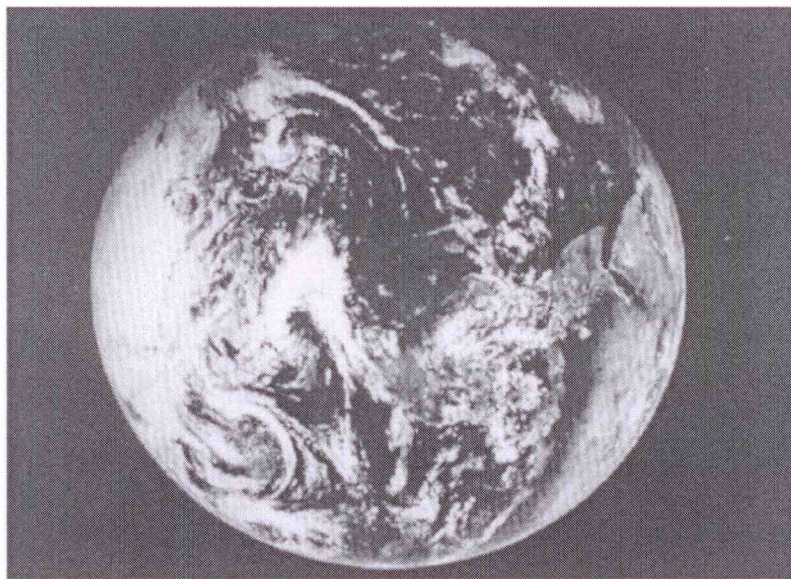


**GLOBAL BUSINESS AND TECHNOLOGY  
ASSOCIATION**

**BUSINESS STRATEGIES AND TECHNOLOGICAL  
INNOVATIONS FOR SUSTAINABLE DEVELOPMENT:  
CREATING GLOBAL PROSPERITY FOR HUMANITY**



**Editors:**

**Nejdet Delener, Ph.D**  
**Leonora Fuxman, Ph.D.**  
**F. Victor Lu, Ph.D.**  
**Anna Putnova, Ph.D.**  
**Luis Eduardo Rivera-Solis, Ph.D.**

**GLOBAL BUSINESS AND TECHNOLOGY  
ASSOCIATION**

**ELEVENTH INTERNATIONAL CONFERENCE**

**READINGS BOOK**

**BUSINESS STRATEGIES AND TECHNOLOGICAL  
INNOVATIONS FOR SUSTAINABLE DEVELOPMENT:  
CREATING GLOBAL PROSPERITY FOR HUMANITY**

**Editors:**

**Nejdet Delener, Ph.D**  
**Leonora Fuxman, Ph.D.**  
**F. Victor Lu, Ph.D.**  
**Anna Putnova, Ph.D.**  
**Luis Eduardo Rivera-Solis, Ph.D.**

**Prague, Czech Republic**  
**July 7 – 11, 2009**

# **PUBLISHED BY THE GLOBAL BUSINESS AND TECHNOLOGY ASSOCIATION**

**ISBN: 1-932917-05-5**

The materials published in this Readings Book may be reproduced for instructional and noncommercial use. Any use for commercial purposes must have the prior approval of the president of the Global Business and Technology Association.

All full papers submitted to the Global Business and Technology Association Conferences are subject to a peer reviewing process, using subject specialists selected because of their expert knowledge in the areas.

Global Business and Technology Association (GBATA) is publishing partner with EBSCO Publishing. This allows researchers from throughout the world to access articles from the Readings Book.

Printed in the United States of America, 2009.

# **PUBLISHED BY THE GLOBAL BUSINESS AND TECHNOLOGY ASSOCIATION**

**ISBN: 1-932917-05-5**

The materials published in this Readings Book may be reproduced for instructional and noncommercial use. Any use for commercial purposes must have the prior approval of the president of the Global Business and Technology Association.

All full papers submitted to the Global Business and Technology Association Conferences are subject to a peer reviewing process, using subject specialists selected because of their expert knowledge in the areas.

Global Business and Technology Association (GBATA) is publishing partner with EBSCO Publishing. This allows researchers from throughout the world to access articles from the Readings Book.

Printed in the United States of America, 2009.

# STRATEGIC CONTROL IN INTERNATIONAL COMPANIES: A CASE STUDY

Nikolay Filinov, Nadezda Bek and Nina Vladimirova  
State University – Higher School of Economics, Moscow

## ABSTRACT

*Globalization forces companies to look for new markets for their business. On one hand international operations enable companies to use their resources more effectively. But on the other hand, internationalization brings about number of problems associated with the strategic control of subsidiaries. In order to gain competitive advantage from the multinational scope of business, firms should secure the effective implementation of corporate-level strategies and policies while at the same time allow for the right degree of subsidiaries' autonomy. The paper presents the main results of an empirical research of forms and mechanisms of strategic control with respect to market and cross-cultural peculiarities.*

## INTRODUCTION

The strategic aspects of international development, globalization and the opening of new markets attracted remarkable interest of researchers. The problem of adjusting the firm-level strategy while entering a foreign market to the cultural peculiarities of the company's home and foreign cultures has been extensively studied (Barlett and Ghoshal 1995, Kogut 1985, Kogut and Harbir 1988, Levitt 1983, Ohmae 1990, Prahalad and Doz 1987, Duning 1993). The finding of this research was that international expansion strategy depends on several factors, both pertaining to the international context and company specifics.

Another research question that has been studied is "what occurs after the international strategy has been chosen and a company has already entered a new market?" A number of factors which influence behavior of companies after entering foreign markets have been identified (Ghoshal and Nohria 1993, Li 1995; Sharma 1998; Harzing and Noorderhaven 2008; Soledad and Mody 2004, Morrison, Ricks and Roth 1991). At the same time, the problem of executing strategic control of foreign subsidiaries in its relation to cross-cultural issues has not got appropriate attention in the literature.

Thus, the aim of this paper is to analyze, what forms and mechanisms of strategic control become more effective depending on the chosen strategy of international expansion, business environment, culture and market specifics.

## THEORETICAL UNDERPINNINGS

Analysis of existing literature has shown that two aspects of company's international strategy dominate the interest of researchers: choice of international market entry strategy, including its organizational forms, and choice of company's strategic control of its international operations.

### **International expansion strategy**

The decision on foreign market entrance strategy is made at the corporate level. International expansion is usually expected to promote profitability growth in the long-term. The use of advantages offered by operations on foreign markets may be favorable for the attainment of company's strategic goals. These advantages, which are unavailable to the companies working only in their domestic markets, are: economies of scale due to higher production and sales volumes and placing manufacturing facilities in the regions with lower costs. Nevertheless

not all companies make attempts to enter foreign markets. This is because such a strategy requires substantial sophistication of the company's management to handle the political and economic risks of working in foreign markets and of cross-cultural differences in management practices.

There are two main alternatives at the ends of the spectrum (with a number of intermediate options in-between) may be examined from the perspective of standardization of company's operations:

1. *Multinational strategy*, based on accounting for and using of peculiar national features of particular segments of the world market on which the company operates;
2. *Globalization Strategy*, based on application of standardized approach towards particular segments of the world market on which the company operates with only minor changes in products, services, policies and procedures.

The choice of strategy is determined by two major economic factors: the possible degree of standardization of the world market and the economies of scale for the product or service in question. The choice of one of these strategies is also based on the company's decision concerning the degree of core competences' centralization. This requires considering of opportunities for the coordination and management of administrative costs (Morrison, Ricks and Roth 1991).

On one hand, the strategy of the parent company can be focused on centralization of the basic functions in the head office, while delegating some authority to foreign subsidiaries. This approach requires accurate specification, what areas of responsibility need to be delegated to foreign subsidiaries.

On the other hand, the head office can distribute functional areas of responsibility between various countries in such a way that the competitive advantages of each subsidiary can be used in the most effective way. This approach involves the highest administrative costs. Moreover it requires a high level of complex integration mechanisms and also the sharing and supporting of the same organizational culture in all international divisions of a company.

The evolutionary approach to the study of international expansion strategies has been suggested by Birkinshaw and Hood (2001). According to this theory one can distinguish three stages of development of a company: paternalism, expansionism and liberalism. The paternalism stage (according to Birkinshaw and Hood this was typical for the first half of the twentieth century) presumes that a company innovates in the home country and then distributes new products and services to foreign subsidiaries. The expansionism stage presumes that innovation also occurs in selected foreign countries, but the task of identification and promotion of these innovations is assigned not to foreign subsidiaries, but rather to special "scanning units." Finally, the liberalism stage corresponds to the situation when valuable ideas can emerge anywhere in the world. The more distant is the subsidiary from the headquarters (HQ), the more their employees become less constrained by norms and belief structures of the parent company and thus more open to innovation.

## Forms of strategic control

Companies may implement strategic control through Corporate Centers (CC), which in different markets play different roles. There are many publications, describing and analyzing roles of CC. Most of them, however, do not cover cross-border aspects of control (Goold and Campbell 1987, Johnston and Gill 1993, Simons 1994).

We are basing our further study on the work of Nathaniel Foote, David Hensley, Max Landsberg and Roger Morrison (2003). In their paper "Role of the corporate center" authors have suggested a set of distinguished roles that CC may play in the international activity of companies. These roles constitute a certain continuum.

On one pole there is the "Financial holding" role. A "Financial holding" type company consists of a set of independent business units that have weak communications with the corporate center. In this model the functions of the corporate centre include first of all of the financial control through the tasks of budgeting and careful profit and cash flows management. The role of the CC also includes hiring, performance evaluation and firing unit managers. Thus a head office does not attempt to co-ordinate activity of business units or to attempt to create any synergism between units.

On the other pole we find so-called "Operator" who usually develops only one line of business, but has some profitable divisions that either work in different regions, or produce different goods. Between these poles there are "Strategic architect" and "Strategic controller". Corporate center as a "Strategic architect", realizes two basic functions. First, it generates the general strategy while business units have freedom for development of their own initiatives. Second, it monitors the subsidiaries businesses, periodically initiating discussions concerning general strategy of divisions. The head office as "Strategic controller" focuses on careful and often functional analysis of business units' strategy and undertakes more efforts in achieving a synergy effect.

