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Strategies, Decentralization, and Controls in Internationalized Finnish Firms

An important issue for internationalized firms is whether performance measures facilitate the execution of a selected strategy. This study took the first step in this direction by first describing senior managers' reliance on formal controls, the degree of multidomestic (/global) strategies, and the degree of decision-making decentralization. Then it analyzed whether there are any links between senior managers' use of controls and the degree of multidomestic strategy either directly or indirectly through decentralized decision-making. Senior managers' reliance on formal controls was analyzed on the basis of relative weights placed on financial, operational, and behavioral controls. The focus of the study was on one of the key management control functions, notably on the performance evaluation of overseas managers. The analysis was conducted in internationalized Finnish firms.

After synthesizing related findings and developing two hypotheses, a mail survey was conducted among 176 senior managers at 102 internationalized manufacturing, consulting, and banking firms. Empirical data from 103 (59%) senior managers from about 60 firms indicate that, on average, headquarters (HQs) have placed a very high weight on formal controls, and selected relatively high degrees of decision-making decentralization and multidomestic strategy.

Consistent with the first hypothesis, there is a quite small but positive and statistically significant direct link between the degree of multidomestic strategy and senior managers' relative weight placed on financial controls in the performance evaluation of overseas managers. This suggests that when the degree of multidomestic strategy increases, senior managers used all three types of formal controls, but placed a higher weight on financial controls relative to operational and behavioral controls. Thus, it is possible that senior managers perceive it more useful to place a higher weight on financial controls when overseas managers' contribution to the financial output of their subsidiary or company can be assessed in a more accurate and objective way – which tends to be the case in the firms with a higher degree of a multidomestic strategy. Conversely, firms with a high degree of global strategy placed a lower weight on financial controls relative to operational and behavioral controls.

The data do not support an indirect link between the degree of multidomestic strategy and the relative weight placed on financial controls. This suggests that HQs used controls to facilitate the implementation of a selected strategy, even if they had not structured their control systems in such a way that the degree of decentralization would have been influenced by the degree of multidomestic strategy.