

CONTROLLING LATIN AMERICAN SUBSIDIARIES FROM FINNISH HEADQUARTERS – THE DOMINANT CONTROL TYPE AND FACTORS AFFECTING THE CONTROL TYPE CHOICES

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Objectives of the Thesis

The objective of this study is to specify how Finnish MNCs control their subsidiaries in Latin America through investigating which is the dominant control type: social, behavior or output; what are the principal mechanisms used for control and what is the effect of home country background and host country environment on control type choices. The reasons for studying this topic are that Latin America is an increasing market area for Finnish companies measured by investments and trade and the need for more research concerning subsidiary control in the area to provide information about the subsidiary control issues in Latin America to Finnish managers operating in the region.

Methodology and Data Collection

A quantitative research method was selected because the aim is to verify earlier theories and in nature the research is more deductive. The data was collected through a self completion questionnaire survey that was designed with an internet based program called SurveyMonkey. It was administered via e-mail to all the subsidiaries of Finnish MNCs in Brazil, which in total are 44 subsidiaries. Eleven answers were received. The data is somewhat small, but the lack of earlier evidence on the matter makes it valuable.

Main Findings

The results suggest that all of the three control types, social, behavior and output, are used in the subsidiaries investigated. This supports the view that the control types do not exist in the pure form but are mixed to constitute a control system. Social control received the strongest support, output control obtained the second strongest support and behavior control was supported less. The findings regarding the host country environment imply that there is evidence that its effect to the control decisions is less influential than more influential. Additionally there was support to the argument that the home country background of the MNC has influence on the control type choices. The overall conclusion thus is that the MNC home country background has more effect to the control type choices than the subsidiary host country environment and the control types in order of dominance are 1. social control, 2. output control, 3. behavior control

Key Words

MULTINATIONAL COMPANY, SUBSIDIARY CONTROL, LATIN AMERICA

**SUOMALAISTEN MONIKANSALLISTEN YRITYSTEN
LATINALAISAMERIKKALAISTEN TYTÄRYHTIÖIDEN OHJAUS –
VALLITSEVA OHJAUSTAPA JA SEN VALINTAAN VAIKUTTAVAT
OSATEKIJÄT**

Tutkielman tavoitteet

Tutkielman tavoite on tarkentaa miten suomalaiset monikansalliset yritykset ohjaavat tytäryrityksiään Latinalaisessa Amerikassa. Työssä tutkitaan mikä on vallitseva ohjaustapa: sosiaalinen, toiminnallinen vai tuloksiin perustuva; ja mitkä ovat monikansallisen yrityksen kotimaan taustan ja tytäryrityksen isäntämaan viitekehyksen vaikutukset ohjaustavan valintaan. Perusteita tämän tutkimuksen tekemiselle on Latinalaisen Amerikan merkitys investointien ja kaupan saralla suomalaisille yrityksille ja tarve tuottaa lisätutkimusta tytäryhtiöohjauksesta Latinalaisen Amerikan alueella ja täten välittää tietoa asiaan liittyvistä seikoista suomalaisille johtajille, jotka toimivat alueella.

Tutkimusaineisto ja -menetelmät

Määrällinen tutkimusmenetelmä valittiin tutkimuksen toteuttamiseen, koska tavoite on todentaa aikaisempia teorioita ja tutkimus on luonteeltaan enemmän deduktiivinen. Tieto kerättiin itsetäytettävän kyselylomakkeen avulla. Kyselylomake tehtiin internet-pohjaisella ohjelmalla nimeltään SurveyMonkey ja se jaettiin sähköpostitse kaikille suomalaisyhtiöiden Brasilialaisille tytäryhtiöille, joita on yhteensä 44. Kyselyyn saapui yhteensä 11 vastausta. Tietomäärä on jossain määrin pieni, mutta aiemman näytön ollessa vähälukuista tutkimuksessa kerätty tieto on arvokasta.

Keskeiset tutkimustulokset

Tutkimustulokset viittaavat siihen, että kaikki kolme ohjaustapaa, sosiaalinen, toiminnallinen ja tuloksiin perustuva ovat käytössä tutkituissa tytäryhtiöissä. Sosiaalinen ohjaus sai vahvimman kannatuksen, tuloksiin perustuva ohjaus sai toiseksi vahvimman ja toiminnallinen ohjaus heikoimman. Tytäryhtiön isäntämaan viitekehyksen vaikutus ohjaustavan valintaan on heikompi. Lisäksi löytyi viitteitä siihen, että monikansallisen yhtiön kotimaataustalla on vaikutus tytäryhtiön ohjaustapavalintoihin. Yleisenä johtopäätöksenä voidaan sanoa, että suomalaisen monikansallisen yhtiön kotimaataustalla on enemmän vaikutusta ohjaustapavalintoihin kuin brasilialaisen tytäryhtiön isäntämaan viitekehyyksellä ja ohjaustavat vallitsevuus järjestyksessään ovat 1. sosiaalinen ohjaus, 2. tuloksiin perustuva ohjaus, 3. toiminnallinen ohjaus

Avainsanat

MONIKANSALLINEN YHTIÖ, TYTÄRYHTIÖOHJAUS, LATINALAINEN AMERIKA

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1 INTRODUCTION

1.1 Background

Latin America covers a vast area in the continent of the Americas. It includes the former colonies of Spain, Portugal and France in Central and South America. The countries reach from north of Mexico to the southern tip of Argentina. It is a large market area with the population of over 500 million people and it has started to interest multinational companies (MNC) increasingly. Not yet though have academic researchers been very active in studying the subsidiary control regards of the region.

Latin America is growing economically and it is receiving year by year more and more foreign direct investments (FDI). In 2007 the area received record levels of FDI. During 2007 the inflow of FDI surpassed 100 billion US dollars for first time ever, the exact amount being 105,9 billion US dollars. Brazil was the main receiver of the FDI in 2007 among Latin American countries. FDI inflows are growing hence MNCs are seeking new markets and wish to find those in this continent where the number of people with purchasing power is growing. (CEPAL 2008a) The annual economic growth projected for Latin America in 2008 was 4,6% and between 2003-2008 the GDP per capita has increased in the area more than 3% per annum. However with the global economic downturn year 2009 is estimated not be as good. (CEPAL 2008b)

These figures imply that Latin America is an important and large market area with a lot of potential. It is important thus to give the continent attention in academic research to facilitate the understanding of the operating environment for the research community as well as to managers performing in the area. Hamilton & Khaslak (1999) researched the subsidiary host country influence on control type decisions. They suggest that the operating environment varies from region to region and thus there are reasons to assume that the subsidiary control in Latin America is different that in other regions in the world.

Latin America is beginning to be an important business area for Finnish MNCs as well. Inside Latin America the importance of Brazil is undeniable. Full potential of the market area is yet to explore. Finnish companies' investments to Brazil are growing and thus subsidiaries are been established there. This implies that there exists a growing demand for business research concerning the area. Researching Finnish MNCs and the relationship with their Brazilian subsidiaries brings value to the research community as well as to the managers who are involved in the Latin American operations. This is one reason for conducting this study.

Brazil is a strategic partner to the European Union (EU). In July 2007 EU and Brazil signed an agreement concerning strategic partnership between the regions. The strategic partnership agreement aims to increase and deepen cooperation in science, technology, innovations, investments, development of infrastructure, public and private sector partnership projects and improving of competitiveness. (Elinkeinoelämän keskusliitto 2008) Along with the agreement the importance of Brazil as an area of investment and trade increases to the European countries.

Subsidiary control has been investigated in Europe (Martinez & Jarillo 1991, Nohria & Ghoshal 1994, Smotherman 2002, Björkman & Piekkari 2008), Japan (Smotherman 2002, Nohria & Ghoshal 1994), North America (Ouchi & Maguire 1975, Ouchi 1977, Eisenhardt 1985, Nohria & Ghoshal 1994), Asia (Nohria & Ghoshal 1994, Björkman & Piekkari 2008) and Australia (Nohria & Ghoshal 1994). From Latin American subsidiary control less earlier research was found. This advocates more research on Latin American subsidiary control.

The general dilemma in subsidiary control is that the control system must be globally consistent so it can provide comparable results from different subsidiaries, but should it be also flexible to be able to adapt to host country environment. A MNC needs a comprehensive strategy that is successfully implemented. Control type is an integral part in

the implementation process. Management must take this into consideration and design an appropriate control type to fit the host country conditions. According to Hamilton, Taylor and Khaslak (1996) this task becomes increasingly difficult when operating in countries with greater cultural distance, economic instability and government restrictions. Latin America is a good example of a more turbulent operating area and thus interesting regarding this study. Hofstede (1980) came to the conclusion that Latin American countries are much alike concerning their operating environments for MNCs. This study even though only concentrating on Brazil as the host environment can be thus generalized to cover the whole region. Yet there are differences among the countries in Latin America and that is why any generalization of the findings should be conducted with caution.

This paper is structured as follows. First the purpose of the study and research problem and questions are outlined. In the second part literature review presents the earlier and contemporary literature on subsidiary control and about the factors affecting the control type choices. After that the research methodology is described. Thereafter the empirical findings and conclusions as well as theoretical contributions are outlined.

1.2 Purpose of the study and research gap

Purpose of this study is to empirically investigate the parental control types and mechanisms that Finnish MNCs impose on their subsidiaries in Latin America. Main points of interest are which type of control and coordination is dominant when Brazilian subsidiaries of Finnish MNCs are in question and what is the effect of MNC home country background and the subsidiary host environment contexts into control and coordination choices. Also this study aims to find out which is more dominant, formal or informal control.

Literature review presents the integral studies regarding the matter. Previous literature on managing the headquarters-subsidiary relations include MNC attributes' effect on

organizational control (Bartlett & Ghoshal 1998), subsidiary's dependency of the local environment (Ghoshal & Nohria 1989) and host country environment influence of control decisions (Nohria & Ghoshal 1994). The categorization of control types and mechanisms and their antecedent conditions are important part when studying subsidiary control. Various authors have presented their contribution to the matter e.g. Ouchi (1977), Eisenhardt (1985), Govindarajan & Fisher (1990), Martinez & Jarillo (1991) and Snell (1992). There are factors affecting the control type choices. The host country environment and home country background of a MNC have an effect on how headquarters control and coordinate their subsidiaries abroad and what kinds of control types and mechanisms are used (Bartlett & Ghoshal 1998, Hamilton & Kashlak 1999, Smotherman 2002).

Based on earlier findings, in this paper the assumption is that both home country background and host country environment influence on how are foreign subsidiaries controlled by headquarters. The earlier findings of various scholars on home and host country effects are presented and based on those a framework is developed. The framework seeks to explain which is the dominant control type used by Finnish MNCs when controlling their Latin American subsidiaries and what is the effect of the home country background of the company parent and the subsidiary host country environment to the control type choices.

The empirical part pursues to verify the framework in order to find out if home country background and host country environment have an effect on how Finnish companies control their subsidiaries in Latin America and which control type, social, behavior or output, is the most dominant. This is done by investigating what mechanisms of control and coordination Finnish MNCs use in their Brazilian subsidiaries, which type of control is the most dominant and what is the perceived effect to control type choices of the parent home country background and the subsidiary host country environment. From the results conclusions about the most dominant control type, effect of home country background and

host country environment and are informal or formal control mechanisms more dominant can be made.

As was outlined in chapter 1.1 Latin America is an increasingly interesting and important market area for MNCs, including Finnish MNCs. The market potential with vast natural resources is great and economic growth has reduced poverty and raised the wealth of the population. Latin America receives more and more FDI every year and trading with the rest of the world is growing. Nevertheless the area has been somewhat in the shadow in the past and thus academic research on Latin America is contemporary.

1.3 Research problem, objective and questions

Research problem in this study can be outlined as the lack of knowledge over Latin American markets on how Finnish headquarters control their subsidiaries there and what factors influence on the choice of the control type. The control types may vary due to the location of the subsidiary and that issue is empirically investigated in this research.

The objective of this study is to provide empirical evidence how Finnish MNCs control their subsidiaries in Latin America through investigating which is the dominant control type, what are the principal mechanisms used for control and what is the effect of home country background and host country environment on control choices. The research problem is solved and the research objective reached by developing research questions that facilitate the process of finding answers. The questions are:

- a) How Finnish MNCs control their subsidiaries in Latin America?
- b) What factors influence on the control type choices of Finnish MNCs?
- c) Are formal or informal mechanisms more dominant?

1.4 Limitations of the study

In this study one of the research questions is what factors influence on the selection of a control type in a Finnish MNC in regards of their Latin American subsidiaries. The study limits to studying Brazilian subsidiaries in this context. The population is limited thus the data obtained is somewhat small and evidence is tentative. However there is value in this research because it provides evidence that has not been available earlier. Additionally the factors investigated cover only home country background and host country environment factors.

1.5 Definitions

In the following the definitions used in this paper are briefly outlined. They will be addressed more in detail in chapters 2.2, 2.2.1, 2.2.2 and 2.2.3.

Control: control is any process that sets the individual actions to the same track where the MNC interests are (Tannenbaum 1968).

Control type: Social control, behavior control and output control are control types.

Control mechanism: An administrative tool through which a control type is implemented. Control mechanisms vary according to the control type and they can be formal or informal.

Social control: In social control the elements of input control by Snell (1992) and clan control by Ouchi (1979) are combined to a one variable that contains aspects of more informal control. In summary social control as a control type aims to explain the more informal part of control. It joins together the recruiting, training and human development mechanisms with mechanisms of cultural control.

Behavior control: the means to control the subordinates' actions on the job and how the actual work process is structured. If the manager knows and understands what is the work process necessary to get into certain results then behavior control is efficient. (Snell 1992)

It can be measured with the following attributes: the degree to which a firm weights evaluation based on behavior; whether an employee is held accountable regardless of the outcome; the degree to which there is concern for procedures or methods; the degree to which performance programs are imposed from the top down and the frequency in which employees receive feedback or performance information. (Snell 1992)

Output control: focuses on setting targets that the subordinates try to reach with actions that they themselves see as best. Output control requires that the management has a clear view and standards on the goals that are to be reached. (Snell 1992)

It can be measured with the following attributes: the degree to which a firm uses evaluations with significant weightings on results; pay is based on performance; pre-established targets are used for evaluating personnel; numerical records are used as indices of effectiveness; performance is linked to concrete results; appraisals are based on achieving goals and lack of achievement will result in low ratings. (Snell 1992)

Latin America: Former colonies of Portugal, Spain and France in Central and South America.

Subsidiary: An entity abroad in which the MNC ownership is at least 50%

2 REVIEW OF LITERATURE

In the first part of the review literature about the MNC –subsidiary relations management, MNC internal structure and organization design is covered. Next part goes deeper into subsidiary control types; both informal and formal control types are presented. Last parts give insight to the home country background and host country environment aspects of this study and the influence of those aspects into subsidiary control and the selection of a certain set of control and coordination mechanisms.

2.1 Headquarters – subsidiary relations

Headquarters – subsidiary relations can be managed in many ways and there are several factors that affect the management of the relationship. Many researchers have been studying this relationship. Managing a MNC is a complex task. Views on the link between organizational structure and strategy with organizational control have been presented by e.g. Bartlett & Ghoshal (1998), Ghoshal & Nohria (1998), Nohria & Ghoshal (1994) and Bartlett & Ghoshal (2001). Literature on how to manage the MNC organisation and how to control and coordinate it is presented next.

Administrative heritage originating from the MNC home country background has an influence on internal control issues. Bartlett & Ghoshal (1998) studied managing the complexity of a MNC and its coordination and control. They found several factors that have an effect on the headquarters - subsidiary relationship and the way that headquarters control and coordinate the subsidiary and its activities. Those factors are the strategy (multinational, global, international) that the company is following, the subsidiary role (black hole, strategic leader, implementer, contributor) and the administrative heritage of the home country background (American, Japanese, European).

In this paper the administrative heritage part is particularly interesting since it discusses the home country background and the effect of that into control and coordination inside a company. It gives insight of what is the usual way in European origin companies to organize their internal coordination. The ideas of Bartlett & Ghoshal (1998) are covered more in detail later in chapter 2.4 when home country context is presented thoroughly.

Local environment complexity and subsidiary dependency of the local resources affect the control type selected. Ghoshal & Nohria (1989) show evidence in their research that supports the findings of Bartlett & Ghoshal (1998) in the sense that the local dependency and complexity affect the organizational structure and thus control. They suggest that the internal structure within a MNC varies according to the complexity of the environment where the subsidiary functions and the dependency on local resources. They present four different options of headquarter-subsidiary relationship that improve the performance of the subsidiary by creating a suitable fit taken into account the local environment and dependency of the local resources. The more complex the local environment is and the more dependent the subsidiary is on local resources the more the research indicates the usage of socialization, normative integration, consensus and shared values as the basis of decision making as the core pillars of internal structure in comparison to centralization of decision making and the use of systematic rules and procedures as the basis of decision making.

Nohria & Ghoshal (1994) suggest that there are two alternate ways to manage headquarters-subsidiary relations. First is Differentiated Fit that means that the formal structure of a certain subsidiary should be organised in a way that best suits the subsidiary context, so that different subsidiaries would get adjusted control from the parent side. The other way is Shared Values which aims to having a common culture, values and interests through a socialisation process. These two according to the authors are however not mutually exclusive. On the contrary companies that use these two approached side by side may perform better.

Structured, formal way and social collectivism are two alternate ways to manage headquarters-subsidiary relationship, but they can be implemented simultaneously. As the above paragraphs describe earlier researchers have found out that there are alternative ways to construct the internal structure of organizational control. In general there are basically two ways but they are not in any case mutually exclusive: the other is a more structured and formal way when the other uses the social and human collectivism as means of control. In later chapters 2.2.2 and 2.2.3 the division to formal and informal coordination is discussed more deep and other previous research on the informal and formal control mechanisms and the antecedent conditions to use either one are presented.

Both Ghoshal & Nohria (1989) and Nohria & Ghoshal (1994) also bring out the importance of host country context when designing subsidiary control and coordination. It is one of the issues of this research to empirically verify how the host country environment affects on the subsidiary control and coordination and to examine this in the context of Latin American subsidiaries of Finnish MNCs. These findings are discussed later in the chapter 2.5 that presents the host country context and its relation to control and coordination of a subsidiary.

Recently it has been presented by researchers that in the modern stages of internationalization foreign subsidiaries might take part of the control responsibility by themselves and that way act as regional agents of control (Piekkari, Ghauri & Nell 2008). In this study the concentration is on the traditional view that headquarters control their subsidiaries directly from headquarters.

2.2 Control types and mechanisms

This chapter presents previous research on subsidiary control. First the concepts of control and coordination are presented as various researchers have defined them as well as divisions of them are clarified. Second part discusses the formal control and the formal control mechanisms. Last part is about informal control type and mechanisms associated with it. In the following chapter the issues affecting to the control type selection are being discussed.

For a MNC controlling its various activities constitutes as a challenge. There is a great deal of earlier research on how does the MNC control its worldwide network of subsidiaries that are often different in size, importance and function. Finding the balance between unitary worldwide control and adjusting the control type to fit local host country conditions is an important aspect. In the following there are presented some of the earlier as well as contemporary research of the subsidiary control, control variables and factors affecting the choice of a control type by headquarters.

2.2.1 Defining control and control mechanisms

There are several definitions and classifications for control and control mechanisms. Roughly they can be classified formal/informal categories and categories by the object of control e.g. targets, work-processes and human development. Even though there are classifications of control types into categories it does not mean that they are observable in the pure form in organizations. In most organizations different types of control are overlapping and used together as a system of control.

Ouchi (1979) defines control as a mechanism through which an organization can be managed so that it moves towards its objectives. Tannenbaum (1968, in Snell 1992) suggests control to be any process that sets the individual actions to the same track where

the company interests are. According to the agency theory control is a process of measurement, evaluation and reward (Eisenhardt 1985). Jaeger (1983) conceptualized control as the central activity of monitoring which is supported by selection and training. Martinez & Jarillo (1989) defined coordination mechanism to be any administrative tool used by the MNC to achieve integration within its various units.

In this paper control is determined as a process or action taken by headquarters to influence the subsidiary and individuals within it to keep on the same track where the MNC interests are. This definition is chosen because the aim of control in practice indeed is making people and organizations to act on a desired way.

Ouchi (1979) presented that there are three fundamentally different control types and referred to those as markets, bureaucracies and clans. Markets deal with the control problem through their ability to precisely measure and reward individual contribution, bureaucracies rely instead to a mixture of close evaluation with a socialized acceptance of common objectives and clans rely upon a relatively complete socialization process which effectively eliminates goal incongruence between individuals.

Snell (1992) divided control into three different types on basis on the idea of Ouchi (1979). They are input control, behavior control and output control. These three types define in which stage in business process the control dominantly takes place. Input control contains the aspects of cultural, more informal control, where as behavior and output control focus more on the formal elements.

Input control as the variable includes aspects like knowledge, skills, motives, values and abilities of the employees. Input control is the way of trying to manage the whole by carefully monitoring the input. *Behavior control* is the means to control the subordinates' actions on the job and how is the actual work process structured. If the manager knows and understands what is the work process necessary to get into certain results then behavior

control is efficient. *Output control* focuses on setting targets to which then the subordinates try to reach with actions that they themselves see best. Output control requires that the management has a clear view and standards on the goals that are to be reached. (Snell 1992)

Informal – formal control classifications have been presented by Jaeger (1983), Martinez & Jarillo (1991), Marschan, Welch & Welch (1996). Jaeger (1983) defined formal control as a bureaucratic organization model where explicit formal rules and regulations are used and power and authority have legal basis. Informal (cultural) control on the other hand relies on the implicit company wide culture within the organization to control the actions of individuals.

According to Martinez & Jarillo (1991) five formal control mechanisms exist: centralization, formalization, planning, output control and behavioral control. Three informal control mechanisms are pointed out: lateral relations, informal communication and organizational culture. Marschan, Welch & Welch (1996) similarly define formal mechanisms to be reporting systems and procedures. Informal mechanisms they divide into personal relationships (informal communication and networks) and culture.

Main approach regarding the control types in this study is the division of control types by Snell (1992) with some moderation because it covers a wide range of the most essential aspects regarding subsidiary control and is suitable for the purposes of this study. The idea has been developed by Ouchi (1977) and other authors have adopted it as well such as Baliga & Jaeger (1984) and Eisenhardt (1985) and that facilitates the process of modifying this approach into practice. See figure 1 for the summary of the control types and main characteristics.

		CHARACTERISTICS		
		Formal	Informal	Primary control characteristic
TYPE OF CONTROL	Social		X	Control through values, beliefs, attitudes, social commitment and HR functions: recruiting, training, human development
	Behavior	X		Control through the work process
	Output	X		Control through setting targets

Figure 1. Control types and characteristics

Figure 1 summarizes the control types and their characteristics used in this paper. Social type of control is a combination of Snell's (1992) input control and Ouchi's (1979) clan control. Snell (1992) does not include social or cultural elements to his input control mechanisms even though he states that it contains more informal and subtle elements than behavior and output control mechanisms. Ouchi's (1979) clan control includes cultural and social commitment elements. These two variables are thus combined to social control type and it incorporates recruiting, training and human development as well as control through values, beliefs, attitudes and social commitment.

The control mechanisms added to the characteristics of social control may in fact contain elements of formal control. It must be acknowledged that sometimes recruiting and training can be very formal processes. However the dominant characteristic here is the informal element. Hamilton, Taylor & Khaslak (1996) support that as well by stating that input is characteristically defined as socialization.

In figure 1 Behavior and output types of control and their primary control mechanisms are presented according to Snell (1992). Other researchers, as presented in earlier paragraphs in this chapter, also mention centralization, formalization and planning as formal control mechanisms. Those are considered to be already incorporated into behavior and output control types, because control through the work process and setting targets already consists a certain formalization process, aspects of centralization regarding decision making and evidently planning. Thus these two mechanisms are not individually addressed in more detail. Behavior and output control are classified as formal control. It must be acknowledged though that both types can sometimes contain very informal mechanisms. However here the dominant characteristic is considered to be formal.

2.2.2 Formal control

Formal control types in this paper are defined to be behavior and output control. Behavior and output control are classified as formal control, but must be acknowledged though that both types can sometimes contain very informal mechanisms but the primary element is formal. The characteristics of these control types as they are defined in this study were presented in chapter 2.2.1.

In this chapter the formal control mechanisms are addressed in more depth. This is important regarding this study because it presents definitions and categorizations related to formal control, reasons for using it and briefly clarifies earlier research on the issue. These are all crucial aspects in understanding the concept of formal control and thus control and coordination overall.

Many scholars have studied formal organizational control types. The division and definition of formal control type variables differ from author to author. The classification into two

categories: behavior control and output control has received much support among researchers (See Ouchi 1977, Eisenhardt 1985, Govindarajan & Fisher 1990, Snell 1992).

Behavior control is the means to control the subordinates' actions on the job and how is the actual work process structured. If the manager knows and understands what is the work process necessary to get into certain results then behavior control is efficient.

Output control focuses on setting targets to which then the subordinates try to reach with actions that they themselves see best. Output control requires that the management has a clear view and standards on the goals that are to be reached. (Snell 1992)

Ouchi & Maguire (1975) suggest that output control and behavioral control are not substitutes and can be overlapping but still independent from each other. They found out that a manager relies more on behavioral control when he/she is more aware of the working processes of the subordinates, the means-ends relationships as the authors refer to it. Output control is used when the manager has to provide solid evidence of the unit's performance to his/her supervisors and the less familiar his/her supervisors are with the nature of the task in hand the more output measurements are required.

Eisenhardt (1985) combined two theories, the organizational theory on control and the agency theory's approach on control. Agency theory presents two control variables, behavior based and outcome based. The agency theory's main point is that it considers the role of uncertainty when choosing a control type and that information is a purchasable commodity. In other words, organizational theory's approach to choosing a control type is the availability of information. Agency theory suggests that information can be obtained (bought) by implementing information systems or a new tier of managers in to the organization. Agency theory acknowledges that random events may have an effect on the outcome despite of the behavior, so there is uncertainty of the outcome and that raises costs

of outcome control. Agency theory compares the costs of control type when determining the appropriate one.

Govindarajan & Fisher (1990) developed the Ouchi (1977) and Eisenhardt (1985) ideas on control types and the antecedent conditions preceding the implementation of a certain control type. See figure 2.

		Task Programmability	
		Perfect	Imperfect
High outcome observability	High behavior observability	Output or behavior control	Behavior control
	Low behavior observability	Output control	Output control
Low outcome observability	High behavior observability	Behavior control	Behavior control
	Low behavior observability	Behavior control	Behavior control

Figure 2. Control types and Antecedents, Modified Model

Source: Govindarajan & Fisher, 1990

The model is a mixture of the ideas from the organization theory and the agency theory. The antecedent variables are outcome observability, behavior observability and task programmability. The idea of the modified model is that the control type should be chosen on the basis of which is the more observable signal, behavior or outcome. Also agency theory is applied here in the sense that, which of the control types in a certain situation is less risky to the agent is chosen. The authors argue that socialization control is part of behavioral control thus in the situation where variables, outcome and behavior observability, are low socialization or in fact behavior control is appropriate. (Govindarajan & Fisher 1990)

Snell (1992) divides management control variables into three types. They are input control, behavior control and output control. Input control means ensuring that the subsidiary has the tools for successful actions through human resource functions like recruiting, training and further human development so it contains also more informal aspects. Behavior control means the degree of which procedures, methods, performance programs, feedback systems, accountability regardless of the outcome are considered to be important when measuring the performance of a subsidiary. Third variable the output control variable is focused on the results but lacks the aspect of telling how to reach the goals.

Control mechanisms that other authors have singled out of formal control are centralization, formalization and planning. In this study they are considered already incorporated in behavior and output control types. Centralization means that the decision making power lies in the top levels of the organization hierarchy (Martinez & Jarillo 1991). Centralization is the extent to which headquarters make decisions and can be called as hierarchical control (Hennart (1989) in Ghoshal & Westney). Formalization is the degree of policies, job descriptions, rules and regulations being defined in written manuals or process guides. This involves standardized routines inside the company. With planning the company systems and processes are being guided towards a desirable direction. This includes for example strategic planning, budgeting, schedules and goal-setting. (Martinez & Jarillo 1991) These variables were addressed to grasp the idea of formal control more in depth as researchers have comprehended it. In this paper these variables outlined in this chapter are incorporated in behavior and output control types.

The types and mechanisms of formal control were introduced in this chapter. This was done in order to increase understanding the concept of formal control and in what situations and antecedent conditions in place, it has been used according to earlier research.

2.2.3 Informal control

Social control represents the informal control type. Social control is the combination of Snell's (1992) and Ouchi's (1979) concepts of input control type and clan control type. In social control the elements of input control by Snell (1992) and clan control by Ouchi (1979) are combined to a one variable that contains aspects of more informal control. In summary social control as a control type aims to explain the more informal part of control. It joins together the recruiting, training and human development mechanisms with mechanisms of cultural control.

The purpose of this chapter is to present definitions and mechanisms of informal control and to increase understanding of this form of subsidiary control. The next paragraphs will look deeper into informal control and what it holds within.

Overall the research on coordination mechanisms, exercised by MNC over its subsidiaries, shows clear evolution shifting gradually from formal tools towards subtler, more informal tools. The concentration of researchers in the last decades has been more and more in informal control mechanisms such as acculturation and the creation of networks of informal communication. (Martinez & Jarillo 1989) This implies that researchers have begun to realize the existence of informal control or then the use informal control mechanisms have increased inside MNCs.

Authors have described subtle, more informal control with varying concepts, for example ritual control (Ouchi 1977), clan control (Ouchi 1979), social control (Eisenhardt 1985), socialization control (Govindarajan & Fisher 1990) and input control (Snell 1992). Snell (1992) incorporates organizational socialization by staffing, training and development programs. By definition social control aims to control what happens in the organization through employing people whose preferences are the same with the management and thus

assumed behavior as well. Emphasis is on selection and training of personnel. (Eisenhardt 1985)

Input control introduced in chapter 2.2.2 nevertheless also contains aspects of cultural, more informal control. Input control means ensuring that the subsidiary has the tools for successful actions through human resource functions like recruiting, training and further human development. Input control is the way of trying to manage the whole by carefully monitoring the input. (Snell 1992)

Clan control is defined as creating and maintaining internal control by socializing individuals such a way that their individual objectives become overlapping with the organizations objectives. This can be achieved with value training, indoctrination and internal social commitment (Ouchi 1979).

In this paper the informal control type is named social control. In social control the mechanisms of input control by Snell (1992) and clan control by Ouchi (1979) are combined to a one variable that contains aspects of more informal control. In summary social control as a control type aims to explain the more informal part of control. It joins together the recruiting, training and human development mechanisms with mechanisms of cultural control such as value training, indoctrination and internal social commitment.

Cultural control is one element of informal control. Jaeger (1983) studied the organizational culture as a control mechanism. He compared bureaucratic, formal control type (Type-A) and informal, cultural control type (Type-Z) in the management of subsidiaries. In the latter type of control behavior of individuals in the organization is specified by the organizational culture and performance is maintained through social pressure. Cultural control requires efforts in the field of selection, training and socialization of personnel because the very essence of this control type is that people are integrated as members of the organization and thus become functional parts of it. The actual monitoring in a cultural control type happens

via interpersonal interactions. Feedback from performance is given in person-to-person basis.

Relationships between headquarters and subsidiary differ between formal type control organizations and cultural control organizations. In the formal type important are rules and regulations, usage of manuals and impersonal contacts such as written reports and directives send by mail or fax. On the contrary, when exercising a cultural control type the requirement is to implement and maintain it. Thus important tools for that are heavy use of expatriates, emphasis on the home language (English), employee socialization programs such as training periods in the country of headquarters and frequent visits by people from headquarters. (Jaeger 1983)

	TYPE OF CONTROL	
TYPE OF CONTROL	Pure bureaucratic/formalized control	Pure culture control
Output	Formal performance reports	Shared norms of performance
Behavior	Company manuals	Shared philosophy of management

Figure 3. Comparison of Bureaucratic and Cultural Control Mechanisms

Source: Baliga & Jaeger, 1984

Figure 3 summarizes the differences between the bureaucratic control mechanisms and the cultural control mechanisms. In bureaucratic model rules and regulations are important. Control is technical and impersonal. Output is measured by e.g. formal performance reports and behavior is controlled by company manuals. In cultural control the company culture

steers the behavior of people and output measurement is not about reaching previously officially set targets but more the implicit sense of what are the targets set by the culture. (Baliga & Jaeger 1984)

Informal control mechanisms can include many types of mechanisms. Martinez & Jarillo (1991) mention three informal coordination mechanisms. They are lateral relations, informal communication and organizational culture. By lateral relations it is meant the lateral contacts among managers of different departments and this happens e.g. through a temporary task force, team, meeting or such where they share a common problem. Informal communication differs from this in the sense that it is even more informal because it does not involve a specific task or a problem to be solved. It is informal and personal contacts that managers across units have with each other and are developed in management trips, conferences, transfers of managers and overall networking. It is supplementing formal communication. Developing an organizational culture by which people are socialized into certain way of doing things is one form of informal control. This is performed by training corporate and subsidiary managers, managing their career paths and moving them across units. The informal control mechanisms of Martinez & Jarillo (1991) comprise issues on a larger scope than in this research, where the informal control is defined to include control through values, beliefs, attitudes, social commitment and HR functions: recruiting, training and human development.

The role of informal coordination mechanisms becomes more important after the possible formal mechanisms of coordination have been implemented. It is that the informal mechanisms are a tool to be used to complement the formal ones. (Martinez & Jarillo 1991)

Marschan, Welch & Welch (1996) studied the informal control mechanisms especially informal communication and networks. In less-hierarchical firms that are pursuing a higher degree of decentralization the maintenance and development of these aspects is important in order to enhance horizontal communication and thus organizational cohesion and control

from the management viewpoint. This can be achieved through the use of teams, networks and other interaction in the organization. It is also acknowledged that organizations going through a structural change are in the middle of a turbulent process that affects networking so that it is difficult for management to steer or control the situation towards a desired direction and facilitate horizontal communication. The informal communication process is hard to manage and it is difficult to be on top of the situation inside the organization at all times.

As a summary of this chapter it can be concluded that many researchers have been interested in the subject and studied it. They have found out various mechanisms that can be categorized as informal control mechanisms. It is rather difficult to define definitely what is informal control and what is not since the elements do overlap and can at the same time incorporate both formal and informal aspects. In this study the informal control type is called social control and it combines the concept of input control by Snell (1992) and clan control by Ouchi (1979).

As many researchers have pointed out informal control is more difficult to implement and maintain than formal control in terms of the amount of work and resources that it demands. However in recent times researchers have been more and more interested in informal control that can imply on a shift as well inside of organizations towards the use more subtle control mechanisms. Some researchers on the other hand have found evidence that informal control is used more of an additional feature to formal control mechanisms and the role is to complement them rather than to play an independent and dominating role in subsidiary control. This is an interesting aspect regarding one of the research questions of this paper: "Are formal or informal mechanisms more dominant?".

2.3 Control type selection

Many factors can have an influence on the selection of a dominant control type. It can be the MNC strategy (Govindarajan & Fisher 1990, Bartlett & Ghoshal 1998, Gomez & Sanchez 2005), subsidiary role (Bartlett & Ghoshal 1998), dependency of the local environment (Ghoshal & Nohria 1989, Bartlett & Ghoshal 1998, Gomez & Sanchez 2005), knowledge level of the managers of work processes (Snell 1992) and implementation costs (Jaeger 1983). In this chapter research about the subsidiary control type selection is outlined. Factors that are important regarding the selection of a set of coordination mechanisms are presented. The certain factors and models discovered and developed by earlier scholars are briefly introduced in this section and then later when discussing the MNC home country background and host country environment they are analysed more in detail. Chapters 2.4 and 2.5 cover the topics more deeply.

Govindarajan & Fisher (1990) studied the relationships between strategies, resource sharing and control types among the strategic business units of companies. They found out that these three components are interdependent in their effect on the SBUs effectiveness. An SBU following a low-cost strategy with high resource sharing is effective with an output control type. An SBU following a product differentiation strategy with high resource sharing is effective with behavior control type. Authors suggest that managers should not consider these three components separately from each other, but as a whole where when one part changes the others will too.

This implies that if the subsidiary abroad is not depending on the local environment in terms of resources then output control or formal control would be the most effective. On the contrary then if the subsidiary is heavily dependent on the local environment then behavior or more subtle control is appropriate. This gives support to what was concluded by Ghoshal & Nohria (1989) and Barlett & Ghoshal (1998) and was introduced in chapter 2.1. The complexity of the host country environment and subsidiary dependency of local

environment create uncertainty and ambiguity, thus control type should be designed according to it. Control and coordination mechanisms then should be more informal ones.

Gomez & Sanchez (2005) researched factors influencing the usage of informal and formal control mechanisms. Their findings are consistent with Govindarajan & Fisher (1990). They found out that if a company is pursuing a global strategy it is most likely going to increase control via both formal and informal control mechanisms to ensure proper integration. The more a subsidiary is locally dependent the more likely informal mechanisms are used in order to give the subsidiary more flexibility in its actions, but this does not necessarily mean less formal control. On the other hand the authors found evidence that more local regulation indicates more use of formal control. Suggestion is that this is due to aiming to keep the balance between local operational requirements and the need for integration inside the MNC.

Snell (1992) found out that the level of knowledge that managers have of the work processes and the performance goals define what type of control is used. Managers tend to have more clear and precise performance measurements when moving on to more changing and uncertain business environments but on the other hand when the company is acting with complex and interdependent work flows and technologies the individual performance and contribution become more difficult to evaluate. In companies adopting more integrated technology bureaucratic, formal control mechanisms were used in a lesser extent. Evidence about input controls increasing when the firm size grows was also found.

Jaeger (1983) points out the disadvantages and advantages of selecting the informal, cultural control type. The advantages are lower employee turnover and more complete control. One disadvantage is high initial implementation costs. It is expensive to send expatriates and visitors and invest in training and socialization of the personnel. Other disadvantage is the possibility of conflict with the local environment. This may occur if the

company culture is in conflict with the local laws, customs or behaviors. These aspects might have an effect on the choice of a control type.

To summarize this chapter can be said that various factors can influence on the control type selection. Above some of these factors have been brought up to illustrate the vastness of the subject in hand. This study focuses on the effect of home country background and host country environment to the control type choices. The home country background and host country environment and play an important part in the MNC internal control and what parental control type is implemented. The important aspects to consider are the degree of the differences between the home country background and the cultural, economic and political environments of the host country, the complexity of the local environment, the subsidiary dependency of the local environment and the MNC home country background. These are the points of interest when determining the effect and importance of home and host country contexts on the choice of a subsidiary control type and the set of control mechanisms.

2.4 MNC home country background

Home country background affects the control type choices of a MNC (Bartlett & Ghoshal 1998). In this chapter the influence of the home country background is discussed more in detail. Bartlett & Ghoshal (1998) have found evidence that the home country or area has an effect on the internal organization culture and thus internal coordination and control. Finland as a country belongs to the European area of business culture and can be then placed in the group of the European style of control and coordination.

European companies have a tendency to address their internal control through socialization processes (Bartlett & Ghoshal 1998). As mentioned earlier in chapter 2.1 Bartlett & Ghoshal (1998) studied the effect of administrative heritage on organization's control and coordination regarding their international operations. They found out that there are

similarities in basic processes of the companies with the same background. Three distinctive coordination mechanisms stood out from American, Japanese and European companies. In American companies the dominant coordination mechanism was formalization and in Japanese it was found out to be centralization. European origin companies according to the authors prefer socialization as means of control and coordination of international operations. Socialization as explained earlier relies on the careful recruitment, human development, training and acculturation. See figure 4 for the dominant control styles of American, Japanese and European companies.

Dominant control systems categorized by MNC home area

		Dominant control system		
		Formalization	Centralization	Socialization
MNC origin	American			
			Japanese	
				European

Figure 4. Administrative heritage effect to organization’s control system

Source: Barlett & Ghoshal, 1998

As Bartlett & Ghoshal (1998) suggest, there are historical reasons why in European companies there is socialization as the dominant process of coordination. One reason is that the European companies started their internationalization process when communication was slow and expensive, so sending expatriates to establish common culture was a useful control tool. Other reason is the influence of the family company background of many European companies. This implies to the shared culture, understanding of company objectives and close personal relationships.

The paragraphs above aim to address the issue that European companies might have a dominant or preferred process of controlling and coordinating their international operations. The process is socialization. This enforces the assumption that home country background of the company has an effect on how the company coordinates its subsidiaries. On the basis of the study conducted by Bartlett & Ghoshal (1998) one could draw the conclusion that in this study the result might be that Finnish companies use more socialization mechanisms when controlling their subsidiaries in Latin America.

The impact of national culture to companies is evident. The nation's history, infrastructure, culture, norms, values and behaviors influence the managers and to the companies. These attributes integrate into the companies' way of doing things and shape its international organization structure and processes and thus also the internal control types. (Bartlett & Ghoshal 1998).

A control type that incorporates culture as a control mechanism might not be appropriate if the home country's culture and the host country's culture are contradictory in a way that makes it impossible for the foreign subsidiary personnel to absorb the parent way of doing things. Hofstede (1980) conducted a study on national cultures in work related values and with this study the differences of the cultures can be analyzed and the aspect of contradictory cultures can be either assured or rejected. Next Hofstede's (1980) study about cultural differences of nations is presented. This is included into this paper to illustrate that there are differences in cultures and how that linkages to subsidiary control types.

Hofstede's (1980) study covered the cultural differences of nations in work-related values through four dimensions. The four dimensions are power distance, individualism vs. collectivism, uncertainty avoidance and masculinity vs. femininity. This study also enforces the assumption that the home and host country contexts of a company and its subsidiary and their national cultures have an effect on the control and coordination process of a MNC. The four dimensions developed by Hofstede (1980) explain the identity of a culture

and thus give tools on how to manage and coordinate the people from a certain culture. The framework developed Hofstede (1980) has been widely used by research after it has been published (Kirkman, Lowe & Gibson 2002). Thus the framework is reliable also for this study to illustrate the importance and impact of cultural differences to MNC operations and later to outline the cultural differences between Finland and Brazil.

Power distance is a variable that describes the inequality in the society. Inequality in organizations is formalized in hierarchical supervisor-subordinate relationship, centralization and status being important. In high power distance countries these attributes are clearly shown. In individualistic societies individual achievement, innovation and autonomy are valued over the collective equivalents. Collective societies value commitment, belonging and emotional ties to groups e.g. organizations. Usually high power distance correlates with collectivism (low individualisms index score). (Hofstede 1980)

Uncertainty avoidance measures the tolerance for uncertainty of the future, ambiguity and unstructured situations. In organizations this is coped with technology, rules and rituals in order to make the people's behavior and business outcomes more predictable. Uncertainty avoidance rituals are for example memos, reports, and systems of accounting, planning and control. In low uncertainty avoidance society's rules, laws, rituals and regulations are common. The fourth dimension is masculinity – femininity scale. Masculine societies place concern on assertiveness, personal ego and competitiveness while on the other hand feminine societies place more emphasis of softer attributes such as depending on others, expression of emotion, intuitiveness and social cooperation. (Hofstede 1980)

In summary, it is important to understand the cultural characteristics and to take the cultural differences into account especially in overseas subsidiary coordination and control. The implementation of a control type that incorporates cultural control elements may not be appropriate if the home and host country cultures have clashing elements. The overall

indifference to cultural matters might lead to insufficient preparation of cultural integration, thus becoming a real threat to the success of the whole success of the subsidiary's business. The main point is to understand the underlying differences and decide whether they are more clashing or complementing in nature and take them into consideration when managing a foreign subsidiary. See figure 5 for individual scores of Finland and Brazil on each of the Hofstede's four cultural dimensions.

	Power Distance	Individualism	Uncertainty Avoidance	Masculinity
Finland	33	63	59	26
Brazil	69	38	76	49

Figure 5. Scores of the four cultural dimensions according to Geert Hofstede

Source: Hofstede, 1980

Certain factors of the host country environment may override the influence of the home country background when selecting a control type. Smotherman 2002 made specific tests to determine if there exists a correlation between the MNCs home country national character and its management policies regarding parental control and expatriate usage in its foreign subsidiaries. The base of the study was Hofstede's uncertainty avoidance indexes of both home and host country and the economic classification of countries. One of the main findings was that the uncertainty avoidance index of the host country is a better predictor of parental control than the uncertainty avoidance index of the home country (Smotherman 2002).

According to Smotherman (2002) this may also lead to the conclusion that some host country cultural attributes may outweigh home country cultural attributes regarding the choice of foreign subsidiary management policy. His other main findings were that cultural characteristics overall as well as the host country's economic wellness have strong

correlation with management policy. If the host country is economically doing well, that lessens the centralization of control. This result implies that the economic situation of the host country has bigger weight to management policy than is cultural similarity. (Smotherman 2002)

In summary, the effect of home country origin is one aspect of interest in this paper. Bartlett & Ghoshal suggested that the home country or area background has an effect on the control type choices as they found evidence that there exists a certain dominant control type in MNCs originating from different areas such as America, Europe and Japan. The dominant control type in European MNCs according to Bartlett & Ghoshal (1998) is controlling via socialization. Socialization control, as the authors have called it, means using the organizational culture as a socialization tool and through that keeping the individual's actions on the same track were the MNC interests are. As a result of this analysis one can make a pre assumption that if the home country background of a MNC has an effect on how headquarters organize subsidiary control and coordination then European companies would use more socialization control as means of coordination. On the other hand as Smotherman (2002) pointed out there may be attributes in the host country environment that override the home country background's influence.

2.5 Host country environment

The following chapter discusses the influence of the foreign subsidiary host country environment to the internal control and coordination type selection of the MNC. In earlier chapters (see chapter 2.3) also the host country environment's effect on control type selection was covered in a general level. In the following the issue is discussed more in detail concentrating to the specific factors. The economic, cultural and political aspects of the host country are covered as they are the significant variables influencing the control and coordination choices of a MNC according to Hamilton & Kashlak (1999).

Subsidiary host country environment has an effect on the selection of a subsidiary control type. Both Ghoshal & Nohria (1989) and Nohria & Ghoshal (1994) bring out the importance of host country environment when designing subsidiary control and coordination. They suggest that the more complex the local environment is and the more dependent the subsidiary is on local resources the more the research indicates the usage of socialization, normative integration, consensus and shared values as the basis of decision making and as the core pillars of internal structure in comparison to centralization of decision making and the use of systematic rules and procedures as the basis of decision making. Hamilton, Taylor & Khaslak (1996) agree with the above mentioned. They advocate that the host country restraints imposed on the subsidiary's operations complicates the evaluation of subsidiary managers. The problems with measurement variables occur when the host country environment factors have the potential to significantly alter the country specific results.

Complexity of the subsidiary host country environment set antecedent conditions to the selection of a control type. The earlier studies outlined in the above paragraph are interesting regarding this research since they have found evidence that the local environment of the host country affects the subsidiary control of a MNC. The degree of overall complexity of the environment and the subsidiary's dependency of it, according to the authors, set an antecedent condition to the selection of a certain type of control. This profound underlying assumption thus is that the home and host country contexts have an effect to the MNC control type choices and that is the main point of interest in this study.

Three aspects of the subsidiary host country environment are specifically important regarding the control type selection; economic, cultural and political. Hamilton & Kashlak (1999) researched the effect of host country environmental conditions on the selection of subsidiary's control type. Three country variables: host country economic environment, cultural distance between host and home country and host country government restrictions are included in the study and their effect on the selection of the control type is measured.

Hamilton & Kahslak (1999) found out that if the host country does not, or does in a very moderate sense; impose government restrictions the organization is likely to use behavior or output control. On the other hand when there are more host government restrictions and political risk, the MNC will more probably implement a social control type due to the increased uncertainty of the environment and through that measuring performance.

When the host country's financial/monetary situation is instable, the reliability of output measurements becomes weaker and thus a shift towards social control type is likely. Overall if headquarters face difficulties in their efforts of trying to link host managers actions to the outcome and performance due to cultural distance or/and volatility in economic and political environments of the host country, the social control type has the highest probability of being employed. This means that in those situations the selection, recruiting and training employees become more crucial and sending expatriate managers to host countries even more critical. (Hamilton & Kashlak 1999)

Baliga & Jaeger (1984) also mention the importance of cultural proximity especially when talking about cultural control. They define cultural proximity as the degree to which the host country cultural circumstances allow the adoption of the home organizational culture. This becomes important when selecting a control type since costs of socialization are usually high.

This may imply that if the subsidiary host country environment and the MNC home country background are different then the utilization of cultural control as the dominant control type might not be the optimal solution if there are factors in the host country environment that unable the locals to fully accept the headquarters culture. If the MNC organizational culture is distant from the host country dominant style then the adoption of the cultural control type may face difficulties. This refers to the importance and effect of differences between the MNC home background and the host environment of the foreign subsidiary. In this paper the MNC home background is the Finnish background and the host country area is in Latin

America so the differences in the background of headquarters and the environment of the subsidiary are somewhat ample.

Leung, Bhagat, Buchan, Erez & Gibson (2005) concluded on the basis of their review on culture and international business research, that culture has an effect on individual outcomes. They found relationship between cultural values and 10 categories of individual outcomes that are change management behavior, conflict management, negotiation behavior, reward allocation, decision-making, human resource management, leadership, individual behavior in groups, personality and work attitudes.

Supporting the idea of Hamilton & Kashlak (1999) to study the country's economic, cultural and political environment together, Leung, Bhagat, Buchan, Erez & Gibson (2005) present that the effects of culture need to be studied in conjunction with socio-economic-political conditions. They suggest that these contextual variables may add to, moderate and/or mediate the effects of culture. The Hamilton & Kashlak (1999) framework does take these conditions into account and aims to evaluate the effects of culture, in conjunction with the impact of socio-economic-political conditions, to a MNCs control type choices.

In this chapter the host country environment's effect on the control type choices of the foreign subsidiary was discussed. Theoretical rationale was shown that the environment of the host country of the foreign subsidiary has an effect on the control type choices of a MNC. According Ghoshal & Nohria (1989) and Nohria & Ghoshal (1994) the local complexity and subsidiary dependency of the local environment are determining factors of a control type. Outlining Hamilton & Kashlak's study (1999) the more detailed factors influencing the subsidiary control were presented. They have determined the economic, cultural and political aspects of the host country to predict the tendency of a MNC towards of either social, behavior or output control type. In this paper these three aspects of the selected host country are analyzed (see chapters 2.5.2, 2.5.3 and 2.5.4) and integrated into

the framework. The intention is to empirically verify the framework in order to find out their effect to the selection of a dominant subsidiary control type.

2.5.1 Overview on Brazil

This paper studies the parental control and coordination imposed by Finnish headquarters to their Latin American subsidiaries. One Latin American country was specifically selected to this study and it is Brazil. This was chosen because in Latin America Brazil is the most important country for Finnish MNCs in terms of FDI, import and export. Yet the continent in the Finnish context has not been studied extensively.



Figure 6. Map of Brazil

Source: CIA, 2008

Brazil is the fifth largest country by surface area and 10th biggest economy in the world. It was under the Portuguese rule for three centuries before gaining independence in 1822. Population is estimated to be 190 million and the official language is Portuguese. It is located in the eastern part of South America and neighbours with several other South American countries. Brazil is very rich in terms of natural resources and the main ones are hydropower, crude oil, iron ore, bauxite, gold, nickel, platinum, tin, uranium and forests. Vast natural resources and extensive labor pool has made the country the regional leader and a leading economic power in South America. GDP per capita (PPP) in 2006 was 9170 USD. Infrastructure in the country generally needs more investments. Main routes of transportation are country roads that are partly in bad condition. Business culture in Brazil is western. (CIA 2008, Finpro 2007)

Brazil is the biggest trading partner of Finland in Latin America. Finland mainly exports machinery and paper to Brazil and imports airplanes and raw materials such as ore and papermass. Trading both ways has increased during the current decade. In 2006 exports from Finland to Brazil counted 429 million euros and imports from Brazil to Finland in total were worth 577 million euros. Trade both ways has been increasing rapidly in recent years. (Finpro 2007) These facts imply that Brazil is an important market area to Finnish companies out of Latin American countries, even though overall when looking at trade and investments globally Latin America is a relatively small market area for Finnish companies. See figure 7 for the increasing trade trends between Finland and Brazil.

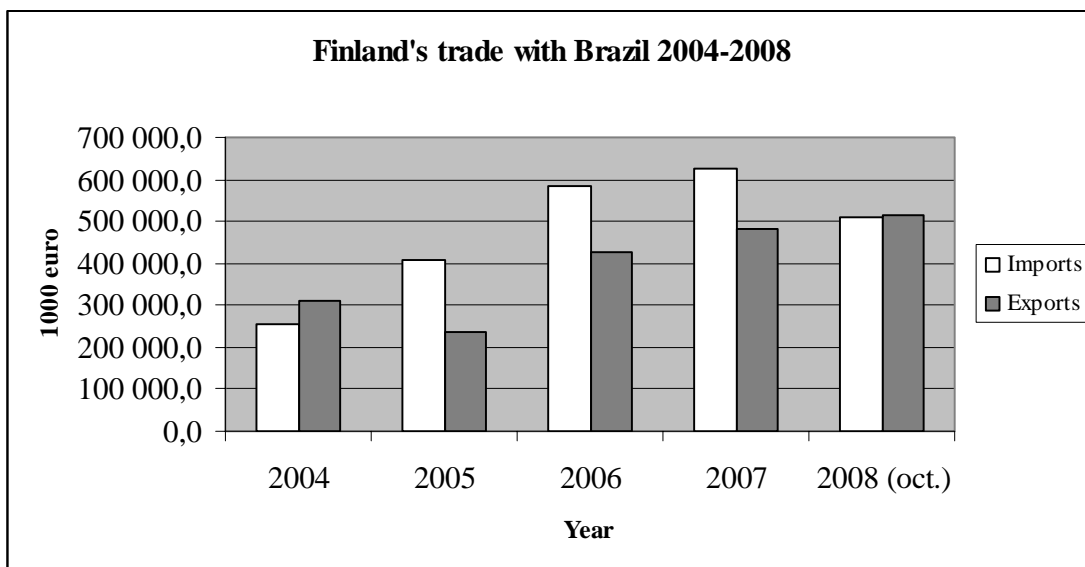


Figure 7. Finland's trade with Brazil 2004-2008

Source: Tullihallitus, 2008 and 2009

Foreign investments to Brazil in general have increased since the late 1990s due to the privatization of government owned companies and government's favourable politics towards foreign investments. Measured by foreign investments Brazil is number one in Latin America and in the ninth place in the world. (Finpro 2007, Rönkkö 2003, CEPAL 2008) In summary can be said that Brazil is increasing its importance and appeal as a place for foreign investment globally and thus the interest of business researchers is contemporary.

About 40 Finnish companies operate in Brazil and more than 80 Finnish companies have representatives in the country. Fifteen of the more than 40 companies have production in Brazil. (Finpro 2007) The number of subsidiaries of Finnish companies in Brazil is high compared to the number of Finnish companies' subsidiaries in Latin America. Most appealing industries in Brazil for Finnish companies have been telecommunications sector, paper and sawmill industries, electronics, machinery construction and packaging. Cumulatively Finnish companies have invested in Brazil until 2002 in total 737 million

euros and in year 2006 investments were 419 million euros which is more than to any other Latin American country. For example in Mexico the corresponding figure was 152 million euros. In 2006 the total turnover for Finnish companies in Brazil was 1943 million euros and profit was 71 million euros and they employed 6100 people (Finpro 2007).

Brazil has received investments from Finnish companies already starting in the 1960s. Production operations of Finnish companies in Brazil started in 1960 when Valmet's tractor factory, Valmet do Brasil, was established. Many other Finnish companies entered the country in the 1960s and 1970s when due to custom regulations importing was difficult. (Rönkkö 2003) In recent years for example Nokia, Elcoteq and Stora Enso have invested into large production or assembly plants in the country.

Finland and Brazil as home and host countries differ substantially in various ways. The host country chosen for this investigation is Brazil. There are various issues influencing the choice as have been outlined earlier. The complexity of the operating environment in Brazil is most likely high for the Finnish companies. Brazil has also suffered from unstable financial and political situation and also the cultural distance with Finland is great.

In the following chapters the country's economic, cultural and political environments are briefly introduced and analyzed. These three aspects were chosen since Hamilton & Kashlak (1999) suggest they are significant factors in analyzing the host country environment and thus determining the dominant control type.

2.5.2 Economic aspect

If the economic environment of the subsidiary host country is turbulent it advocates towards a more social type of control. One environmental factor influencing the control type choices of a foreign subsidiary is the host country economic stability. Volatile exchange rates, high inflation and government imposed restrictions make the environment

where the subsidiary has to operate very turbulent. Financial measurements and evaluation of the subsidiary performance become more difficult in a situation where the three factors mentioned are a reality. Thus the formal control mechanisms such as budgets and achievements measured numerically might not valid measurements for performance and cannot be used without caution. This advocates headquarters to move away from strict reporting measures towards a social control type as the primary control type. (Hamilton & Kashlak 1999)

In turbulent economic environment the formal (financial) reporting systems might not be appropriate. The economic aspect of the host country context is one of the three host country environmental factors that Hamilton & Kashlak (1999) present in the conceptual framework to be the aspects that affect the parental control. The economic aspect is important because the volatile economic situation of the host country makes it more difficult for the MNC to evaluate the financial performance of its subsidiary. Thus formal reporting, annual financial results and budgets might not be best control mechanisms. The authors suggest especially volatile foreign exchange rates and high inflation to be signals of a turbulent economic situation.

During the past decades the Brazilian economy has suffered with financial turmoil. In the 1990s the fundamentals of the Brazilian economy balanced. Hyperinflation was broken, business environment was improved, markets opened up and social reforms were started. Brazil's economy has stabilized and the fluctuations have diminished, but there exists a need for structural reforms. The economic program in the country includes three core pillars: floating exchange-rate, inflation-targets and tight fiscal policy. However the Brazilian government's aim of achieving strong growth while reducing the public debt might lead to inflation pressures in the future. (CIA 2008, Finpro 2007)

The exchange rate of the Brazilian real per US dollar has been somewhat volatile during the past years. It has gone from 3,08 in 2003 to 1.85 in 2007 when for example the Euro per

US dollar has gone from 0,87 (2003) to 0,73 (2007). (CIA 2008) Risk factors considering Brazil are the vulnerable economy and the brunt changes in the exchange rates that are possible during the following years. The Brazilian real is still somewhat thin skinned to sudden changes in the currency markets. (Finpro 2007)

Inflation in Brazil during the 2000s has been under 10%, excluding year 2002. It has decreased during the whole decade but still the Brazilian central bank, in its inflation forecasts is prepared for a rather large range in inflation (Finpro 2007). The inflation rate in Brazil in 2007 was 3,6% and in Finland only 1,6%. (CIA 2008) Also as it was pointed out earlier the current policies of the Brazilian government to achieve growth might create inflation pressure.

In order to examine the economic aspect of the host country Hamilton & Kashlak (1999) suggest the biannual country-risk index developed by Euromoney to be the most objective one. Its indices are separated into specific economic and political ratings. The Euromoney country-risk index and the methodology are briefly discussed in the next paragraph.

Euromoney country risk index is a biannual study of 185 countries that defines the country risk score of each country and their rank. The scale goes from 0-100 and a 100 is the best possible score and thus the least risky option, when score 0 would mean high risk. The index consists of nine categories that are weighted differently. The categories are political risk (25%), economic performance (25%), debt indicators (10%), debt in default or rescheduled (10%), credit ratings (10%), access to bank finance (5%), access to short-term finance (5%), access to capital markets (5%) and forfeiting (5%). (Euromoney 2008)

According to the Euromoney country risk index March 2008 results Brazil scores 56,31 out of 100. It is 63rd in the ranking list covering 174 countries. (Euromoney 03/2008) The score of Brazil can be interpreted so that there exists a risk in operating in that country and the economic environment is somewhat a turbulent one.

Brazil is the 3rd least riskiest country in Latin America (Chile, Mexico, Brazil, Costa Rica, Panama, Colombia, Peru, El Salvador, Uruguay, Guatemala, Honduras, Argentina, Venezuela, Paraguay, Belize, Bolivia, Ecuador, Nicaragua, Suriname). Only Chile and Mexico are less risky than Brazil according to the Euromoney country risk poll's regional breakdown in September 2007. (Euromoney 09/2007)

Also level of education has an effect. The more educated is the workforce the more informal control is being used (Gomez & Sanchez 2005, 1858). In case of Brazil education level is quite good, but not still among the top countries in the world. Literacy rate in Brazil is about 88% of the population (CIA 2008). Overall it is a satisfactory rate, but compared for example to Finland where it is 100% it clearly stays behind. Schooling is mandatory for people between the ages of 7–14. Education level of the workforce varies and in some locations there might be a shortage of educated people especially when the modernization of companies and businesses is rapid. On the other hand in Brazil corporate management is usually very professionally skilled and speaks English (Finpro 2007).

To summarize the analysis of the economic aspect of Brazil one can say that the economic situation in Brazil is rather turbulent than non-turbulent. As Hamilton & Kashlak (1999) suggested the inflation and the foreign exchange rate of a country are valid predictors of the economic situation. As was presented above, the inflation has slowed down but still the Brazilian central bank is very cautious in their inflation forecasts. Also the current fiscal policies of Brazil might create inflation pressure. The Brazilian real is floating at the moment and it is vulnerable to rapid changes in the currency markets. Euromoney ranks Brazil with 56,31/100 points on their country risk index when 100 is the minimal risk possible. These three issues point towards Brazil being rather a turbulent economy than a non-turbulent economy.

But one should remember that as Smotherman (2002) found out the economic wellness lessens the usage of centralization of control and also that economic wellness as a factor

influencing the selection of the dominant control type might have more weight than cultural distance. Thus may be assumed that Brazil which is relatively not economically well, the centralization as means of control would then be more dominant as contrast to more informal tools and subsequently social control.

2.5.3 Cultural aspect

Hamilton & Kashlak (1999) assume that when cultural distance between home and host country increases, social control type becomes more attractive as a control type because the uncertainty and cultural distance can make it difficult to use other control types. In this paper the cultural aspect of Brazil will be analyzed through Hofstede's (1980) study of international differences via four dimensions. The study of Hofstede was presented more in detail in the earlier chapter of MNC home country background (chapter 2.4).

According to Hofstede's (1980) study Brazil is similar to other Latin American countries. The culture involves quite a lot concern for hierarchical status and organisational hierarchies tend to be fairly high. Superiors and subordinates in organisations tend to feel relatively comfortable with centralised decision making structures and centralisation. Employees are expected to strictly conform to authority, and there is somewhat little room left for disagreement. Also the individualism score implies, even though it is slightly higher than in other Latin American countries that the Brazilians tend to value collective values and priorities over individual achievement, innovation and autonomy. Also decision making structures and centralisation can be seen regularly. On the other hand Brazilians tend to feel uncomfortable in unstructured situations and seek to reduce ambiguity through rules and norms. Furthermore the Brazilian culture scores in the middle on the masculinity scale. This means that Brazilians place more concern for assertiveness and competition (as compared to less masculine, assertiveness and competition oriented cultures), but there are still feminine elements in the culture as well.

However, Hofstede’s survey needs to be interpreted with some caution: Firstly, the survey dates back to the 1970s and the world has inevitably changed quite remarkably since that. On the other hand, cultural characteristics and tendencies are slow to change, and thus Hofstede’s classification can still be regarded as suitable for the purposes of this paper. Secondly, Hofstede’s survey does not take potential sub-cultural differences into account. However, I have decided to concentrate on the main national attributes and thus these considerations are not of interest in this paper either. See figure 8 for the score comparison of Brazil and Finland.

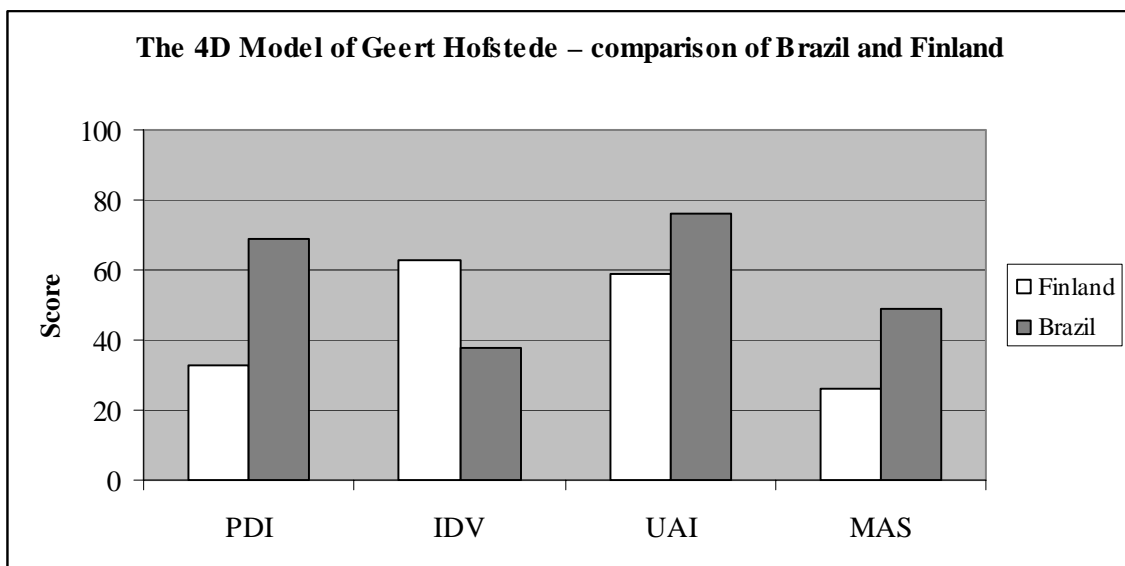


Figure 8. The 4D Model of Geert Hofstede – comparison of Brazil and Finland

Source: http://www.geert-hofstede.com/hofstede_dimensions.php?culture1=32&culture2=11

According to the views presented in this chapter one can make assumptions of how the parental coordination and control may potentially be in the Brazilian environment. Power distance index (PDI) score of Brazil is 69. This suggests that hierarchy and status consciousness and centralization is common. That implies to more formal internal structure and less formalization.

Individualism (IDV) score is 38. This is slightly higher than the average is in Latin populations, but still virtually all Latin countries are considered to be collectivistic societies compared to individualistic societies. It means that Brazilians value commitment, belonging and emotional ties over autonomy. This dimension is somewhat difficult to interpret from the organizational coordination aspect. On one hand the individualistic and autonomy attributes speak for informal more than formal coordination. On the other hand belonging and emotional ties are associated with socialization and cultural control. However as Hofstede (1980) points out, high power distance and low individualism scores usually correlate thus one can assume that low individualism score implies to more formal organizational control and coordination type.

In masculinity – femininity (MAS) scale Brazil scores is 49 in masculinity. This score is in the middle of the scale. This indicates that gender roles exist in Brazil and assertiveness and competitiveness are valued attributes. More feminine societies value softer attributes such as social cooperation and relying on others. This suggests that a less social form of coordination would be common in the Brazilian context.

Uncertainty avoidance index (UAI) score for Brazil is 76. According to this score the Brazilians feel uncomfortable in unknown situations and thus strict rules, laws, policies regulations and norms are adopted and implemented (Itim International 2008). One can make an assumption from this that Brazilian companies use for instance memos, reports and information systems as control mechanisms and using those tools refers to formal control.

If the host country is economically doing well, that lessens the centralization of control and the economic situation of the host country has bigger weight to management policy than is cultural similarity. (Smotherman 2002) This means that even though the cultural distance between home and host country would be great the dominant control type implemented would not depend solely on this factor but also the economic situation. Smotherman (2002)

as well as Hamilton & Kashlak (1999) came into the conclusion that usually the control type for a low cultural distance would include more formal elements. The economic situation of the host country might overrule this assumption, because, if the host country is doing well economically it means that despite of cultural similarity the control type implemented would be more informal.

In summary, as it was shown on Hofstede's study on cultural dimensions there are differences and distances in cultures. Finland and Brazil are culturally distant. For a Finnish MNC the Brazilian cultural environment is different and thus adds complexity to operating in that country. As Hamilton & Kashlak (1999) implied, the cultural distance of the countries and in this case the distance of the home and host country cultural environments may potentially lead to the usage of more informal control types. But the cultural similarity or dissimilarity according to Smotherman (2002) is a recessive factor compared to the economic environment of the host country, as a factor influencing the selection of a dominant control type. As the cultural distance in this case points towards informal control type the turbulent economic situation according to Smotherman (2002) would increase the centralization of control.

2.5.4 Political aspect

Political situation in Brazil is rather turbulent than non-turbulent. In Latin America the law-abiding atmosphere has been weak already dating back to the colonial times when people respected selectively the conqueror's laws and orders. Governments have traditionally served only the interests of small elite which has created economical and cultural inequality. Due to this rebellion movements and populist governments have driven the continent in situations where violations of ownership and economic chaos have been common. This has kept foreign investors away and created mistrust to the political systems. Neglecting the law and the tradition of corruption has maintained an ambiance of distrust towards public institutions and juridical branches. Even though the culture of democratic

decision making advanced in Latin America in the 1990s, there are several political tensions in the air across the continent. Thus the optimism of rapidly stabilizing democracy to Latin America has faded. (Finnvera 2002)

The political environment is related to international business operations through the concept of political risk. Political differences and political risk influence the strategic and tactical behavior of a MNC. When a company's activity crosses international boundaries, the new environment forces the firm into adapting its way of doing things to suite the local conditions in the best possible way. Differences in home and host country political systems and the possible risk resulting from host country government restrictions may affect the MNCs control types. Thus a company adapting its control types to correspond the local conditions is one of the modes of adaptation. (Hamilton & Kashlak 1999)

Political risk can be defined as the degree of political instability arising from irregular power transfers in the host country and also the political restrictions imposed by the host country. Political restrictions can be profit repatriation limits, price controls, country-specific taxes and protectionist trade policies as well as grassroots instability such as demonstrations, riots, strikes and political assassinations. It is important for a MNC to meet the possible host country restrictions with more flexible control systems. (Hamilton & Kashlak 1999)

According to Hamilton & Kashlak (1999) the Euromoney country risk index's political risk score is a useful tool to discuss the political aspect of the host country. The Euromoney country risk index was explained and discussed in the earlier chapter about the economic aspect of the host country environment.

The Euromoney country risk index includes a separate political risk score. The score for Brazil in March 2008 was 16,75 out of 25. The political risk category is defined as follows: It is the risk of non-payment or non-servicing of payment for goods or services, loans,

trade-related finance and dividends and the non-repatriation of capital. (Euromoney 03/2008)

In general threats or risks regarding the political environment of Brazil are various, e.g. the complicated bureaucracy in public institutions including public administration and customs etc. The tax- and legal systems are complex and they operate slowly. Distribution of wealth and income is extremely unequal and the current administration has not acted determined enough against extremist groups in cases of property violation. Additionally Brazil has not ratified the investment protection agreement, signed in 1995, with Finland. (Finpro 2007)

To summarize the analysis of the political environment of Brazil can be said that it differs from the European political environments. Historically the whole area of Latin America has had a reputation of political instability. There is a possibility of a political risk (Euromoney) in Brazil. The score given the Euromoney country risk index is 16,75/25 indicates a rather unpredictable situation in the Brazilian politics and especially when Brazil has not ratified the investment protection agreement with Finland. Brazil is rather a country of high political risk than a country of low political risk.

Summary

To summarize the above analysis about Brazil it can be concluded that the environment of the country measured by economic, cultural and political attributes is potentially financially instable, culturally complex and politically risky for Finnish MNCs to invest and operate. As was presented earlier Hamilton & Kashlak (1999) suggest that MNCs operating in countries with high cultural distance, high financial instability and high political risk the best option would be a more informal control type, meaning socialization through selection, staffing and training accompanied by human development and cultural control. See figure 9 for the summary. The hypothesis according to the Hamilton & Kashlak (1999) idea and the analysis presented above suggest that the dominant control type imposed by Finnish MNCs to their Brazilian subsidiaries is social control.

Host country	Situation in Brazil	Dominant control type	Hypothesis
Economic environment	<i>Turbulent</i>	<i>Social</i>	Economic environment in Brazil is turbulent, thus the hypothesis is that dominant control type is social control.
	Non-turbulent	Output / Behavior	
Cultural environment	<i>Turbulent</i>	<i>Social</i>	Cultural environment in Brazil is distant to Finland, which creates complexity, thus the hypothesis is that dominant control type is social control.
	Non-turbulent	Output / Behavior	
Political environment	<i>Turbulent</i>	<i>Social</i>	Political environment in Brazil is turbulent, thus the hypothesis is that dominant control type is social control.
	Non-turbulent	Output / Behavior	

Figure 9. Summary of the host country environment aspects and their effect to the selection of a dominant control type

2.6 Theoretical framework

In this chapter the theoretic framework is introduced. The framework seeks to explain the parameters of this study and illustrate the research and seek answers to the research questions. The literature presented in the literature review about control types and the influence of the home country background and host country environment have been integrated into the framework. See figure 10 for the framework.

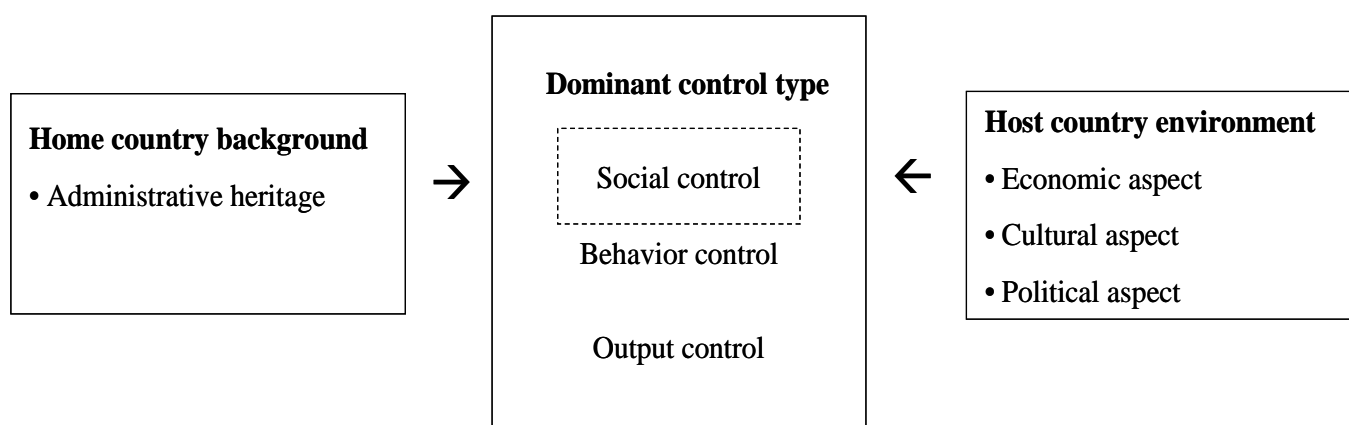


Figure 10. Theoretical framework: Control of Latin American subsidiaries of Finnish MNCs – Control types and the role of home country background and host country environment to the control type choices

The literature review has presented that subsidiary control can be organized in alternate ways. Three dominant control types were identified. One control type is social control, which is more of an informal control type. In addition to the recruiting, training and human development mechanisms social control incorporates also mechanisms of cultural control. The second type is behavior control focuses on the work processes and is more formal in nature. The third type output control concentrates on the results and target setting elements. This part of the framework aims to find answers to the research questions “How Finnish MNCs control their subsidiaries in Latin America?” and “are formal or informal

mechanisms more dominant?”. It is accomplished by determining the dominant control type in the subsidiaries surveyed. Determining the dominant control type is also important in order to verify the home country background and host country environment effects and seek support or counter evidence to the theories of earlier researchers.

The operating context of the MNC has an effect on the control type choices. In the framework the factors influencing the selection of a control type of Finnish MNCs are illustrated as the effects of home country background and host country environment to control decisions. This part aims to answer the to the following research question: “What factors influence on the control type choices of Finnish MNCs?”.

As outlined earlier in the literature review the home country background effect constitutes of the administrative heritage. Administrative heritage is the tendency towards the usage of a certain control type in companies originating from a certain area. In European MNCs administrative heritage points to social control and thus the hypothesis is that if the home country background has an effect on the control type choices of an MNC then the dominant control type would be social control.

Host country environment is the environment where the foreign subsidiary of the MNC is operating. The attributes of that environment are no doubt important to the MNC. The attributes selected to this study are economic, cultural and political attributes of the subsidiary’s environment. The attributes of the selected host country are analyzed to determine if the host country environment is turbulent or non-turbulent. Turbulence implies to the usage of more informal tools and social control when non-turbulent environment points to formal, behavior and output control. The analysis conducted earlier of the host country Brazil came to the conclusion that the environment is more turbulent than non-turbulent. This leads to the hypothesis that if host country environment has an effect on the control type choices then the dominant control type is social control.

The next step is to empirically verify and find answers concerning how Finnish MNCs control their subsidiaries in Latin America and the effect of home country background and host country environments into the MNCs control type choices. The framework is applied to Brazilian subsidiaries of Finnish MNCs. In the next chapter the empirical methodology of this study is outlined and discussed further.

3 METHOD OF RESEARCH

In this chapter the selection of the empirical research method is presented and defended. Also the selection of the data sources involved in this study is clarified. Secondly data collection, questionnaire design and data analysis methods are covered and finally the reliability and validity of the empirical research are discussed.

3.1 Selection of research method

Generally headquarters-subsidary relationships have been researched by many scholars. Furthermore control types inside MNCs have interested and studied by a number of researchers. It has been studied by e.g. Jaeger (1983), Martinez & Jarillo (1989) and Snell (1992). According to Bryman & Bell (2003) there are two different research strategies that can be used in business research; quantitative and qualitative. Quantitative research strategy is appropriate when the research entails deductive approach to the relationship between theory and research whereas qualitative research strategy approach aims to generate theories.

The empirical study in this research paper is based on theory and since there is previous extensive research on the matter it advocates towards a quantitative research method. The research seeks to verify the theories of previous researchers so in nature it is more deductive. A survey was selected as the method of data collection. A survey is a research design in which data is predominantly collected by self-completion questionnaire or by structured interview to produce a quantitative or quantifiable body of data and then examine it to detect patterns of association (Bryman & Bell 2003).

The research questions in this study are:

b) How Finnish MNCs control their subsidiaries in Latin America?

a) What factors influence on the control type choices of Finnish MNCs?

c) Are formal or informal mechanisms more dominant?

A structured self-completion questionnaire serves well in studying these research questions because appropriate measurements can be developed. Also surveys that are conducted by self-completion method rather than by interviewing are cheaper and without the risk of interviewer bias (Ghauri & Gronhaug 2002). Interview method was considered not to be as suitable to this research as the self-completion questionnaire form sent by e-mail because the people, that are in the target group of being possible respondents and the researcher are far away from each other and arranging interviews by telephone or even in person would be difficult and expensive. Also the self-completion questionnaire is quicker to administer and more convenient to the respondents. In chapter 3.2 the method of data collection, self-completion questionnaire design, measurement development and selection of respondents are explained and justified.

3.2 Data collection

Empirical data was collected through a survey. A standardized self-completion questionnaire form (Appendix 1) was developed to serve the purpose. There are options for the channel used when sending the form and collecting data. The options are by postal mail, fax, online or e-mail. From these options e-mail was chosen.

3.2.1 Data collection method

The self-completion questionnaire can be administered to the respondents via postal mail, fax, online or e-mail. In this case a questionnaire developed with an Internet based software was administered via e-mail. Postal mail was regarded as slow, expensive and unreliable delivering method. Fax is relatively quick and inexpensive but requires the same time effort from the respondent as postal mail. Online link in a website was considered to be difficult and expensive to construct since the researcher does not have a homepage or personal website. And anyway some format of communications must have been delivered to make the right people aware of the online questionnaire. In this case the questionnaire is online but on the service provider server and the link to the questionnaire is administered via e-mail. This makes it relatively easy for the respondents to fill in the questionnaire.

3.2.2 Questionnaire design

In the self-completion questionnaire there is the possibility to have open end or closed end questions. There are advantages and disadvantages in both types. Open end questions allow individual and unusual answers and do not suggest ready ones but in the other hand open end questions are more time consuming and the coding is more complex as well as they require more effort from the respondent which might lead to lower response rates. Answers in closed end questions are easier to process and more comparable to each other that enhances making comparisons between respondents and additionally they are easy for respondents to complete. Disadvantages of closed end questions include loss of spontaneity in the answers, problems with mutual exclusiveness and exhaustiveness of the fixed answers, respondents' problems in interpretation of the questions and possible irritation when suitable fixed answer is not available. (Bryman & Bell 2003) In this study the self-completion questionnaire includes primarily close end questions. Open end questions are in the beginning in the background information section where the data collected is best to be collected with open end questions. In the end of the questionnaire there is a box for

additional comments in order to capture other information that the respondents consider to be relevant. But in summary there are as few open end questions as possible as Bryman & Bell (2003) suggested.

The standardized questionnaire consists of 47 questions in total. There are 36 statements and 5 point Likert scale multiple choices (strongly disagree – disagree – neither agree nor disagree – agree – strongly agree) according to which the respondents answer. From these choices the respondent ticks the appropriate box. “Do not know” or “no comment” answer choices were not included to force the respondent to take a stand. Five open-ended questions were placed to gather background information of the respondent. In the last part to questions 37, 39, 41, 43 and 45 an open end question was added to give the respondent a possibility to comment. In the end of the questionnaire there is a field reserved for additional comments. This comment box was placed in order to gather supplementary information regarding the matter that the respondents consider to be important. English was selected to be the language of the questionnaire. This decision was based on the fact that English is nowadays commonly used as the corporate language in MNCs and because of this it is probable that the subsidiary managers have good skills in that language. Second reason is that the nationality and other language skills of the respondents are unknown.

3.2.3 Measurement development

The questions were divided into five parts; background information, usage of social control elements, usage of behavior control elements, usage of output control elements and home country background and host country environment effect on the usage of control tools. The second, third and fourth part aim to answer the following research questions: How Finnish MNCs control their subsidiaries in Latin America and are formal or informal mechanisms more dominant?

These questions were selected to be valid measurements because Snell (1992) used the same questions in his study of the relationship between strategic context, viewed in terms of product-market variation, work flow integration, and firm size and executive use of management control types, including input, behavior and output controls to measure the input, behavior and output control variables.

Since the variable input control did not correspond completely the social control variable used in this study additional questions to Snell's (1992) questions were added. Questions 13-16 were developed to measure the aspects of value training, indoctrination and cultural control.

The questions in the fifth part are placed into the survey questionnaire in order to study the research question of what factors influence on the control type choices in Finnish MNCs? These questions are developed on the basis of the research question. The statements in the fifth part of the questionnaire are aiming to measure the effect of host country environmental variables as well as the parent company home country background and the relationship of these issues to the subsidiary control types. The first part about background information is added to confirm that the right people have been reached. It is important to know e.g. the subsidiary name and the respondent's position and in order to discuss about the validity and reliability of the study. For the complete survey questionnaire form see appendix 1.

The survey was constructed with internet based software. The software was found from www.surveymonkey.com website and a licence to use the software was obtained. The software was recommended by a fellow student who completed her master's thesis related empirical quantitative study with it. This advocate believing that the software in question is indeed reliable to use when conducting relatively small surveys. The link to the survey was administered via e-mail to the respondents. Also a cover letter was added, see appendix 2.

A pilot test was done in September 2008 before sending the questionnaire to the target group. The instructor of the master's thesis and fellow students reviewed the final questionnaire and based on their comments some editing was made. Also tests to fill the internet based form were done to ensure that the technical design is without flaws.

3.2.4 Selection of respondents

First when selecting companies the determination of the population is important. Then next step will be to determine which companies in the population are accessible. Some companies may be unreachable due to reasons of location or time constraints. Some companies might also simply refuse to participate in the study. Finally from the accessible companies it has to be decided which ones to be taken into the research. The researcher must carefully select and justify each company selection. (Ghuri in Marschan-Piekkari & Welch 2004: 112-115)

The companies selected are all subsidiaries in Brazil owned by Finnish MNCs. This decision was made because the whole population is rather small and they all were considered reachable. A list of Finnish companies and their subsidiaries or representatives in Brazil was obtained from Finpro Brazil. Finpro Brazil is an agency that promotes internationalization of Finnish companies and provides advisory services to companies in their international operations and thus a reliable instance and so there is no reason to believe that the list and contact information would not be accurate. Additionally the Internet was used in order to determine the population i.e. the Finnish companies that have subsidiaries in Brazil. All of the companies were considered to be accessible because a name of the person in charge and a valid e-mail address were obtained. The population of 44 is somewhat small and even though it is the whole population the total amount of answers might be too small to make any statistical generalizations.

The people who the survey questionnaire was sent to are relevant with the phenomenon investigated, in this case controlling of the subsidiaries in the Latin American region. Among the people there are Presidents of the subsidiary, General Managers and Directors.

Initially the population to which the survey was sent to was relatively small. The questionnaire was sent to the group of selected respondent in 19th of September 2008. In total 44 people received the questionnaire. During the first week nine responses were received. After the first week response rate was 20%. In 29 of September a reminder was sent, excluding those who had filled in the questionnaire already or had stated that will not be attending to this research. After the reminder two additional answers were received. In total during the one month the questionnaire link was kept open 11 answers out of 44 was obtained. This gives the final response rate of 25%. Even though the amount of responses received was somewhat small the study is brings interesting knowledge since there is little earlier evidence on the subsidiary control issues studied in the context of Finnish MNCs and their subsidiaries in Latin America.

3.3 Data analysis

Responses appear in my account in SurveyMonkey as soon as the respondent has submitted them. From SurveyMonkey it is possible to get the data transferred into excel in various forms. In excel the responses are analyzed with using medians, modes and mean responses. The analysis is illustrated with figures such as pie charts and tables.

The analysis seeks to find answers to the research questions; what factors influence the control type choices in Finnish MNCs, how do Finnish MNCs control their subsidiaries in Latin America and are informal or formal mechanisms more important. The responses in a quantitative study are straightforward and finding the tendencies from the data is somewhat simple.

3.4 Validity and reliability of research

Reliability and validity of the research work are crucial in order for the research community to be able to verify the study that has been done. Reliability according to Yin (2003: 37-38) aims to minimize bias and errors in the research. Reliability means that another researcher who conducts the same study afterwards should come to the same findings and results as the first one. This requires careful documentation on the steps taken during research. It is impossible for the following investigator to reach the same conclusions if the documentation of what has been done earlier is inadequate.

In this study the steps taken to conduct the study are well documented. The guidance is solid and no misleading information is presented. The study conducted is fairly covered in the methodology chapter and the related appendices can be found from the end of the paper.

Validity is another important criterion of research. Validity is concerned about the integrity of the conclusions of the research. Measurement validity primarily applies to quantitative research and it relates to the issue if the measurements used are indeed valid measurements for that certain issue. (Bryman & Bell 2003) Survey questionnaire is a valid tool for verifying earlier findings. The majority of measurements used in this research have been adopted by Snell (1992).

4 EMPIRICAL FINDINGS

The empirical findings and results of the self-completion survey questionnaire are outlined in the following. The survey was sent to 44 respondents and 11 answers were received. The survey was divided into five sections: background information, usage of social control elements, usage of behavior control elements, and usage of output control elements as well as home country background and host country environment effect on the usage of control tools. The findings will be presented accordingly the self-completion survey questionnaire.

In analyzing the findings from each part of the survey I have used figures to illustrate and verbal explanations to support the figures. Hence the data can be organized into an ordinal scale mode, median and mean are possible to determine. Mean is defined by giving the answer option groups a numeric code 1-5, “strongly disagree” being 1 and “strongly agree” being 5, but must be remembered that the actual distances between the numeric codes mean nothing. I have also determined the support by percentages that each argument obtained. From these percentages a tendency towards a certain outcome can be suggested. Percentages are better in determining the tendency since the absolute figures do not tell the situation as a whole. Different types of figures are created to illustrate the findings in the most feasible way. Additionally the population and the number of responses received were small so it was the most practical choice to analyze them by using Excel.

There are some issues to take into consideration when analyzing findings. Some of the respondents might not have understood the question or have understood it differently than the measurement developer. The respondents may have not paid the attention needed when answering the questionnaire and they may have not chosen the intended answer option. These factors may cause error in the data and thus the results must be interpreted with the appropriate caution.

4.1 Background of the respondents

The self-completion questionnaire was sent to 44 representatives of Brazilian subsidiaries of Finnish MNCs. Eleven answers were received. The subsidiaries that the respondents represent act in various industries. The industries are contract manufacturing, forestry, pulp, paper, telecommunications, electronics, chemistry, engineering, consulting and minerals. The size of the subsidiaries measured by the number of personnel differs from bit over 40 to 1900 people as well as the turnover of the subsidiaries ranges.

The respondents were selected on the basis of who would be the appropriate and relevant people in the subsidiary to fill in the questionnaire. People who answered the survey may be others than the link to the survey was sent to. The respondents announced their titles to be, Chairman Latin America, Director, Financial Director, General Manager (4), HR Director, Managing Director, President of Latin America operations and Vice President of Finance & Administration. Presuming from the titles the people who sent their answers are relevant and valid respondents to the survey.

4.2 Dominant control type findings

One of the research questions in this study seeks to answer to how do Finnish companies control their subsidiaries in Latin America. The sections two, three and four of the survey questionnaire were dedicated to find out the dominant control type of the subsidiary. Section two presented arguments about social control elements, section three about behavior control elements and section four concentrated on output control elements. The results from these sections are presented in the following.

4.2.1 Findings on social control elements

Section two of the survey questionnaire consists of 11 arguments (questions 6-16) concerning the usage of social control elements in subsidiary control. Questions 6-12 are investigating the usage of recruiting, training and human development as control mechanisms and questions 13-16 concentrate more on the values, beliefs, attitudes and social commitment that is the cultural control aspect of social control. Question 6-15 received 11 answers and question 16 received 10 answers. The arguments were formulated in a way that the stronger the respondent agrees the stronger it implies to the usage of social control. See figure 11 for the individual arguments and the answer option that received the most support.

As can be seen from figure 11 only one out of 11 questions did not receive “agree” or “strongly agree” as the most supported answer. The tendency among respondents was to agree with the arguments on social control. Especially the questions 13-16 that measured the aspects of value training, indoctrination and cultural control received “agree” and “strongly agree” answers as the majority answers. This implies to the usage of informal control mechanisms.

In addition none of the respondents chose the “strongly disagree” option in any of the questions. In three questions none of the respondents did not pick the “strongly disagree” or “disagree” options and furthermore in three questions not a single respondent chose neither “strongly disagree”, “disagree” or “neither agree nor disagree”. In total in six arguments the answers were only agreeing or not disagreeing. It is more than half of the arguments in this section.

Question	Most popular answer option
6. Managers receive substantial training before they assume responsibility	<i>Disagree, Neither agree nor disagree</i> and <i>Agree</i> received equal support (27,3% each)
7. We have gone to great lengths to establish the best staffing procedure possible	Agree (54,5%)
8. After being on the job for years, managers are involved in skill development	Agree (54,5%)
9. Individuals must undergo a series of evaluations before they are hired	Agree (54,5%)
10. Managers are given ample opportunity to broaden their range of talents	Agree (54,5%)
11. We take pride in the fact that we hire the very best people for a job	<i>Agree</i> and <i>Strongly agree</i> received equal support (45,5% each)
12. We have a strong commitment to training and developing skilled managers	Agree (63,6%)
13. Company rituals and jargon are a part of daily activities	Agree (63,6%)
14. Company values are communicated to personnel	Agree (63,6%)
15. During training creating commitment to the organization is important	Agree (54,5%)
16. A “company way” of doing things is important	Agree (70%)

Figure 11. Survey results - Social control elements by question

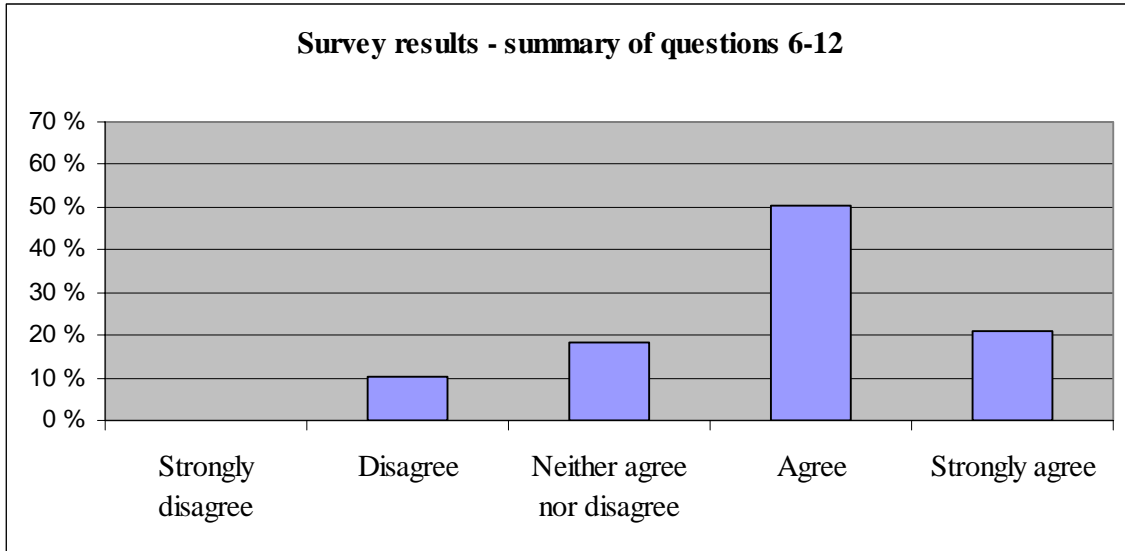


Figure 12. Survey results – recruiting, training and human development

Figures 12 and 13 present the summaries of questions 6-12 and 13-16 respectively. Questions 6-12 were measuring the usage of social control in the subsidiaries. These questions particularly concentrated on the recruiting, training and human development aspects of social control. As can be seen from figure 11 the answers agreeing to the arguments received more support than the disagreeing opinions. Nevertheless the disagreeing or neutral opinions received somewhat support.

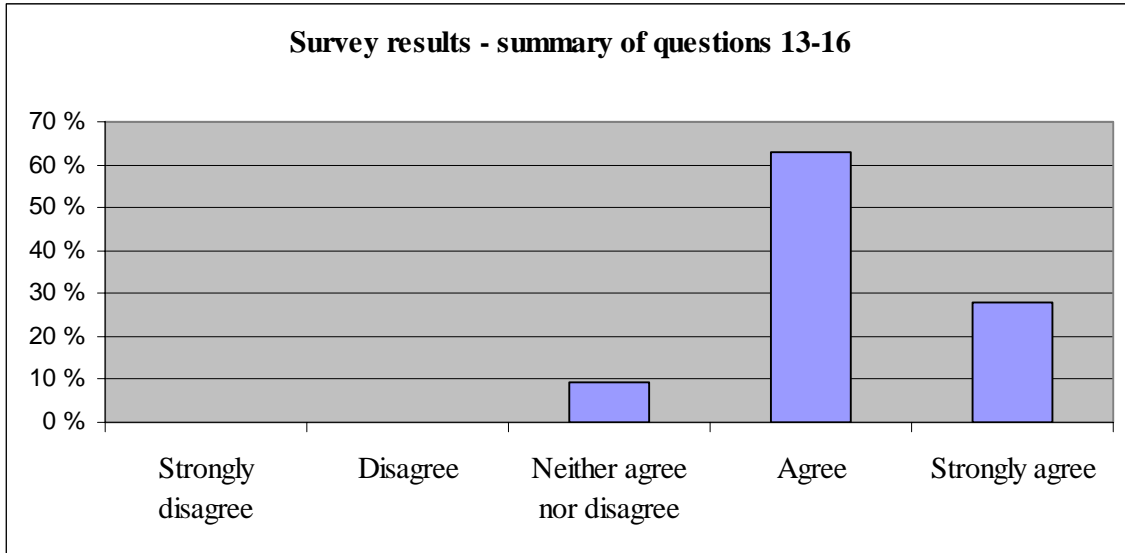


Figure 13. Survey results – values, beliefs, attitudes and social commitment

Questions 13-16 were measuring also the usage of social control. The arguments were concentrating on the values, beliefs, attitudes and social commitment that are the cultural aspect of social control. Clearly the summary of the answers in figure 13 received show the strong support that the usage of social control mechanisms received from the respondents. “Strongly disagree” or “disagree” answer options received no support in none of the arguments. This part of the section two measuring the usage of social control assumed more agreeing support than the part concentrating on recruiting, training and human development.

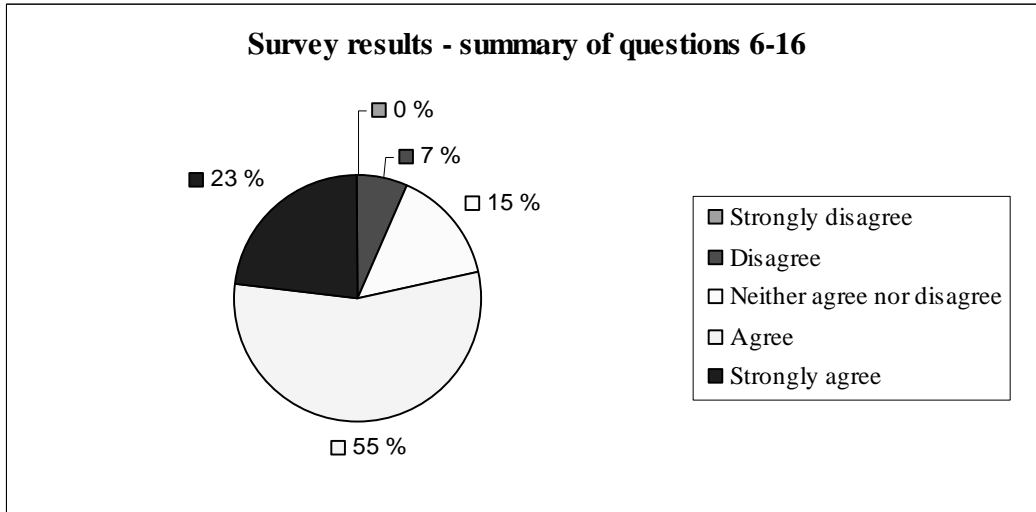


Figure 14. Survey results - summary of social control measurements

Summary of the answers to section two of the survey questionnaire are presented in figure 14. “Agree” answers count for more than half (55%) of the total answers and it is the most common answer to the arguments. Also both the mode and the median of this data fall for the “agree” category. If the answer option groups are given numeric code 1-5, a mean can be defined. In this data the mean is 3,95. Second largest group is the “strongly agree” answers. It received almost a quarter of support (23%). Together “agree” and “strongly agree” received the support of 78%, which clearly shows the tendency of social control usage in the subsidiaries investigated. “Disagree” or “strongly disagree” answer options received in total of 7% of the support in all of the arguments in section two. Neutral answers option that is neither agreeing nor disagreeing obtained a 15% of the total answers. The small percentages that these disagreeing or neutral answers assumed support implies also to the direction that social control is used as a subsidiary control type in the subsidiaries investigated.

4.2.2 Findings on behavior control elements

Section three of the survey questionnaire studied the usage of behavior control elements. Behavior control focuses on the mechanisms that control the work process. Questions 17-25 were developed to measure the tendency to use behavior control mechanisms in the subsidiaries that participated into the study. Question 17 received 9 answers and questions 18-25 received 10 answers. Response rate thus was slightly lower than in the second section. The arguments were formulated in a way that the stronger the respondent agrees the stronger it implies to the usage of behavior control. See figure 15 for the individual arguments and the answer option that received the most support.

As can be seen from figure 15 the answer option that in most of the questions obtained the strongest support is “agree”. Three arguments out of nine did not receive “agree” or “strongly agree” as the most supported answer. The tendency among respondents was to agree with the arguments on behavior control. Nevertheless there is more variety in answers. Also disagreeing answer options assumed more support than in the case of social control. The results on behavior control section of the survey imply to the usage of behavior control mechanisms in the subsidiaries investigated, but not as strongly as the empirical findings of section two pointed to the usage of social control. Also the response rate was slightly lower in this section than in section two.

Additionally in section three the “strongly disagree” option obtained support. In two questions out of nine the respondents did not pick the “strongly disagree” or “disagree” options at all, but in all the other arguments disagreeing answers were selected. This implies to more variety in the opinions of the respondents and could be interpreted as behavior control usage varying or being not as dominant as the social control type. Figures 16 and 17 present the summaries of questions 17-25 in two charts illustrating the findings in different ways.

Question	Most popular answer option
17. Primary weight on evaluations is placed on behaviour	Neither agree nor disagree (66,7%)
18. Subordinates are held accountable for their actions, regardless of results	Agree (60%)
19. I generally concern myself with particular procedures and methods my subordinates use on the job	<i>Agree</i> and <i>Strongly agree</i> received equal support (40% each)
20. My managers and I do not consult one another in setting standards	Disagree (50%)
21. Performance programs are imposed top-down	Agree (50%)
22. Frequent meetings are held with subordinates to discuss their performance	Agree (70%)
23. Subordinates do not assume responsibility for setting their own performance goals	Disagree (70%)
24. Members of this organization receive frequent performance feedback	Agree (90%)
25. Long lag periods are NOT required for feedback	Agree (50%)

Figure 15. Survey results - Behavior control elements by question

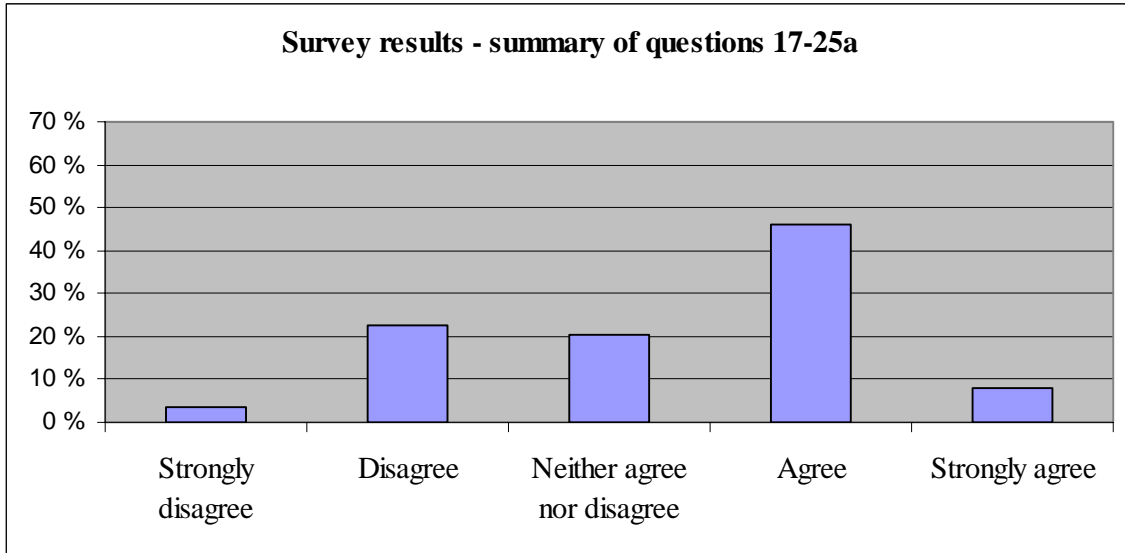


Figure 16. Survey results – behavior control a

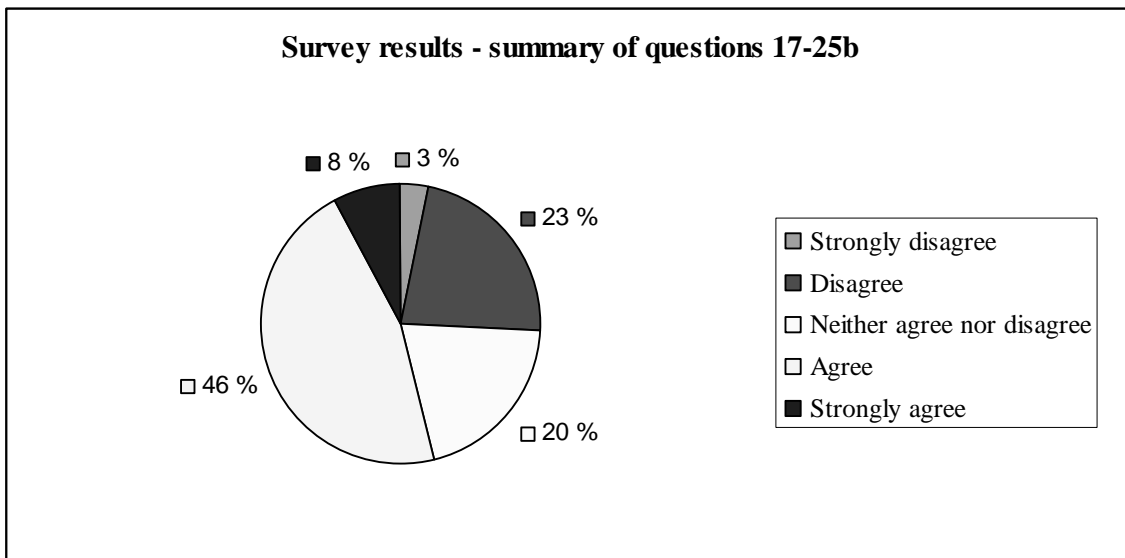


Figure 17. Survey results – behavior control b

Figures 16 and 17 illustrate the summary of the findings in section three on behavior control. In this data the mode is “agree” and the median is “agree”. Mean is 3,32, which is less than in social control. It can be seen from the figures that the answers received vary more than in the case of social control. This means that the respondents have differing opinions about behavior control mechanisms. The range in answers suggests that there is somewhat support towards the usage of behavior control mechanisms and support towards behavior control mechanisms being not so dominant. The findings in this section are that behavior control usage might differ among subsidiaries or it might not be as dominant as the social control type.

4.2.3 Findings on output control elements

The fourth part of the survey questionnaire studied the usage of output control elements in the Brazilian subsidiaries of Finnish MNCs. Output control concentrates on the mechanisms that control the output of work that is target setting and results. Questions 26-36 were developed to measure the tendency to use output control mechanisms in the subsidiaries that participated into the study.

Questions 26-32 and 34-36 received 9 answers and question 33 received 8 answers. Response rate was lower than in the sections discussing social and behavior control. The arguments were formulated in a way that the stronger the respondent agrees with the argument the stronger it implies to the usage of output control. See figure 18 for the individual arguments and the answer option that received the most support.

Question	Most popular answer option
26. Performance evaluations place primary weight on results	Agree (66,7%)
27. Pay consists of performance-based results	Agree (88,9%)
28. Pre-established targets are used as a benchmark for evaluations	Agree (77,8%)
29. Numerical records are used as the chief index of effectiveness	Agree (100%)
30. Differences in pay among my subordinates represent differences in performance levels	Agree (77,8%)
31. Regardless of what subordinates are like personally, their performance is judged by results achieved	Agree (55,6%)
32. The rewards my managers receive are linked to results	Agree (77,8%)
33. It is infeasible to lock my subordinates into fixed targets	<i>Disagree and Neither agree nor disagree received equal support (37,5%)</i>
34. My team of managers is not paid on a straight salary	Neither agree nor disagree (55,6%)
35. Those who not reach objectives receive a low rating	Agree (77,8%)
36. Regardless of their absolute accomplishments, appraisals are based on whether they reach their goals	Agree (66,7%)

Figure 18. Survey results - Output control elements by question

Figure 18 shows that the answer option that in most of the questions obtained the strongest support is “agree”. Two arguments out of eleven did not receive “agree” or “strongly agree” as the most supported answer. The tendency among respondents was to agree with the arguments on output control. Also worth noting is that there was less variety in the opinions than in the case of social and behavior control. Also disagreeing answer options assumed less support than in the earlier parts. The results on output control section of the survey imply to the usage of output control mechanisms in the subsidiaries investigated, and the support seems to be slightly stronger than the support for behavior control but at the same time equal to social control.

Additionally in section four the “strongly disagree” option obtained no support. In seven questions out of 11 the respondents did not pick the “disagree” answer option. This implies to small variety in the opinions of the respondents. The amount of agreeing answers in the part investigating output control as a control type could be interpreted as output control usage being usual or at least being more dominant than e.g. the behavior control type. Figures 19 and 20 present the summaries of questions 26-36 in two charts illustrating the findings in different ways.

Figures 19 and 20 illustrate the summary of the findings in section four on output control. Mode is “agree” and the median is “agree”. The mean is 3,72, which falls for between social control and behavior control yet still closer to social control. It can be seen from the figures that the answers received are varying less than in the case of behavior control. This means that the respondents have corresponding opinions concerning output control mechanisms. The amount of agreeing answers point to the direction that there is evident support towards the usage of output control mechanisms in the subsidiaries investigated. The findings in this section thus are that output control might be more dominant as the behavior control type but at the same time equal to social control type.

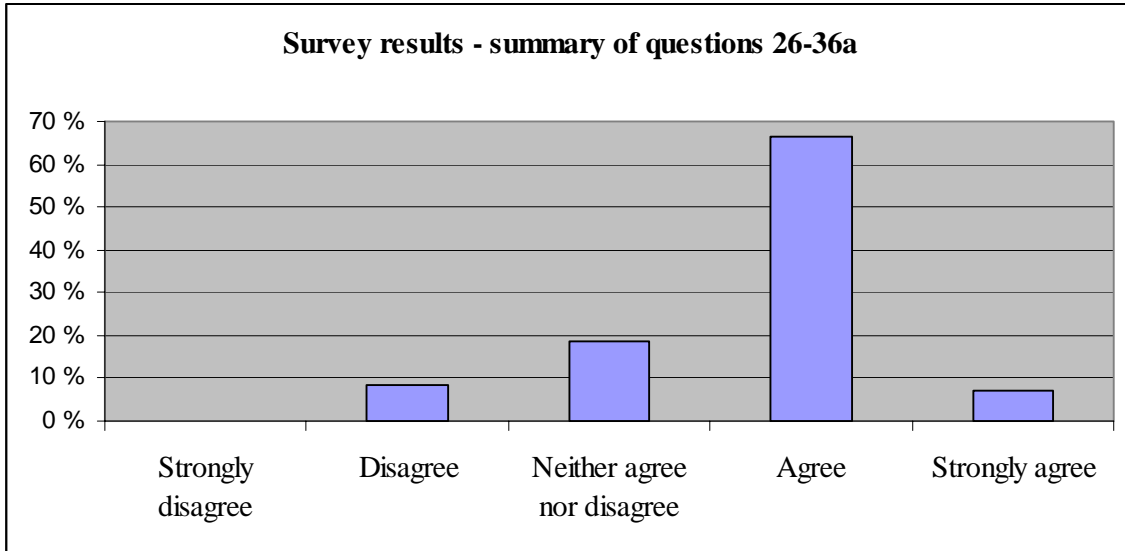


Figure 19. Survey results – output control a

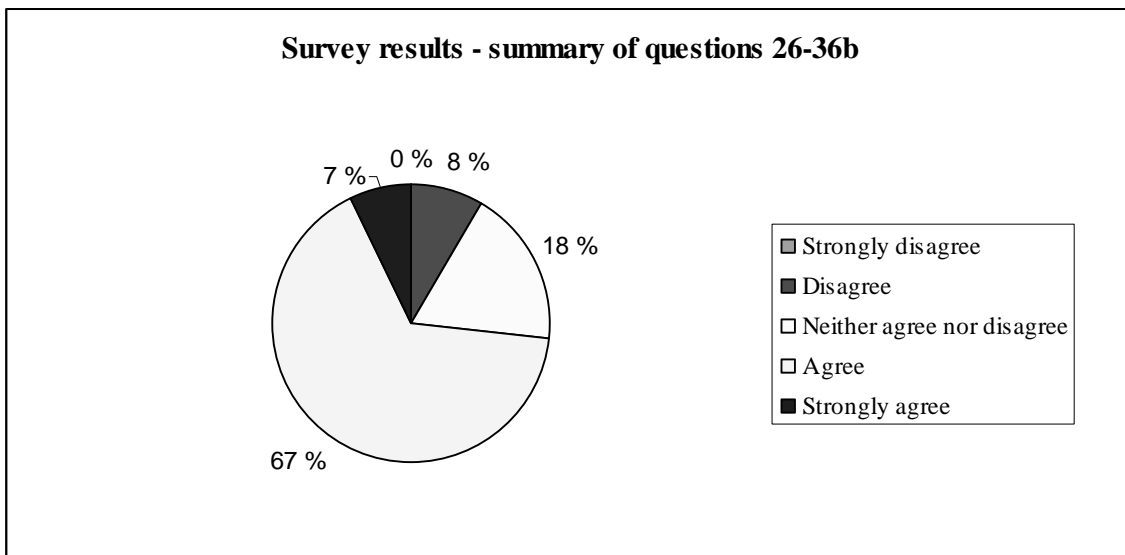


Figure 20. Survey results – output control b

To summarize the analyses regarding the usage of social, behavior and output control and the possible dominance of one of the control types can be said that the usage all the three types received support. Social control and output control obtained more support than behavior control and the opinions of respondents were more consistent in the case of social control and output control than in the behavior control in which the answers were varying more. The conclusion is that all of these control types exist in the subsidiaries investigated but social control and output control are slightly more dominant than behavior control. See figure 21 for the summary of the control type findings.

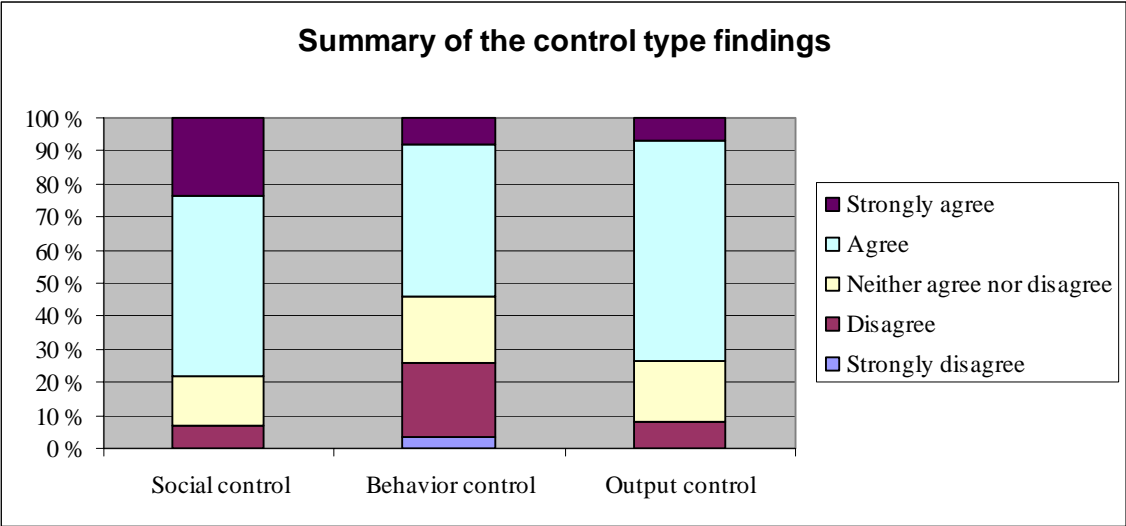


Figure 21. Summary of the control type findings

4.3 Findings on the factors affecting control type choices

The final part of the survey focused on finding answers to the research question “What factors influence on the control type choices of Finnish MNCs?”. Questions 37-46 were designed to collect the opinions of respondents on do the economic, cultural and political environment of the host country affect on the control type choices. After every closed end question an open end question followed. This was done in order to gather more information and opinions on the matter from the respondents. Nine answers were received to each

closed end argument. The open end questions received few answers. The findings from each argument are analyzed separately.

Question	Most popular answer option
37. The economic situation in Brazil has an effect on the usage of control tools in the subsidiary	Neither agree nor disagree (55,6%)
39. The cultural context in Brazil has an effect on the usage of control tools in the subsidiary	Neither agree nor disagree (44,4%)
41. The political situation in Brazil has an effect on the usage of control tools in the subsidiary	Neither agree nor disagree (55,6%)
43. The Finnish background of the company has an effect on the usage of control tools in the subsidiary	Agree (55,6%)
45. The Brazilian context has more effect on the usage of control tools in the subsidiary than the Finnish background	Neither agree nor disagree (44,4%)

Figure 22. Survey results – Effect of home country background and host country environment by question

Figure 22 shows a summary of the questions of section five of the survey questionnaire and the answer option that received the most support among respondents as well as the percentage of answers the certain answer option obtained. In four arguments out of five the most popular answer choice was “neither agree nor disagree”. It received the support of approximately half of the respondents in questions 37, 39, 41 and 45. However the opinions of the respondents vary somewhat that can be seen from the individual question analyses. Argument 45 assumed agreeing opinions from more than half of the respondents. In figures 21, 22, 23, 24 and 25 the findings on questions 37, 39, 41, 43 and 45 are presented respectively.

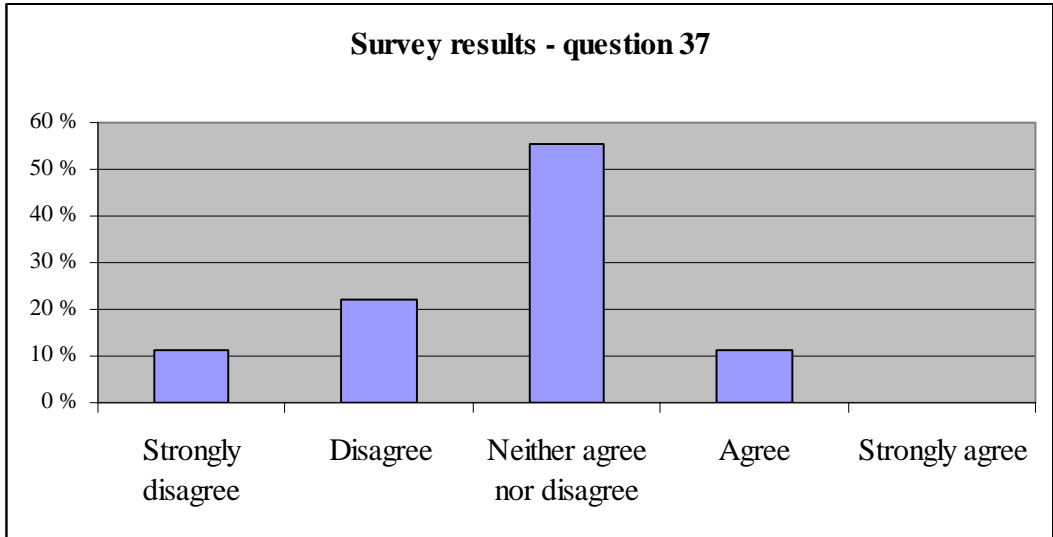


Figure 23. The effect of the economic situation in Brazil

Question 37 studied does the economic situation of the host country has an effect on the MNC control type choices. The answers of the respondents are presented in figure 23. The majority did not agree nor disagree. However over 33% of the respondents were disagreeing with the argument. A little over 10% agreed, but no one strongly agreed. The mode is “neither agree nor disagree” and the median is the same. Mean is 2,67. The response rate was slightly lower than to the earlier part and the answers varied quite a bit. This implies that the economic environment of the host country is not so important regarding the control type choices or the perceived importance varies among the subsidiaries investigated.

Two open end answers were obtained to question 38, which is a follow-up to question 37 and gave the possibility to the respondents to specify how does or does not the economic environment of the host country affect the control type choices. The other respondent from the two who disagreed with Brazilian economic situation having an effect on the subsidiary control said:

“Today Brazil situation and fiscalization are very strong and no extra tools are necessary. Today we use the normal tools and audits.”

This suggests that even though the Brazilian economy is analyzed to be rather turbulent than non-turbulent some of the companies do not agree with that and do not see the economic environment as something that should be given extra consideration when making control decisions. The other comment was from a respondent who did not agree nor disagree with the argument:

“There is a currency difference and also the skill of the people.”

This comment states that the different currencies do cause concerns. This implies as stated in an earlier paragraph that the opinions of the respondents vary and thus the economic environment of the host country may or may not affect the MNC control type choices.

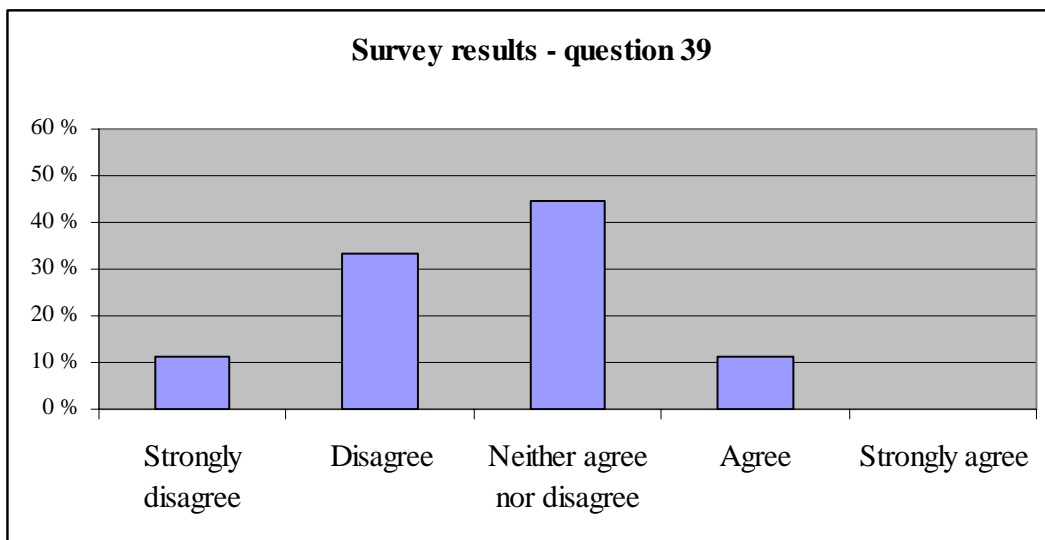


Figure 24. The effect of the cultural environment in Brazil

Question 39 studied does the cultural environment of the host country has an effect on the MNC control type choices. The answers of the respondents are presented in figure 24. The

answer choice that received the most support is “neither agree nor disagree”. However it counted less than half of the responses. Disagreeing answers together received equal support that is 44,4%. It was 11,1% of the respondents who agreed with the argument, but no one strongly agreed. The mode and median fall for the same group and that is “neither agree nor disagree”. Mean is 2,56. The answers varied somewhat, but the tendency was more towards disagreeing than in the economic environment question. This implies that the cultural environment of the host country is not so important regarding the control type choices than economic environment or the perceived importance varies among the subsidiaries investigated.

Two open end answers were obtained to question 40, which is a follow-up to question 39 and gave the possibility to the respondents to specify how does or does not the cultural environment of the host country affect the control type choices. The other respondent from the two who disagreed with Brazilian cultural situation having an effect on the subsidiary control used the same reasoning as to the question concerning the effect of the economic environment. The respondent’s opinion is that the situation of Brazil is very strong and no extra tools are necessary

This suggests that even though the Brazilian cultural environment in this paper is analyzed as being distant from the Finnish one and the cultural distance creating uncertainty and thus being rather turbulent than non-turbulent some of the MNCs do not agree with that and do not see the cultural environment as something that should be given extra consideration when making control decisions. The other comment was from a respondent who did not agree nor disagree with the argument in question and the person said that the cultural environment causes more complexity to leadership and leadership skills. This is a countering opinion to the other one. This comment states that the cultural differences do cause concerns. This implies as stated in an earlier paragraph that the opinions of the respondents vary and thus the cultural environment of the host country may or may not affect the MNC control type choices.

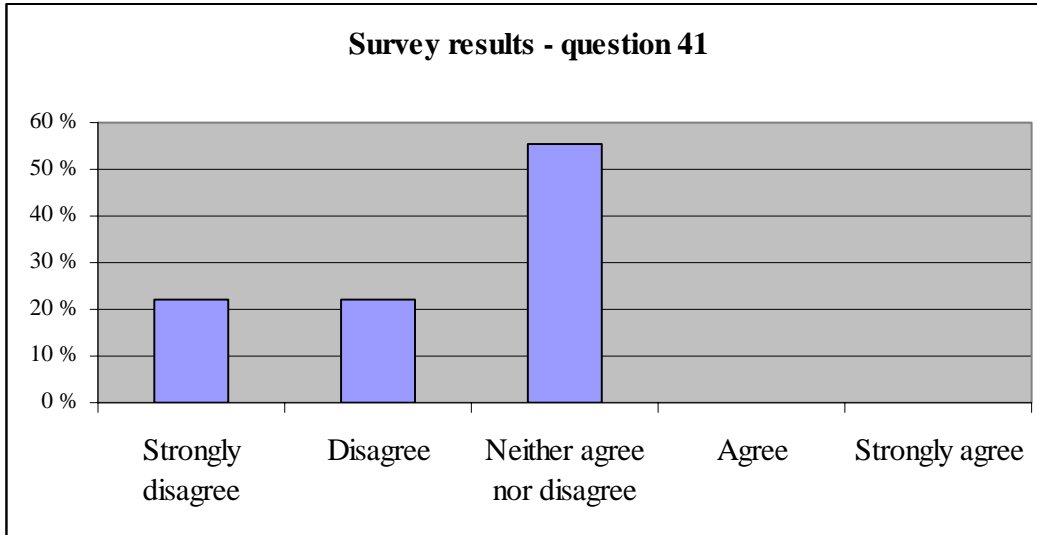


Figure 25. The effect of the political situation in Brazil

Question 41 studied does the political environment of the host country has an effect on the MNC control type choices. The answers of the respondents are presented in figure 25. The answer choice that received the most support is “neither agree nor disagree”. It counted slightly more than half of the responses. Disagreeing answers together received support of 44,4%. None of the respondents agreed that political environment of the host country has an effect on the control type choices. The mode is “neither agree nor disagree” and the median is the same. Mean is 2,33, which is closest to the “disagree” answer option. The answers varied somewhat, but the tendency was clearly towards disagreeing than in the questions about the economic or cultural environments. This implies that the political environment of the host country has the least importance regarding the control type choices compared to economic and cultural environments.

One open end answer was obtained to question 42, which is a follow-up to question 41 and gave the possibility to the respondents to specify how does or does not the political environment of the host country affect the control type choices. The respondent disagreed with Brazilian political situation having an effect on the subsidiary control using the same

reasoning as to the questions concerning the effect of the economic and cultural environments. The respondent's opinion is that the situation of Brazil is very strong and no extra tools are necessary when controlling subsidiaries in Brazil.

This suggests that even though the Brazilian political environment in this paper is analyzed as being rather turbulent than non-turbulent a large part of the MNCs do not see the political environment as something that should be given extra consideration when making control decisions. This implies as stated in an earlier paragraph that the political environment of the host country does not have significant importance when designing control types.

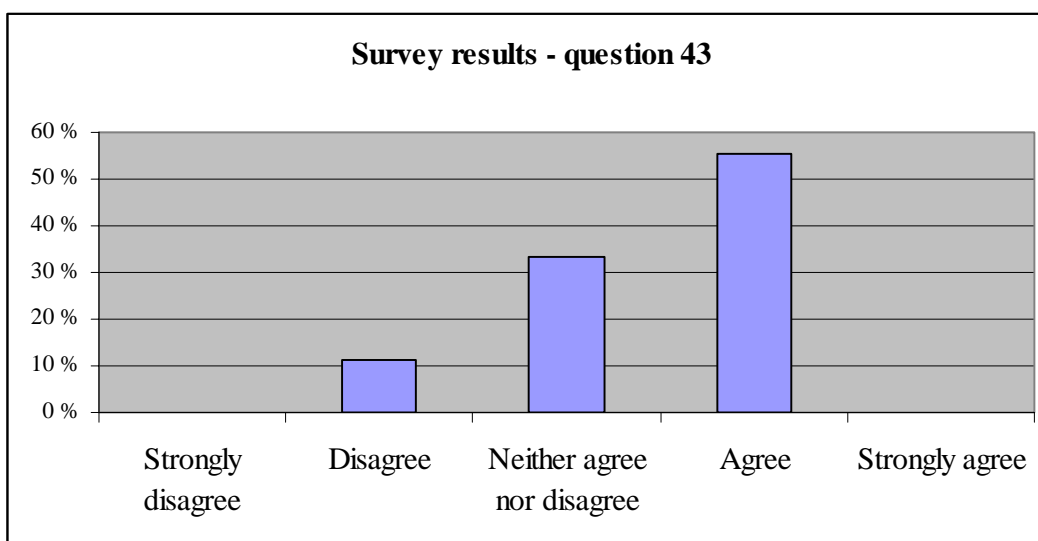


Figure 26. The effect of the Finnish background to the control decisions

Question 43 studied does the Finnish background has an effect on the MNC control type choices. The answers of the respondents are presented in figure 26. The answer choice that received the most support is “agree”. It counted more than half of the responses. Disagreeing answers together received support of 11,1% and the rest neither agreed nor disagreed. The mode is “agree” and the median is “agree” as well. Mean is 3,44. The

answers varied somewhat, but the tendency was clearly towards agreeing than disagreeing. This implies that the background of the home country has more importance than less importance regarding the control type choices in the subsidiaries investigated.

Three open end answers were obtained to question 44, which is a follow-up to question 43 and gave the possibility to the respondents to specify how does or does not the Finnish background on the MNC affect the subsidiary control type choices. Two of the comments were stating that the controls are used globally and are standardized and the same ones are used throughout the whole MNC. This suggests that the Finnish background may have the dominant effect if the control types are globally unified and thus no host country local environment factors are taken into consideration.

The third comment mentioned that Finland has more discipline. This may imply that the MNC headquarters attention to the control issues concerning the subsidiary is prevailing and thus the perceived effect of the Finnish background might be dominant.

In summary can be said that among the respondents there was a tendency to agree with the argument that the Finnish background of the MNC has an effect of the control type choices. However the opinion is not unanimous and thus some caution must be obeyed when making definite conclusions.

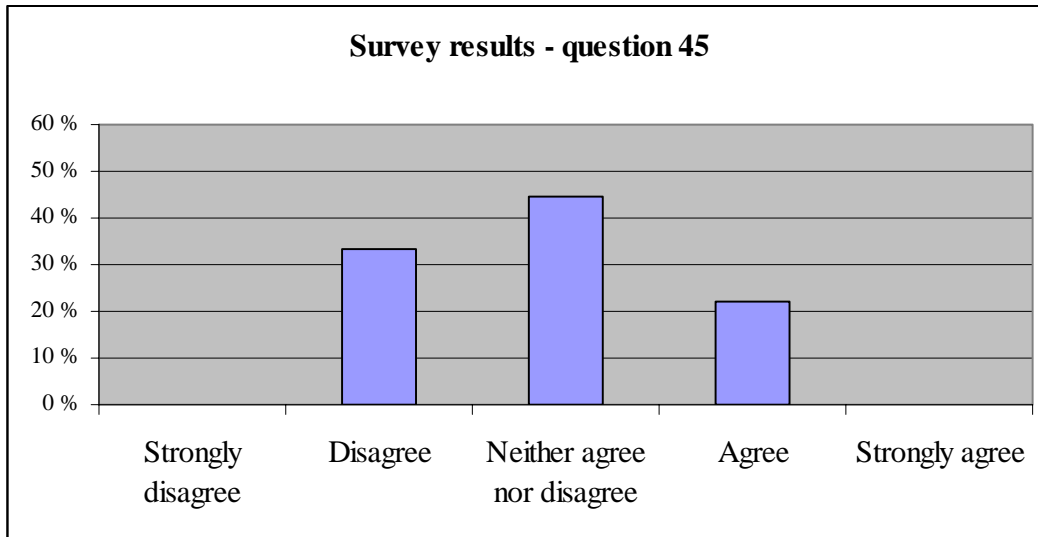


Figure 27. The effect of the Brazilian context vs. the Finnish background to the control decisions

Question 45 studied does the host country environment has more effect on the control type choices than the home country background. The answers of the respondents are presented in figure 27. “Neither agree nor disagree” received the most support. It counted for slightly less than half of the responses. Disagreeing answers received support of 33,3% and the rest 22,2% agreed. The mode and median are “neither agree nor disagree”. Mean is 2,89. The answers varied somewhat, but the tendency was a little more towards disagreeing than agreeing. This might suggest that the host country environment does not have more influence on the subsidiary control than home country background. This finding is consistent with the relatively low support that each of the host country attributes studied obtained and then on the other hand the support that the home country backgrounds influence on control types received.

Two open end answers were obtained to question 46, which is a follow-up to question 45 and gave the possibility to the respondents to specify their opinions on does the Brazilian context has more effect on the subsidiary control type choices than the Finnish background

of the MNC. The other comment came from an agreeing respondent who wrote that the cultural aspects of Brazil are overriding the Finnish influence. The other commentator did take a neither agreeing nor disagreeing stand and wrote that it depends on the organizational unit. This suggests that there are differing opinions among the respondents.

In summary can be said that among the respondents there was a tendency to disagree with the argument that Brazilian environment would have more influence on the control type choices. However the opinion is not unanimous and thus some caution must be obeyed when making definite conclusions. It also does not rule out that both the home background and host environment would have equal effect. However the somewhat low support that the suggested influence of the host country attributes obtained points to the direction that the Brazilian environment may not be a significant factor in selecting subsidiary control type.

4.4 Summary of the main findings

In this chapter the summary of the main findings are presented. The aim of the empirical research was to seek answers to the research questions. Thus the summary of the main findings will be presented accordingly to the research questions. Figure 28 presents the summary of the modes, medians and means of the data collected.

OBJECT OF INVESTIGATION	FINDINGS		
	Mode	Median	Mean
Use of social control	Agree	Agree	3,95
Use of behavior control	Agree	Agree	3,32
Use of output control	Agree	Agree	3,72
Effect of host country economic environment	Neither agree nor disagree	Neither agree nor disagree	2,67
Effect of host country cultural environment	Neither agree nor disagree	Neither agree nor disagree	2,56
Effect of host country political environment	Neither agree nor disagree	Neither agree nor disagree	2,33
Effect of the MNC home country background	Agree	Agree	3,44
Host country environment more dominant than the home country background	Neither agree nor disagree	Neither agree nor disagree	2,89

Figure 28. Summary of findings

The first research question was formulated as “How Finnish MNCs control their subsidiaries in Latin America?” The aim was to find out the dominant control type used to control subsidiaries by presenting arguments on the control mechanisms.

The main findings are summarized in figure 28. The results suggest that all of the three control types, social, behavior and output, are used in the subsidiaries investigated. This supports the view that the control types do not exist in the pure form but are mixed to constitute a control system. Social control received the strongest support, output control obtained the second strongest support and behavior control was supported less. The conclusion thus is that social control is the most dominant and behavior control the less dominant and output control falls in between the two. In the earlier paragraph it was concluded that the MNC home country background has more effect than the host country

environment to internal controls. The dominance of social control is consistent thus with the finding of Bartlett & Ghoshal (1998) about the influence of administrative heritage to control type choices.

The second research question attempts to find answers to what factors influence on the selection of a control type of Finnish MNCs? Two factors were included in the framework; home country background of the MNC and host country environment of the subsidiary. The effect to these two factors to the MNC control type choices was studied with five arguments on the survey questionnaire.

The main findings to the second research question are summarized in figure 28. The respondents did not give clear support to the arguments concerning the effect of host country economic, cultural and political attributes. The mode and median answers are not agreeing nor disagreeing. The mean is less than three so that gives implication to the tendency towards disagreeing with the arguments that state that economic, cultural and political environment of the host country has an effect on the control type choices. The findings can be analyzed also as that the opinions vary between the MNCs. There might be a variable internally in the MNC or the subsidiary, not revealed in this research, which determinates if the host country context is an important denominator in subsidiary control. In this paper however the interpretation of the finding regarding the three host country attributes is that there is evidence that their effect to the control decisions is less influential than more influential.

The part concerning the effect of home country background to internal controls obtained more agreeing opinions. The mode and median answers are agreeing and the mean is 3,44. This suggests support to the argument that the home country background of the MNC has influence on the control type choices. This has to be interpreted with caution however since the support is not very strong. Nevertheless there is evidence for it thus the conclusion is that home country background has an effect on the control decisions.

One more finding regarding the home-host factors is that the host country environment is not more influential to the control decisions as the home country background. This implies support to the finding that the host country environment factors were not so influential to the control type choices.

The third research question was targeted to specify if formal or informal control mechanisms are more dominant. As it was defined in chapter 2.2.1 in this paper the social control attribute contains the more informal control mechanisms when behavior and output controls include the formal control elements more. The finding that social control element may be the most dominant would suggest to the dominance of informal control mechanisms. This presents supporting evidence to the finding of Martinez & Jarillo (1989) that the use of informal mechanisms has increased inside of MNCs. However the supports that all the control types obtained are somewhat equal and additionally as it was acknowledged earlier that all the control types may include informal and formal mechanisms so the conclusion is that both informal and formal mechanisms are used and it is, based on the results, difficult to determine which ones would have the dominant role in subsidiary control.

5 DISCUSSION AND ANALYSIS

5.1 Theoretical conclusions

In this chapter the theoretical conclusions are made. Also the framework is adjusted according to the empirical findings of this study. The empirical study was conducted in the context of investigating Brazilian subsidiaries of Finnish MNCs. The research is generalized to concern the area of Latin America because of the similarities in the region regarding the operating environment. This however must be done with caution because there are differences between the countries in the area in terms of economic and political attributes. The research and the data it provides are valuable to the research community, because evidence of Finnish MNC's Latin American subsidiary control is limited and hence this study brings new knowledge.

Based on these findings evidence to support the administrative heritage theory of Bartlett & Ghoshal (1998) was obtained. The administrative heritage of European origin MNCs point to the direction of socialization. The Hamilton & Khaslak (1999) suggestions about the three host country environment factor's effect did not receive very strong support. Also the results indicate that the host country context's influence to control type decisions is not more dominant than the home country background. However the findings imply also some evidence towards the host country's effect to internal controls. Some of the respondents were agreeing that the local surroundings do matter.

The order of dominance among the control types implies support to the Hamilton, Taylor & Khaslak's (1996) theory of the instability effect of the host country environment. They suggest that when the host country environment becomes more turbulent measured by the three attributes the order of control type preference is input, output and behavior. In this study the found order of dominance of the control types was the same. Thus however the

host country environment's effect was found to be weaker the findings still support the anticipated outcome.

Smotherman (2002) stated that economic wellness lessens the usage of centralization. In the case of Brazil then the centralization as a formal control mechanisms should be dominant because of the economic turbulence. As the findings point towards the dominance of social control so the theory of Smotherman (2002) did not receive support.

The overall conclusion is that the MNC home country background has more effect to the control type choices than the subsidiary host country environment and the control types in order or dominance are 1. social control, 2. output control, 3. behavior control. See figure 29 for the revised theoretical framework on the basis of the findings.

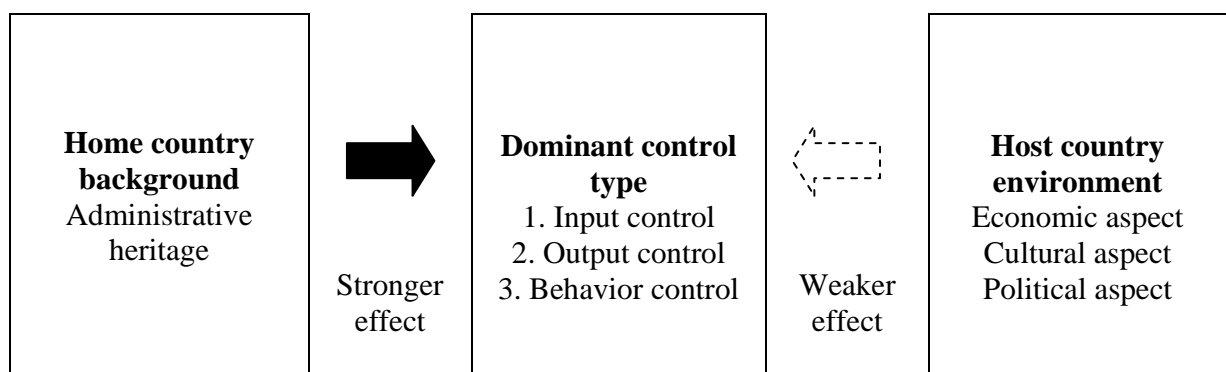


Figure 29. The revised framework: Control of Latin American subsidiaries of Finnish MNCs – Control types and the role of home country background and host country environment to the control type choices

In the revised framework the preliminary theoretical framework is adjusted according to the empirical findings. The MNC home country background's effect to the control types choices was stronger and the host country environment's effect weaker. The order of

dominance of the control types was determined based on the findings and is illustrated in the revised version.

5.2 Managerial implications

As Hamilton, Taylor & Khaslak (1996) conclude a control system that is an appropriate mix of control types regarding the host country environment will enhance the corporate capability of the firm and improve long-term profits. This study has given valuable information to managers how have Finnish MNCs organized their control regarding the Brazilian subsidiaries, in other words do they control dominantly the social setting, behavior or output. It has brought insight to if MNCs do currently pay attention to local environment and the need to adapt the control types or are they planning control in a globally unified manner.

5.3 Suggestions for future research

In this paper the aim was to study factors that have an effect on the control type choices of a MNC. The factors that were investigated and included to the theoretical framework are the effect of the MNC home country background and the effect of subsidiary host country environment. Further research might study other factors to the framework and thus obtain a more complete idea of the factors influencing the MNC control type choices. Interesting would be to study the MNC external and internal factors together to determine the key factor(s) influencing the control decisions.

The research questions seek to find answers to how do Finnish MNCs control their Latin American subsidiaries. In the empirical part the data was collected from Brazilian subsidiaries of Finnish MNCs. The study could be extended to investigate other Latin American subsidiaries of Finnish MNCs or Brazilian subsidiaries of other European MNCs

or overall Latin American subsidiaries of European MNCs to receive stronger evidence and statistically significant data.

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APPENDIX 1. Survey questionnaire

Background information

1. Subsidiary name:
2. In what industry is the subsidiary operating:
3. Number of personnel:
4. Turnover:
5. Position of the respondent in the organization:

The usage of social control elements

6. Managers receive substantial training before they assume responsibility
7. We have gone to great lengths to establish the best staffing procedure possible
8. After being on the job for years, managers are involved in skill development
9. Individuals must undergo a series of evaluations before they are hired
10. Managers are given ample opportunity to broaden their range of talents
11. We take pride in the fact that we hire the very best people for a job
12. We have a strong commitment to training and developing skilled managers
13. Company rituals and jargon are a part of daily activities
14. Company values are communicated to personnel
15. During training creating commitment to the organization is important
16. A “company way” of doing things is important

The usage of behavior control elements

17. Primary weight on evaluations is placed on behaviour
18. Subordinates are held accountable for their actions, regardless of results

19. I generally concern myself with particular procedures and methods my subordinates use on the job
20. My managers and I do not consult one another in setting standards
21. Performance programs are imposed top-down
22. Frequent meetings are held with subordinates to discuss their performance
23. Subordinates do not assume responsibility for setting their own performance goals
24. Members of this organization receive frequent performance feedback
25. Long lag periods are NOT required for feedback

The usage of output control elements

26. Performance evaluations place primary weight on results
27. Pay consists of performance-based results
28. Pre-established targets are used as a benchmark for evaluations
29. Numerical records are used as the chief index of effectiveness
30. Differences in pay among my subordinates represent differences in performance levels
31. Regardless of what subordinates are like personally, their performance is judged by results achieved
32. The rewards my managers receive are linked to results
33. It is infeasible to lock my subordinates into fixed targets
34. My team of managers is NOT paid on a straight salary
35. Those who not reach objectives receive a low rating
36. Regardless of their absolute accomplishments, appraisals are based on whether they reach their goals

Home country background and host country environment effect on the usage of control tools

37. The economic situation in Brazil has an effect on the usage of control tools in the subsidiary

38. How?

39. The cultural context in Brazil has an effect on the usage of control tools in the subsidiary

40. How?

41. The political situation in Brazil has an effect on the usage of control tools in the subsidiary

42. How?

43. The Finnish background of the company has an effect on the usage of control tools in the subsidiary

44. How?

45. The Brazilian context has more effect on the usage of control tools in the subsidiary than the Finnish background

46. Why?

47. Additional comments

APPENDIX 2. Cover letter for the survey questionnaire

Dear Sir/Madam,

I am a student in the Helsinki School of Economics in Finland and conducting the empirical study for my Master's Thesis. The topic is how Finnish companies control their subsidiaries in Brazil.

I am collecting empirical data for my research and thus contacting people who are responsible of the subsidiary operations in Brazil. I got Your contact information from Finpro Brazil and I believe You can help me. If you are not the right person could you kindly forward it to the person who is? This survey is sent to all subsidiaries in Brazil owned by Finnish companies.

The topic of the research is how Finnish companies control their subsidiaries in Brazil, what is the effect of headquarters home country background and subsidiary host country environment to the control type choices and are informal or formal control tools more dominant.

I kindly hope You have time to answer the questionnaire. You can find it from the link below. It is very important to answer it to secure the reliability and validity of the research. It only takes about 10 minutes. It is completely secure and your name and individual answers cannot be associated together.

Thank you for your time and consideration. If more information about the research is required please do not hesitate to contact me.

Sincerely

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