?

What do you think the Swedish management wants to achieve with the changes in production methods and work procedures?

Do you have any vision for the German company?

Do you believe there is a difference between your vision with the German company, and the vision you believe the Swedish managers’ have with the company as a whole?
5. *Control mechanisms – output or behavioral*

Do you consider the Swedish headquarters to have exerted much control on the German company in the past?

In what way have they exerted control?

Have you noticed any difference in the way the Swedish management exerts control?

Have you noticed any differences in the extent to which the Swedish management exerts control?

How do you think introducing individual performance goals will affect you?

- How do you think it will affect the employees?
Appendix 3

Principal-Agent characteristics (Asked to the Swedish expatriate)

1. Information asymmetry

How well do you think the information flow between the Swedish and German company works out?

- Has it changed since you started work at the German subsidiary, if so, how?

Do you consider the Swedish managers to be knowledgeable about the German market conditions?

- Do you consider it to have changed during the last year, if so, how?
- Do you consider it to have changed during the last year, if so, how?

2. Interest alignment

Do you think that you share the Swedish managers’ goals with the German company?

Do you perceive the German company’s strategic direction is aligned with the strategy pursued by the Swedish company?

- Has it changed in any way during the last year, if so, how?

What do you think the Swedish management wants to achieve with the changes in production methods and work procedures?

How do you perceive the German managers ambition to implement new work procedures and production methods?

Do you perceive there is any difference in the German managers ambition to apply the new work procedures and production methods, when a Swedish manager is present, compared to when no Swedish manager is present?

6. Control mechanisms – output or behavioral

In what ways do you perceive the Swedish managers to exerted control

Has it changed during the time you have work at the German subsidiary?

Have you noticed any differences in the extent to which the Swedish management exerts control during your time at the German company?

How do you think introducing individual performance goals will affect you?

- How do you think it will affect your co-workers?
Appendix 4

Principal-Agent characteristics (Asked to the HR consultant)

Introducing questions

What has been your role in the Swedish management’s revision of control exertion?

Have you had any previous contact with the Swedish management?

Have you had any previous contact with the German management?

1. Interest alignment

What do you understand was the reason the Swedish management wanted to revise their control exertion on the German subsidiary?

Do you perceive the Swedish managers’ to have a similar vision with the German company, as the German managers have?

Do you perceive the German company’s strategic direction is aligned with the strategy pursued by the Swedish company?

What do you think the Swedish management wants to achieve with the changes in production methods and work procedures?

Do you perceive the German managers have the ambition to implement the new work procedures and production methods as commanded by the Swedish management?

Do you perceive there is any difference in the German managers ambition to apply the new work procedures and production methods, when a Swedish manager is present, compared to when no Swedish manager is present?

2. Control mechanisms – output or behavioral

Have you given advices to the Swedish managers about how they should exert control on the German subsidiary?

Do you perceive the German managers to be inclined to execute the changes commanded by the Swedish managers?

Do you think the physical visits in this case will be an effective means of control exertion?

Do you think introducing performance goals will be an effective means of control exertion?

Do you think the Swedish management applied accurate incentives to align the German managers interest with their own?
Appendix 5

Antecedents to organizational interest alignment (Asked to the German management)

1. *Extrinsic motivation*

Do you have any bonuses based on achievements, individually or for the German company as a whole?

Would you like to have bonuses based on achievements, individually or for the German company as a whole?

Do you think rewards based on achievements would impact your motivation at work?

Would you engage yourself more into implementing the new production methods and work procedures called for by the Swedish management, if there were any economic incentives associated with it?

2. *Hedonic intrinsic motivation*

Do consider yourself to have self-decided work tasks?

- Has it, or do you think it will, change following the implementation of new production methods and work procedures?

- Has it, or do you think it will, change following the revised control exertion by the Swedish management?

Do consider yourself to have enjoyable work tasks?

- Has it, or do you think it will, change following the implementation of new production methods and work procedures?

- Has it, or do you think it will, change following the revised control exertion by the Swedish management?

Do consider yourself to have competence-enhancing work tasks?

- Has it, or do you think it will, change following the implementation of new production methods and work procedures?

- Has it, or do you think it will, change following the revised control exertion by the Swedish management?
3. **Normative intrinsic motivation**

Do you consider there to be a certain organizational culture at the German company?

Do you consider there to be a certain organizational culture at the Swedish company?

Are there any differences in organizational culture between the Swedish and the German company?

- In what way?

Do you think you consider there to be certain organizational norms or values permeating the company as a whole?

Do you think you adjust your behavior in any way due to organizational norms or values?

- In what way?

Do you do anything for them to embrace your values and vision for the company?