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Control changes in multinational corporations: Adjusting control approaches in practice

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Abstract

The issue of control in multinational corporations (MNCs) is central to international business scholarship. However, prior literature tends to provide a static perspective offering few theoretical insights on control changes, especially the practices that enable control adjustments. Adopting a practice theory perspective, we consider control as "in the making" whereby adjustments emerge through a social accomplishment, constituted and reconstituted as headquarters and subsidiaries engage in a co-creating process. Using a longitudinal case study approach, we had the rare opportunity to track and compare an unsuccessful and a successful attempt to adjust control in an MNC over time. Our main theoretical contribution is a model of adjusting control in MNCs that details the practices that enable control changes. This model offers theoretical implications for organizational control theory in MNCs, especially in relation to theorizing the subsidiary contribution in the design of control, the reconciliation of raised tensions in headquarters–subsidiary relationships, and the nature of unintended consequences in the adjustment process. Our study also contributes to theories on MNC change, as it details the construction of an ongoing strategy–structure alignment for strategic flexibility.

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INTRODUCTION

In this paper, we focus on control changes in multinational corporations (MNCs), especially the adjusting of control to respond to changing corporate and subsidiary strategies (Brenner & Ambos, 2013; Doz & Prahalad, 1981). The issue of control is central to the management of the MNC and has a long tradition within international business (e.g., Bartlett & Ghoshal, 1989; Doz & Prahalad, 1981, 1984; Kostova, Marano, & Tallman, 2016; Martinez & Jarillo, 1989). To ensure the strategic alignment of foreign subsidiaries, headquarters need to select and use an appropriate mix of control mechanisms, or a control approach, to control subsidiaries, including the centralization of decision-making (Child, 1972;

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Gates & Egelhoff, 1986; Hennart, 1991), the formalization of rules and procedures (Nobel & Birkinshaw, 1998; Nohria & Ghoshal, 1994), outcome control (Baliga & Jaeger, 1984; Ouchi, 1979), process control (Eisenhardt, 1985; Martinez & Jarillo, 1989; Paik & Sohn, 2004), and social control (Martinez & Jarillo, 1989; Ouchi, 1980), while minimizing the risk of subsidiary managers acting against the overall interests of the MNC (Grøgaard, Colman, & Stensaker, 2019; Mudambi, 2011).

Increasingly, research recognizes that today's fast-changing markets demand greater control flexibility. Headquarters are shown to achieve this by adding, removing, or modifying specific control mechanisms (Brenner & Ambos, 2013; Doz & Prahalad, 1981). However, although changing control mechanisms furthers the execution of evolving strategies (Luo, 2003), insights into the intricate micro-processes of adjusting control have remained scarce (Doz & Prahalad, 1991: 151). This is problematic, as control adjustment faces complex social processes across headquarters and subsidiaries that, if not better illuminated, may hamper theorizing of successful MNC control. Change processes in MNCs produce and raise tensions between headquarters and subsidiaries (Balogun, Fahy, & Vaara, 2019; Balogun, Jarzabkowski, & Vaara, 2011; Mees-Buss, Welch, & Westney, 2019). Subsidiaries may reject new practices (Kostova & Roth, 2002), or engage in micro-political bargaining to improve their power position (Ambos, Asakawa, & Ambos, 2011; Dörrenbächer & Geppert, 2006, 2009; Geppert, Becker-Ritterspach, & Mudambi, 2016; Schotter & Beamish, 2011). Attending to how micro-level processes manage such challenges offers a path for international management scholarship to improve theory that explains the "cogs and wheels" of macro-management outcomes (Foss & Pedersen, 2019: 1595; Meyer, Li, & Schotter, 2020), such as control changes. Considering the combination of mechanisms or instruments applied to ensure the execution of organizational plans and goals as an MNC changes its control approach (Ambos & Schlegelmilch, 2007; Brenner & Ambos, 2013), we ask: *How can an MNC adjust its control approach?*

We apply a theoretical perspective highlighting the flow of actions and interactions of actors in a complex social process. The practice theory perspective focuses on complex social dynamics, relations, and enactment (Feldman & Orlikowski, 2011; Jarzabkowski, Le, & Feldman, 2012; Orlikowski, 2010). It allows shifting focus from mapping shifting control mechanisms to the underlying practices across time as a social accomplishment enacted in practice, thus making it particularly suited to exploring efforts to adjust control mechanisms in MNCs that individuals consider appropriate at a certain point in time. Following the practice theory perspective, with "practices" we focus on the social micro-processes of constructing a control approach by different actors, in particular headquarters and subsidiary actors. While a focus on practice of organizational change processes by management and organization scholars is not new (Jarzabkowski & Balogun, 2009; Jarzabkowski et al., 2012; Jarzabkowski, Le, & Balogun, 2019[1]), to our knowledge, it has not yet been applied in international business to explore the adjustment of control in MNCs. Given the lack of empirical and theoretical insights on the practices of control adjustment in MNCs, we used theory-building methods on longitudinal data of how ConstructionCo, an established European MNC in the construction industry, sought to transform its control approach. We collected very rare observation, interview, and archival data that depict the activities of headquarters and subsidiary managers. Serendipitously, there was an unsuccessful and a successful attempt to adjust control in the MNC, which gave us a unique opportunity for comparison across two cases within the same organizational setting.

Our main theoretical contribution is a theoretical model of adjusting control in MNCs that details the practices that enable control changes, namely practices that reconcile power tensions in headquarters–subsidiary relationships. This model offers several theoretical implications for organizational control theory in MNCs. First, our model contributes by theorizing the contributory role of subsidiaries in the design of control (Ambos & Schlegelmilch, 2007; Ambos et al., 2011; Brenner & Ambos, 2013), by showing how headquarters and subsidiaries can jointly work together to design an appropriate new control approach. Second, our model contributes to an improved understanding of how raised tensions in the headquarters–subsidiary relationship can be managed simultaneously and reconciled during the control adjustment process (Balogun et al., 2011, 2019). Third, as we reveal how unintended consequences in the adjustment process facilitate the creation of an appropriate control approach that becomes enacted in practice, our model advances knowledge on the nature of unintended consequences (Balogun & Johnson, 2005; Maitlis & Lawrence, 2003;

Sonenshein, 2010) in the context of control adjustment. Fourth, our study also contributes to theories on MNC change (Balogun et al., 2011, 2019; Doz & Prahalad, 1988; Mees-Buss et al., 2019) by detailing the construction of an ongoing strategy–structure alignment for strategic flexibility.

THEORETICAL BACKGROUND

Control in MNCs: Determining a Combination of Control Mechanisms

The MNC literature on control, supported by management and organization theorists (e.g., Cardinal, Sitkin, & Long, 2010; Turner & Makhija, 2006), identifies five classes of control: centralization, formalization, outcome, process/behavior, and social control (Brenner & Ambos, 2013; Harzing, 1999; Sageder & Feldbauer-Durstmüller, 2018). Control approaches typically combine control mechanisms from the different classes in a control configuration (Cardinal, Kreutzer, & Miller, 2017). As an interdependent network of units that span different institutional contexts, the MNC requires a complex control configuration (Menz, Kunisch, & Collis, 2015). When deciding on a control configuration, it is important to achieve a "harmonious use of multiple forms of control" (Cardinal, Sitkin, & Long, 2004: 412; Cardinal et al., 2017). This does not mean an equal use of each class of control, but a combination well matched to contingencies (Bartlett & Ghoshal, 1989; Govindarajan, 1988), to achieve a strategy–structure fit (Chandler, 1962; Stopford & Wells, 1972).

Prior studies on control in management and organization studies emphasize that this choice of control mechanisms tends to be a top–down process (Cardinal et al., 2017). Similarly, in the MNC context, the ultimate choices relating to a control approach are seen as resting with headquarters (Bartlett & Ghoshal, 1989; Brenner & Ambos, 2013; Doz & Prahalad, 1981; Foss, 1997; Nell, Kappen, & Laamanen, 2017): an essential parenting duty of headquarters is to implement "some form of basic control process, so that it can authorize major decisions, guard against risky or fraudulent decisions, and check that delegated responsibilities are being satisfactorily exercised" (Goold & Campbell, 2002: 221; see also Egelhoff, 2010). In this respect, the skill of headquarters in selecting between various control mechanisms (Collis & Montgomery, 1998; Doz & Prahalad, 1981) is highlighted, as is the skill in making complex trade-offs when making those choices (Mudambi, 2011). The aim is to reduce intervention hazards whereby headquarters makes harmful decisions (Foss, Foss, & Nell, 2012).

In relation to changes in the choice of control mechanisms, prior research has clarified some reasons for changing a chosen control approach over time (e.g., Cardinal et al., 2004). In particular, it revealed why headquarters adds, removes, or modifies specific mechanisms to control subsidiaries (Brenner & Ambos, 2013; Doz & Prahalad, 1981), including subsidiaries seeking more autonomy over time (Ambos et al., 2011). While these prior studies depict the reasons for change of control from one time to the next, they do not explain how control is adjusted, including the crucial practices involved.

A Practice Theory Perspective on Adjusting Control Approaches

We adopt a practice theory perspective (Feldman & Orlikowski, 2011; Jarzabkowski et al., 2012; Orlikowski, 2002, 2010) to conceptualize the adjusting of control approaches in MNCs. From a practice theory perspective, social practice is the unit of analysis, defined as "recurrent, materially bounded and situated social action engaged in by members of a community" (Orlikowski, 2002: 256). This theoretical perspective takes control to be "in the making" and control adjustments in the MNC to be a social accomplishment, constituted and reconstituted as headquarters and subsidiaries engage in a co-creating process. This represents a shift from the pre-dominant understanding of control changes as resulting from a top–down, punctuated choice of other control mechanisms. Next, we describe the theoretical implications in more detail.

Adjustment processes in MNCs are difficult to manage due to the multitude of diverse interests, perspectives, and needs across headquarters and subsidiaries, and detailed studies of change processes in MNCs reveal tensions (Balogun et al., 2011; Grøgaard et al., 2019; Mees-Buss et al., 2019). A practice theory perspective embraces these tensions because it explicitly attends to the dynamics in asymmetric relationships during social creation in complex organizational settings (Feldman & Orlikowski, 2011). Importantly, tensions do not need to be conflictual and harmful; they can be nurturing in propelling actions forward (Feldman & Worline, 2016), and this has also been found for tensions in headquarters–subsidiary relationships (Ambos, Fuchs, & Zimmermann, 2020; Balogun et al., 2011).

In terms of specific tensions, prior MNC literature has highlighted micro-political struggles by headquarters and subsidiaries, especially to navigate legitimacy and power positions (Ambos & Schlegelmilch, 2007; Ciabuschi, Dellestrand, & Holm, 2012; Fiss & Zajac, 2004). Legitimacy tensions refer to frictions caused by a subsidiary perceiving an MNC practice as lacking in appropriateness in its local institutional context (e.g., Kostova & Roth, 2002; Kostova & Zaheer, 1999). To be adopted, a control approach needs to be embraced by subsidiaries (Bjerregaard & Klitmøller, 2016; Brenner & Ambos, 2013). Subsidiaries are embedded in different host-country contexts that require some local responsiveness (Bartlett & Ghoshal, 1989); e.g., to national standards and regulations as well as to cultural norms and values. Despite the best intentions of headquarters, lack of context-specific knowledge of local market and subsidiary idiosyncrasies (Ciabuschi, Forsgren, & Martin, 2011) may lead headquarters to attempt to implement an insufficiently adapted control approach. This may cause legitimacy-related tensions between headquarters and subsidiaries (Balogun et al., 2019).

During the control adjustment process, there is also the challenge of managing power tensions, which refer to frictions between headquarters and subsidiaries due to contested power positions. Prior studies on change processes in MNCs reveal the salience of micro-political struggles (Jarzabkowski & Balogun, 2009), including subsidiary micro-activities to gain influence (Dörrenbächer & Geppert, 2006, 2009; Geppert et al., 2016). The formal power of headquarters may be constrained by subsidiaries' informal power emanating out of control over important resources and relationships (Clark & Geppert, 2011; Cuervo-Cazurra, Mudambi, & Pedersen, 2019; Mudambi & Navarra, 2004). In this respect, the study by Balogun et al., (2011), focused on discourse during an MNC change process, is important because it reveals that contested power positions can be reconciled in "both/and" instead of "win–lose" outcomes.

Based on those prior studies, we expect that control adjustment processes in MNCs raise legitimacy and power tensions. However, prior studies only offer partial insights as they do not theorize how both tensions can be dealt with simultaneously during change processes, leading to a lack of detailed insights. In this respect, a practice theory perspective is valuable as it allows zooming in on the micro-level actions and interactions involved when actors engage with those tensions during the adjustment process.

A practice theory perspective also provides a platform for theorizing the active involvement of both headquarters and subsidiaries in a co-creation process. Prior work on boundary spanning activities in MNCs (Birkinshaw, Ambos, & Bouquet, 2017; Tippmann, Sharkey Scott, & Parker, 2017) suggests that there are specific practices of headquarters and subsidiary actors that enable, or constrain, contextual knowledge and expertise held across the MNC to inform co-creation. Effective boundary-spanning activities may also help to reduce potential dysfunctional conflict in headquarters–subsidiary relationships (Schotter & Beamish, 2011). Although prior studies on MNC control acknowledge that subsidiary actors play a role in determining control (Ambos & Schlegelmilch, 2007; Mudambi & Navarra, 2004), the particular practices enabling a joint co-creation have not been illuminated.

Importantly, in a practice theory perspective, change is regarded as an ongoing process. Iterative cycles of action, shaped by ideas, plans, and outcomes of previous actions, lead to consequences where the multitude of variations in which people can interact result in intended and unintended consequences (Feldman & Orlikowski, 2011; Jarzabkowski et al., 2012; Orlikowski, 2010). Previous studies on organizational change demonstrate that unintended consequences may include reinterpretations (Balogun & Johnson, 2005; Sonenshein, 2010), modifications to better reflect the espoused, as the initially intended, outcome (Jarzabkowski et al., 2019), deviations (Wiedner et al., 2017), and failures (Maitlis & Lawrence, 2003). A practice theory perspective on control adjustment in MNCs highlights that, while the strategic plan of the MNC and an initial control approach idea may influence the unfolding process, any interim outcome shapes further iterations. Also, the gradually gestating, realized control approach may include intended and unintended consequences.

Overall, there are many insights on control in MNCs. However, there is a lack of a detailed explanation of control adjustment processes. Proposing a practice theory perspective of control adjustment, we will next detail our empirics to develop a detailed theoretical model.

METHODS

Research Design and Case Selection

To understand how an MNC can adjust its control approach, we chose a longitudinal, theory-building case study approach based on rich data, because it enabled us to be close to the actions (sayings and doings), and interpretations of participants involved in such processes (Jarzabkowski & Balogun, 2009). Moreover, our choice of a single organization is consistent with others who have studied complex organizational processes in the MNC (e.g., Balogun et al., 2011, 2019; Grøgaard et al., 2019; Mees-Buss et al., 2019). We chose a company suitable for investigating the phenomenon of interest (Eisenhardt, 1989; Yin, 2014), as the process could be transparently observed (Pettigrew, 1990) in our study, especially the practices of adjusting control in an evolving process. Our chosen company is a European MNC in the construction industry, hereafter referred to as "ConstructionCo". Our focus is on its Residential business unit, which had six subsidiaries distributed across Europe. The Residential business unit focuses on civil and residential construction and project development of homes from inception through to handover (turnkey solutions), with customers in the private and public sector. The six subsidiaries had long-established operations in their respective country markets, and were responsible for the entire process. This business unit was a suitable case as it underwent a strategic change requiring control approach adjustment across all its subsidiaries, allowing us to empirically observe the involved practices in detail.

Three key aspects contextualize our study and findings. First, with reference to MNC strategies (Bartlett & Ghoshal, 1989; Prahalad & Doz, 1987), residential construction can be described as a multidomestic business with high pressures for local responsiveness, due to divergent legislation and regulation relating to building, environmental, safety, and security standards (even in the European Union), socio-political pressures (i.e., the involvement of public and local civic/community groups in planning, design, and construction), and cultural differences in terms of construction traditions and concerns for sustainable or green buildings. Further, the delivery of the residential construction projects in ConstructionCo was project-based, whereby the local subsidiary was accountable for project delivery and performance.[2] While this favors decentralization of control and subsidiary autonomy, it had caused integration issues for ConstructionCo. These were evident in divergent performance management practices across subsidiaries and, therefore, difficulties for the headquarters of ConstructionCo to obtain central oversight, manage risks, and develop MNC strategy.

Second, declining profitability in the Residential business unit exacerbated pressure for greater centralization in headquarters to obtain efficiencies, culminating in a desire to "rebalance control" (Cardinal et al., 2004). As such, it is an organization where headquarters sought to regain influence over foreign subsidiaries, a typical challenge in MNC control (Doz & Prahalad, 1981), especially when headquarters seeks to renege decision rights from subsidiaries (Foss, 2003; Williamson, 1996[3]).

Third, fluctuating investment by private and public bodies into building and new disruptive building technologies had made it a more dynamic sector (Forbes, 2018), further increasing pressure on ConstructionCo to transform its control approach.

It was a coincidence to firm selection that ConstructionCo had two attempts at transforming its control approach, a failure (no change to control approach) and a success (transformed control approach). Essentially, this offered us the unique opportunity to investigate two contrasting cases in an embedded case study design (Yin, 2014), where comparison enabled the sharpening of constructs, relationships, and the final model for an enriched theoretical understanding (Cuervo-Cazurra, Andersson, Brannen, Nielsen, & Reuber, 2016; Eisenhardt, 1989; Eisenhardt, Graebner, & Sonenshein, 2016). We draw on the informants' accounts from headquarters and subsidiaries of what they deemed a failure and a success (Brown & Eisenhardt, 1997), and label the cases accordingly.[4] The failure and the success cases are similar, as they were both strategic initiatives from top management and led by a headquarters task force of senior managers, as well as aimed at establishing control in the Residential business unit to sustain yearly product cost improvements by increasing the degree of standardization. The two cases differ in their level of urgency, as ConstructionCo had to address a severely declining profitability in the second, successful attempt. We studied both cases in their entirety: the failure case (2007 to mid-2012) and the success case (autumn 2012–2015). Tracing the headquarters' and subsidiary managers' activities and actions in the Residential business unit over this time offered detailed insights into how ConstructionCo adjusted its control approach proving essential in the development of our theoretical model.

Data Collection

Our data collection combined retrospective data collection (failure case), and real-time data collection (success case), using multiple data collection techniques. We provide an overview of the data collection here, while more details are given in the online appendix.

Observations

Observations played a key role in examining how ConstructionCo adjusted its control approach. Observations are useful in practice research as they can reveal "behavioral patterns, but also the subjective experiences of organizational reality and the ongoing negotiations between members and subgroups over the interpretations and understandings of this reality" (Zilber, 2002: 237). Between January 2013 and December 2014, the field researcher (first author) attended task force meetings (hereafter referred to as meetings). The headquarters set up a task force consisting of four senior managers from the headquarters to adjust the control approach. The task force worked with general managers of subsidiaries, senior managers, and financial controllers from all subsidiaries. The task force came together for a weekly three-hour meeting, and were the main forum where the active co-creation between headquarters and subsidiary managers occurred. The field researcher was invited to all, and attended, on average, one or two meetings per month (approximately 50 observation hours in total). In a clear majority of the studied meetings (more than 2/3), the subsidiary managers from all six subsidiaries participated virtually or physically at the head offices, allowing us to capture the actions and interactions of headquarters and subsidiary managers as the unfolding process of control adjustment evolved. Meetings were recorded and extensive notes taken.

Interviews

We conducted 35 interviews with managers from the headquarters (26 interviews), and subsidiaries (9 interviews, covering five subsidiaries with the perspective of the remaining one subsidiary extensively covered in the observation data) providing in-depth insights into the activities and considerations behind them. In collaboration with headquarters top management, we sampled key informants who were centrally involved in the failure and success cases. The field researcher conducted each interview, and interviews were carried out at the headquarters and subsidiary premises. As the field researcher's relationship with ConstructionCo strengthened, she reached out to relevant people on her own initiative. All interviews took place after the cancellation of the failure case, between 2012 and 2014 (24 interviews, during the success case), and follow-up interviews in 2015 and 2016 (11 interviews). To gather multiple views on the phenomenon, to reduce the risk of retrospective bias, and to allow for cross-checking of information provided by different informants (Eisenhardt & Graebner, 2007), numerous managers from the headquarters (executive managers, general managers, business developers, and financial controllers), and subsidiaries (general managers, senior managers, and financial controllers), were interviewed.

All interviews were semi-structured, lasted between 50 and 90 min, and were recorded and fully transcribed. The interviews followed a list of topics that asked informants to provide a detailed description of the development and implementation process. Our interview questions with headquarters managers focused on key events, the actors involved, and their responsibilities and activities. Our re-interviews with headquarters managers covered developments since the previous interview, what they were working on, what they felt was going well or less well, and why. Our questions to subsidiary managers focused on their involvement in the design of a new technological platform aiming for performance tracking, and their interaction with the task force during this process. Interviews with subsidiary managers also focused on how the new platform was perceived and what changes they experienced (if any) in their performance management practices.

Within these topics, we ensured that the interviews remained open to encourage detailed and exhaustive accounts. As respondents described their perspectives and experiences, they compared the unfolding process (success case) to the previous attempt (failure case). These explicit comparisons emerged naturally from the data without using prompts, allowing us to collect detailed retrospective interview data on the failure case.

Archival material

We collected annual reports and company material, such as policy manuals, brochures, and best practice guidelines (Langley, 1999). This captured the entire time span between 2007 and 2015, thus providing insight into the context of adjusting control in ConstructionCo. These documents also facilitated discussion with informants about the themes that emerged from the data (Corley & Gioia, 2011), and allowed confirming or disconfirming impressions from observations and interviews.

Data Analysis

Our data analysis proceeded alongside data collection, which afforded us the flexibility to probe themes and unfolding events in subsequent interviews. Following the theory-building use of case study research (Eisenhardt & Graebner, 2007), our focus on the practices of adjusting control emerged from the data. Also typical for qualitative data analysis, the process was highly iterative, involving a continuous returning to the data and the theory (Locke, 2001). Although iterative, our data analysis proceeded in three broad stages. We sketch each stage here, while additional detail is provided in the Online Appendix.

In the first stage, we wrote a detailed and chronological account (Lincoln & Guba, 1985) of how ConstructionCo carried out the failure and success cases to become familiar with how the company adjusted its control approach. We built our case description on information from observations, interviews, and archival material. Langley's (1999) strategies for analyzing process data enabled us to consider the adjustment of control approach dynamically, in terms of critical events, activities, changes, and temporal evolution.

In the second stage, we utilized the rich and detailed case description to understand how ConstructionCo adjusted its control approach. We used an open coding approach to the data in order to develop emergent themes. We first built categories based primarily on informants' own language to create "in vivo" codes (Strauss & Corbin, 1990; Van Maanen, 1979). We coded for empirical descriptions related to the needs of control, means of control, actions as well as challenges and opportunities, and how these were responded to. This allowed us to capture micro-level behaviors and activities (Tippmann, Sharkey-Scott, & Mangematin, 2012), which are included in abridged form as empirical observations in Table 1. After reading the data multiple times, we combined segments of descriptions that reflected similar wordings or activities into first-order categories. We then used axial coding to structure the data into conceptually informed, second-order themes (Strauss & Corbin, 1990). We combined related categories into themes that corresponded to the practices of adjusting control. Each second-order theme – or practice – was triangulated across observation, interview and archival data. Finally, to increase theoretical abstraction, we identified three over-arching aggregate categories. Our data structure is summarized in Table 1.

In the third stage, we built our process model of adjusting control in MNCs. We analyzed the temporal sequencing of constructs and themes, and noted that some preceded others (Langley, 1999). With a process model, we do not refer to a model that reveals propositions, but a model "that lays out a set of mechanisms explaining events and outcomes" (Cornelissen, 2017: 3). During this analysis step, we analyzed any descriptions of relationships between constructs to help explanation building. We did this for each case – the failure and the success – to examine the operation of causal mechanisms in detail (George, Bennett, Lynn-Jones, & Miller, 2005). In our study, this resulted in identifying how the practices related to one another (they were reinforcing), and their combined causality in bringing about intended and unintended consequences in the control approach, with the six identified practices appearing in our data as necessary for explaining the outcome of the success case, and, conversely, their insufficient presence explaining the outcome of the failure case.

FINDINGS

In contrast to prior research on control changes, which has focused on the sequencing of control mechanisms in MNCs over time (Brenner & Ambos, 2013; Doz & Prahalad, 1981), our data offered unique insights into how headquarters and subsidiary managers engage to adjust a control approach. As expected, we observed that the need to change control raised the power tensions and legitimacy tensions set out in prior literature (e.g., Ambos & Schlegelmilch, 2007; Ciabuschi et al., 2012; Jacqueminet & Durand, 2019). Those two tensions infiltrated the adjustment process in both cases – the failure and the success cases. We sketch the manifestation of both tensions, before presenting the main mechanisms – or practices – that explain how these practices reconciled both tensions. With "reconcile", we mean that the practices settled the tensions so that they did not cause rifts; the tensions did not disappear, but became manageable and constructive to result in win–win outcomes.

Table 1 Data structure

Empirical observations	1st order constructs	2nd order themes	3rd order dimensions
• Subsidiaries participate in designing outcome measures • Creating subsidiary commitment	Engaging subsidiaries	Shaping mutual benefits	**Reconciling power tensions**
• HQ addresses the "what's in it for me" question • HQ and subsidiaries building stronger relationships	Headquarters creating a win-win situation		
• Loose and undone composition • Inviting subsidiary feedback • Subsidiaries contribute with contextual knowledge and expertise	Strong openness for subsidiary voice	Tilting and rebalancing	
• HQ education efforts • HQ targeted communication	HQ efforts to regain voice		
• HQ clarifies social and business goals in board meetings, local subsidiary meetings and in one-on-one conversations with subsidiary managers. • Finding subsidiary ambassadors that push HQ core values forward	Increase unity through articulating values	Strengthening shared values	**Reconciling legitimacy tensions**
• New corporate governance document emphasizes acting ethically and transparently • HQ communicates the importance of viewing the whole MNC as "*one*" company	Mobilize HQ core values throughout MNC		
• Performance evaluation processes • Mutual learning as the process unfolds • Developing a shared understanding	Bridging knowledge gaps	Editing through shared knowledge	
• Surfacing contextual knowledge • HQ and subsidiaries discuss different meanings of KPIs	Collective learning to enable co-creation		
• Subsidiaries can see each other's performance • Visibility of subsidiary performance • Identify miss-matches and misalignments	Universal awareness	Orienting towards control deficiencies	**Allowing for self-perpetuation**
• Subsidiaries start benchmarking their performance • Comparison against internal peers	Benchmarking between subsidiaries		
• Adjust subsidiaries' key performance indicators on a more flexible basis • Local opportunities and competitor moves can be respondent on a more flexible basis	Strategic flexibility	Anticipating control needs	
• Forecasting scenarios • Analysis of risks influences	Scenario planning		

Power tensions derived from the headquarters' desire for more centralization, which would mean more power for headquarters, while the subsidiaries tried to secure their current powerful positions as much as possible. Members from the task force explained how the subsidiaries asserted their power in different ways, including a lack of engagement: "*in [subsidiary C], they seem to accept everything you tell them, but when you come back the next time, you'll find that they do as they have always done. No changes there at all*" (group interview task force, 2014). Given the subsidiary managers' powerful position due to their control over all stages of construction project delivery and critical local knowledge, they had the ability to resist: "*there has been no driving force from our [subsidiary] top management to comply with the new platform. We have another way of compiling information*" (interview subsidiary manager, G1, 2015). This subsidiary resistance due to their powerful position was echoed by headquarters managers: "*we've got a real problem with the numbers. They [the subsidiaries] don't want to share their financial figures*" (field notes, 2013). This raised power tensions, which made it difficult for the headquarters to convince subsidiary managers of the value of using a new technological platform in their financial reporting and to constructively engage in the control adjustment process.

Legitimacy tensions derived from headquarters' desire for a more standardized approach to control across subsidiaries in different country contexts to improve outcome control. A manager from the headquarters commented on the reason why they sought to standardize: "*the subsidiaries' performance management practices varied so much. We didn't know where the reported figures came from or how they had been calculated, which gave us an immense headache*" (interview headquarters manager, K2, 2014). However, headquarters' concern for greater central oversight through more standardized control practices across subsidiaries was countered by demands for local fit by subsidiary managers. The subsidiaries were embedded in local markets with differing construction regulations, construction traditions, practices, and norms, which caused high demands for responsiveness to local requirements: "*we have existing practices and systems put in place that work absolutely fine and suit our business*" (interview subsidiary manager, G1, 2015). These contradictory concerns by headquarters and subsidiaries resulted in pervasive legitimacy tensions.

The power tensions and legitimacy tensions infiltrated the entire processes of adjusting control in ConstructionCo. They caused disagreement and contestations between headquarters and subsidiaries, as well as resistance that could stall any progress. As such, practices needed to be adopted to manage both tensions.

Drawing on the comparison between the failure and success case, we explain how the practices identified in our data reconciled those tensions and enabled a self-sustaining recursiveness in the process to alter control in ConstructionCo. We will utilize evidence from the failure and success cases to illustrate those practices. Additional illustrative evidence for each practice is presented in Table 2, and a comprehensive comparison of the failure and the success case is detailed in Table 3.

Reconciling Power Tensions

Reconciling power tensions refers to how headquarters engaged with and settled the frictions caused by contested power positions between headquarters and subsidiaries during the control adjustment process. We found that reconciling power tensions was achieved through the practices of 'shaping mutual benefits' and 'tilting and rebalancing'.

Shaping mutual benefits

Reconciling power tensions involved attempts of headquarters to shape mutual benefits, that is to generate commitment among subsidiaries by creating perceived win–wins in power positions. In contrast to goal alignment, or an objective position of congruence of corporate and subsidiary goals, the shaping of mutual benefits relates to generating commitment among subsidiaries by creating perceived win–wins in power positions. Our data showed that, in the failure case, the headquarters paid little attention to shaping mutual benefits, causing power tensions. According to a manager from the headquarters: "*subsidiary managers have been opposed to our new platform. They are confused about why and how the new practices are going to be applied, and some think it has a negative impact on their salary bonus and project performance*" (interview headquarters manager, I1, 2012). The control approach that was designed by headquarters was rejected by subsidiaries as they argued that it was "*too radical*" and "*threatened their mandate and independence*" (field notes, 2013). In addition, subsidiaries reported that the new control approach involved an "*unfair profit-sharing system*" which stirred up "*negative emotions and frustrations*" among

Table 2 Empirical examples of second-order themes

Themes	Empirical examples
Reconciling power tensions	
Shaping mutual benefits	It has to be a common feeling, a feeling of 'we [ConstructionCo] do this together' and that it will provide value to us all.—Field notes, 2014
	We [headquarters and subsidiaries] sat down to discuss if it was technically possible to extend the forecast system in the spreadsheets and benchmarking reports, and also how valuable such a function would be for both parts.—Interview headquarters manager C2, 2013
Tilting and rebalancing	We [subsidiary managers from subsidiary B] were active in the design of the new platform, especially when it came to how certain key performance indicators should be measured.—Interview subsidiary manager DB1, 2015
	Regular site visits allow us [the task force] to collect crucial information about how and to what extent the new platform is used and also how they are keeping up with the review manuals.—Interview headquarters manager B3, 2014
Reconciling legitimacy tensions	
Strengthening shared values	We see best results if we manage to create a shared view on the business. One view.—Interview Vice President E1, 2015
	Our future success is dependent on committed and high-performing employees who share the company's values.—Official company documents, 2013
	They [subsidiary A] is still very much behind the others in terms of ethics and cost transparency. We [Task force] really need to focus on that when we visit them next week.—Field notes, 2013
Editing through shared knowledge	We have to take into account their [subsidiaries'] expertise and knowledge in order to develop a platform that they will use.—Interview headquarters manager A3, 2014
	Changes are made to graphs and definitions in the existing platform.—Internal documents from Task force meeting, 2014
	Task force goes through new updates in the platform and consults subsidiary managers about the new design and scope.—Field notes, Subsidiary B visit, 2015
Allowing for self-perpetuation	
Orienting towards control deficiencies	Performance is now visible to everyone.—Interview headquarters manager B3, 2014
	Standardized format to increase transparency.—Field notes, 2013
	A transparent format will increase comparison among subsidiaries.—Interview headquarters manager C2, I 2013
	This form of forward-looking control was not possible before.—Group interview, Task force, 2014
Anticipating control needs	We can now play with the numbers and receive early warnings signals.—Interview headquarters manager A2, 2013
	By modeling the graphs, we are now better equipped to identify and assess potential risks and their effects on a specific target.—Interview headquarters manager C2, 2013

subsidiaries (internal documents, 2007). This contributed to the rejection of the new control approach in the failure case.

In the success case, however, the task force focused on shaping mutual benefits to "*create a win–win situation*" for both headquarters and the subsidiaries (field notes, 2014). Personal relationships were developed with subsidiary managers – an important headquarters boundary spanning activity (Birkinshaw et al., 2017), with the intention to get subsidiary managers to actively participate in the development of the new technological platform. As explained by a task force member: "*what must exist is something in common, a feeling that we win together, both you and me. In doing so, we support and lift up these people so that they feel valued and that they feel they actually contribute to making the system better for them, too*" (field notes, 2014). The subsidiary perspective corroborated that shaping of mutual benefits helped to propel the co-creation of control. Working towards an outcome control accepted by subsidiaries reconciled power issues. To illustrate, a subsidiary manager who was concerned about greater centralization of control in headquarters at the detriment of subsidiary power echoed how headquarters was genuinely interested in uncovering areas where his subsidiaries could also benefit: "*we've had many discussions with the*

Table 3 Comparison of the failure and success case

2nd-order themes	Case	Rating	Short description of rating
Reconciling power tensions			
Shaping mutual benefits	Failure	Low	HQ adopts a 'one size fits all mentality' resulting in an ill-suited control approach that subsidiaries reject Subsidiaries perceive the new control approach as extreme and too rigid, with an unjust incentive system
	Success	High	HQ focuses on creating a common understanding of the new control approach through highlighting subsidiary-specific benefits HQ engages and creates commitment among subsidiary managers
Tilting and rebalancing	Failure	Low	HQ shows little 'tilting' as it centrally drives the development and implementation of its pre-conceived new control approach Frustrations and reluctance emerge among subsidiaries towards the new control approach
	Success	High	HQ tilts balance over control adjustment process towards subsidiaries by inviting them into a joint development of new measurement of performance outcomes HQ regains voice by focusing on communication and education efforts to align subsidiaries with overall firm objectives
Reconciling legitimacy tensions			
Editing through shared knowledge	Failure	Low	HQ does not consult subsidiaries to obtain their contextual knowledge and experiences in designing content and format of the platform that underpins new outcome control
	Success	High	HQ discovers and contextualizes knowledge and practice differences across subsidiaries; leverages this locally situated knowledge to inform modifications to emerging control approach HQ and subsidiaries develop a shared understanding of suitable control approach and make compromises
Strengthening shared values	Failure	Moderate/ Low	HQ not concerned about shared values, instead focuses on establishing a HQ-centric, 'correct' way of working through detailed templates and best practices that all subsidiaries ought to follow HQ-defined 'correct' way of working was not grounded in existing subsidiary practices, causing problems as subsidiaries did not accept the new way of working
	Success	High	HQ focus on greater infusion of core values such as acting transparently and ethically in all subsidiaries Based on infusion of core values, HQ trusts subsidiaries to make decisions suitable for their contexts yet still in line with overall company objectives
Allowing for self-perpetuation			
Orienting towards control deficiencies	Failure	Low	No format or system in place that enables universal transparency of subsidiary results to enable orienting towards control deficiencies
	Success	High	New technological platform enables full transparency and benchmarking of subsidiary performances Allows HQ and subsidiaries to orient towards control deficiencies
Anticipating control needs	Failure	Low	No simulation technology and supporting structures in place to enable HQ long-term forecasting and risk management HQ could only project three quarters ahead
	Success	High	Simulation function added to the technological platform HQ can project 16 quarters ahead. This enables a continuous and corresponding adjustment of control for each subsidiary

task force, and I've been involved throughout the whole journey, from the first versions [of the technological platform] to the one we have today. I'd say my contributions have mostly been around the soft aspects such as time and planning processes in the tool" (interview subsidiary manager, L1, 2015). Hence, the value-added conversations and the incorporation of subsidiary perspectives on the use and design of the new technological platform resulted in a perceived win–win in power positions.

Tilting and rebalancing

To manage power tensions between headquarters and subsidiaries, the task force also opted for strong openness for subsidiary voices to increase their influence; what we refer to as tilting power in favor of subsidiaries. Our data of the failure case make it evident how a lack of tilting is detrimental as the subsidiaries were given limited sense of ownership over the process, and hence were reluctant to adopt the espoused new control approach: "*I remember emails being sent out from us telling subsidiaries to do this, and, of course, there were local units that said 'nope, we don't care about that'*" (interview Vice President, E1, 2015). Another headquarters manager explained why subsidiaries were contesting the espoused control approach, emphasizing subsidiaries reduced decision authority: "*subsidiaries had previously been strong autonomous units, but the new system forced them to manage the building and reporting process according to our rules*" (field notes, 2013). The lack of tilting ultimately contributed to rejection by subsidiaries of the preconceived control approach in the failure case.

In contrast, in the success case, the task force invited subsidiaries into the development process, encouraging suggestions on the measurement of outcome controls. This was particularly evident in the design of the new technological platform where performance measures would be recorded. In the initial design phase, emphasis was placed on keeping the platform "*loose and undone*" to allow subsidiaries contributing and influencing its design. In the ensuing process, subsidiaries could challenge headquarters' calculations related to the calculations of key performance indicators (KPIs). This helped to achieve a mutually acceptable alternative that navigated different power positions. One subsidiary manager explained: "*there were many and lengthy discussions between us [subsidiaries and task force], in particular about how to calculate and illustrate key data such as land investment, commercial launch, production start, and follow-up forecasts*". He continued by acknowledging that the result represented their position while also reflecting the interests of headquarters: "*what you can see now in the framework is the result of our input. Components such as capital risk and capital employed are more comparable with the balance sheet than before*" (interview subsidiary manager, G1, 2014). Thus, tilting empowered the subsidiaries by giving them a voice in the development process and reduced the risk of reluctance among subsidiaries towards the new emerging control approach.

While tilting the power to subsidiaries by inviting them into the development process, the task force rebalanced the power – the efforts to regain voice and influence – by focusing on communication and education. The following quote provides an illustration: "*I invite myself to subsidiary meetings to observe and listen. I also make sure that I'll get a few minutes to talk about our new platform. This enables me to grasp the current situation in the local units, and we adjust our communication and education efforts thereafter*" (interview headquarters manager, B4, 2014). Further, task force participants explained that educating and providing hands-on support on how to use the gestating platform in their financial reporting enabled subsidiaries to maintain influence. A task force member described: "*we know where we want to go, but we have to drive this bottom–up*" (field notes, 2013). Thus, rebalancing enabled the task force to consider particular interests of subsidiaries while not losing sight of overall headquarters' objectives and a move toward a more centralized power position.

In sum, the practices of 'shaping mutual benefits' and 'tilting and rebalancing' enabled the task force to reconcile power tensions and activate subsidiaries in the unfolding process of co-creating a new control approach.

Reconciling Legitimacy Tensions

Reconciling legitimacy tensions refers to how headquarters engaged with and settled the frictions caused by subsidiary perceptions of an insufficient appropriateness of the new control approach. This was achieved through the practices of 'strengthening shared values' and 'editing through shared knowledge'. These practices allowed headquarters and subsidiaries to contribute with their unique knowledge and experiences, which enabled them to manage legitimacy tensions. In the failure case, the practices of 'editing through shared knowledge' and 'strengthening shared values' were not taken seriously, flaring up legitimacy tensions.

Informants revealed that the headquarters regulated "*all aspects of how houses were to be constructed and evaluated, even down to the level of what nail or screw to use in what beam when constructing a particular element of a building*" (interview headquarters manager, K1, 2013). This micro-level control caused incompatibilities with local norms and values. Each subsidiary had built their own performance management systems reflecting local traditions in residential development project cost management: "*we have built a system that suits us, and that is what we're using*" (interview subsidiary manager, G1, 2015). The lack of opportunity to engage in a shared co-creation of control, and thereby work through legitimacy tensions, led subsidiary managers to disengage with the new control approach, ultimately contributing to this initiative being abandoned.

Strengthening shared values

To manage legitimacy tensions, strengthening shared values refers to the headquarters' activities to increase the sense of unity and commonality across the MNC. In the failure case, the headquarters sought to enforce their pre-established and "*correct way of working*" with a detailed and standardized template which, if adopted, would allow a greater centralized control over the performance management practices of the subsidiaries. As this was done with little effort to strengthen shared values, and was perceived by subsidiaries as headquarters-centric, thereby exacerbating rather than reconciling legitimacy tensions. The data revealed "*a strong local mindset and behavior*" in combination with "*no common culture or shared mindset in ConstructionCo*" (internal document, 2007). Specifically, the low efforts to strengthen shared values alerted the subsidiaries towards aspects of the espoused control approach ill-suited to their local norms and traditions. In the eyes of the subsidiaries, this undermined the appropriateness of the espoused control approach, resulting in subsidiaries ignoring the new way of controlling their business operations, perceived by headquarters as a "*lack of commitment to cost transparency*" (internal documents, 2007).

Interestingly, the success case involved a much greater infusion of core company values in the subsidiaries. The Vice President emphasized that the new governance document (launched in 2015) had a greater focus on company core values. These core values included "*acting ethically and transparently*", which facilitated efforts to synchronize and harmonize decision-making in subsidiaries (interview Vice President, E1, 2015). Another informant compared strengthening shared values between the failure and success cases as: "*it's now more hands-off, high- level, control if you like. Less dictating from above. It works better. We emphasize unity in our communication with subsidiaries, that we are 'ONE' company with shared values*". The same informant also explained how strengthened shared values enabled improved control of subsidiaries: "*with those values and a sense of unity, we trust that subsidiaries will make the best decisions given their situation. They [shared values] serve as a moral foundation and compass*" (interview headquarters manager, B3, 2014). To strengthen shared values, the task force actively mobilized the company core values in meetings and in more informal one-on-one conversations with subsidiary managers. Also, the task force sought to instill these core values among selected subsidiary "*ambassadors*", who could lead on those values in their subsidiaries to embed them more strongly.

Although strengthening shared values did not completely eliminate them, legitimacy tensions between headquarters and subsidiaries were seen as less severe, and differences could be transcended. A headquarters manager, for example, explained how shared values enabled working towards both, and rather than win–lose solutions as the control approach gestated: "*a shared mindset allows us to focus on growing the pie, rather than fighting about the pieces*" (internal documents, 2007).

Strengthening shared values is an activity that increases social control (e.g., Ouchi, 1980). Similar to Brenner and Ambos (2013), we found that establishing social control enabled the gestation of other control mechanisms, especially outcome control. In contrast to prior studies, yet aligning with a practice theory perspective, increased social control was an outcome that influenced further iterations in the unfolding process. One informant expressed this as constant openness in the process as: "*you never know where it'll take us, but now we are on the same road*" (field notes, June 2014). The strengthening of shared values, therefore, was an activity that occurred, and had to occur continuously throughout the process to enable the creation of control adjustments.

Editing through shared knowledge

In the success case, the task force, in interaction with subsidiaries, discovered and contextualized differences in knowledge and practices of subsidiaries while developing the new measurements of output control. This caused interruptions to the development process, but these could be reconciled through collaborative learning, or editing through shared knowledge. This refers to the bridging of knowledge gaps and the unfolding of collective learning to enable modifications to the emerging control approach. For instance, we observed that the work of defining KPIs revealed different understandings by headquarters and subsidiaries, raised questions, and at times created disagreements. Defining, for instance, "*gross margin*", "*land bank*" and "*capital employed*" forced the participants to articulate their assumptions about calculation and measurement: "*by having the cost components with the definitions in front of us, we can more quickly identify what we are disagreeing about, and to be more proactive in identifying future problems*" (interview subsidiary manager, H1, 2015). These discussions were fundamental in the co-creation of control because they explicated headquarters' and subsidiaries' understandings, provided concrete means to learn about differences, and to specify what an effective outcome control, embraced by headquarters and subsidiaries, could look like.

In sum, the practices of 'strengthening shared values' and 'editing through shared knowledge' enabled the task force and subsidiaries to engage in a process that accommodates local needs and desires, thereby reconciling legitimacy tensions, to create a new control approach.

Allowing for Self-Perpetuation

While the practices of 'shaping mutual benefits', 'tilting and rebalancing', 'editing through shared knowledge', and 'strengthening shared values' reconciled the power tensions and legitimacy tensions to enable headquarters and subsidiary managers to work constructively together, we identified practices critical to fuel iterations in the unfolding process. Allowing for self-perpetuation refers to practices that enable the continuation of the unfolding process until an acceptable control approach was reached. This was achieved through an 'orienting towards control deficiencies' and the capability to 'anticipating control needs,' both practices engendering flexibility with regard to existing and likely future control demands.

Orienting towards control deficiencies

Orienting towards control deficiencies is defined as attending to perceived shortcomings of the existing or gestating control approach, triggering and guiding further modifications. This was enabled by the development of collective awareness and universal transparency afforded by the technological platform. As noted previously, a core issue in the Residential business unit was to cope with the fragmented and localized national construction process among subsidiaries. In the failure case, there was no format or system in place that enabled universal transparency of subsidiary results, in turn enabling orienting towards control deficiencies. Without a clear, shared overview of the Residential business unit's project portfolio, headquarters reported sub-optimal solutions, a need to rework design and construction, and collaboration issues as well as lack of accountability. For instance, data from the failure case revealed that subsidiaries had mostly a short-term focus with "*too few people [subsidiary managers] thinking of optimizing the totality in the mid to long term*" (internal documents, 2007). The data also showed that there were many "*uncertainties around roles and responsibilities, with resulting conflicts*" (internal documents, 2007).

Our data from the success case demonstrated that the features of the technological platform increased transparency, a common technology affordance (Treem & Leonardi, 2013). This enhanced monitoring, tracking of costs, accountability, and comparison of subsidiaries by headquarters. With prior deficiencies more visible, corrective actions were taken through modifying the control approach. When probing deeper into this theme, we discovered that the platform also led to an increasing awareness of the roles and responsibilities of each subsidiary in the MNC. In particular, it enabled the headquarters and its subsidiaries to make sense of project information, such as costs, margins, time plans, and revenues, and to identify gaps, risks, and opportunities together. The new technological platform, thereby, created a 'common ground' (Zammuto, Griffith, Majchrak, Dougherty, & Faraj, 2007) that facilitated the headquarters and its subsidiaries to see the entire cost picture, and to organize around their work more effectively than before.

In line with the practice theory perspective, 'orienting towards control deficiencies' is an ongoing activity that spans the entire process, in that it propels the design and re-design of a new control approach. However, it also had an unintended consequence. With its detailed layout, the crystallizing new platform enabled the development of collective awareness and universal transparency that triggered peer control (e.g., de Jong, Bijlsma-

Frankema, & Cardinal, 2014; Kirsch, Ko, & Haney, 2010). Building on de Jong et al., (2014: 1704), we refer to peer control in the MNC as the combination of norms and peer pressure among subsidiaries. Norms represent a set of standards of appropriate behavior (i.e., acting ethically and transparently), and peer pressure can enforce these standards (de Jong et al., 2014). Our data showed that subsidiaries started to benchmark each other because they could see everyone's performance, without headquarters influence. One informant from the headquarters noted how this was evident in the success case: "*subsidiaries now also keep an eye on each other, which was impossible before*" (field notes, January 2013). Another informant seconded: "*we noticed how subsidiaries started to benchmark each other*" (interview headquarters manager, B3, 2014). Hence, the format of the technological platform not only enabled headquarters but also other subsidiaries to scrutinize in detail the performance of subsidiaries in the Residential business unit, motivating subsidiaries to increase their performance to that of the most profitable subsidiary. This strengthened performance orientation by subsidiaries further boosted outcome control, leading to renewed modifications.

Anticipating control needs

Anticipating control needs refers to increased future-orientation in the design of control. Our data of the success case revealed that the use of the new technological platform enabled the headquarters to anticipate control needs. In contrast, our data from the failure case showed that there was no simulation technology or supporting structures to enable long-term forecasting and to facilitate risk management. Further, the headquarters could only project 3 quarters ahead, and not 16 quarters, as was possible in the success case. As noted by one informant: "*we can now see directly if that project's margin is too low or at risk in the future*" (interview headquarters manager, C2, 2013). The new simulation function in the platform allowed the headquarters to predict potential risk and opportunities in subsidiaries, and to subsequently adopt appropriate tactics such as renegotiate performance targets.

The simulation tool enabled the headquarters and its subsidiaries to anticipate control needs. This was possible through modeling the consequences of different courses of actions. Thereby, the headquarters and subsidiaries gradually developed patterns for how to prospectively adjust control, such as targets and objectives. This made the process of controlling subsidiaries more dynamic and increased the readiness of headquarters for strategic actions: "*we can see each other's costs in the different projects, and we can work on increasing profits based on that information, something that was impossible before*" (interview headquarters manager, A2, February 2013). Hence, anticipating control needs gave headquarters greater strategic flexibility.

DISCUSSION

We set out to understand how MNCs can adjust their control approaches. While prior studies have started to map the change in choices of control mechanisms over time (Brenner & Ambos, 2013; Doz & Prahalad, 1981), the inherent mechanisms that explain how MNCs adjust control have remained unknown. Addressing this opportunity for theory development, and in line with the call for international management scholarship to develop theory on the micro-elements that explain macro-management outcomes (Foss & Pedersen, 2019; Meyer et al., 2020), this study uses a practice theory perspective and relies on a rare longitudinal view on the inner workings of an unsuccessful and a successful attempt of an MNC seeking to adjust its control approach. This allows us to reveal the practices that enable control adjustments in MNCs. We next build on those insights to contribute a theoretical framework, to discuss the contributions to theory on organizational control in MNCs and change in MNCs, and to outline managerial implications and future research avenues.

A New Theoretical Framework on the Adjusting of Control in MNCs

Our model, depicted in Figure 1, provides a conceptual framework that addresses the critical, but previously unidentified, practices of adjusting control in MNCs. As we compared a failure and a success case, this model identifies an effective adjustment process in that new and appropriate control (as deemed by headquarters and subsidiaries) is adopted. In our model, four of the six practices reconcile tensions between headquarters and subsidiaries, and the other two practices make the control adjustment process iterative and forward looking. Figure 1 should be read from left to right: the process starts with the desire to adjust an existing control approach and ends with a new control approach, attained via an iterative process

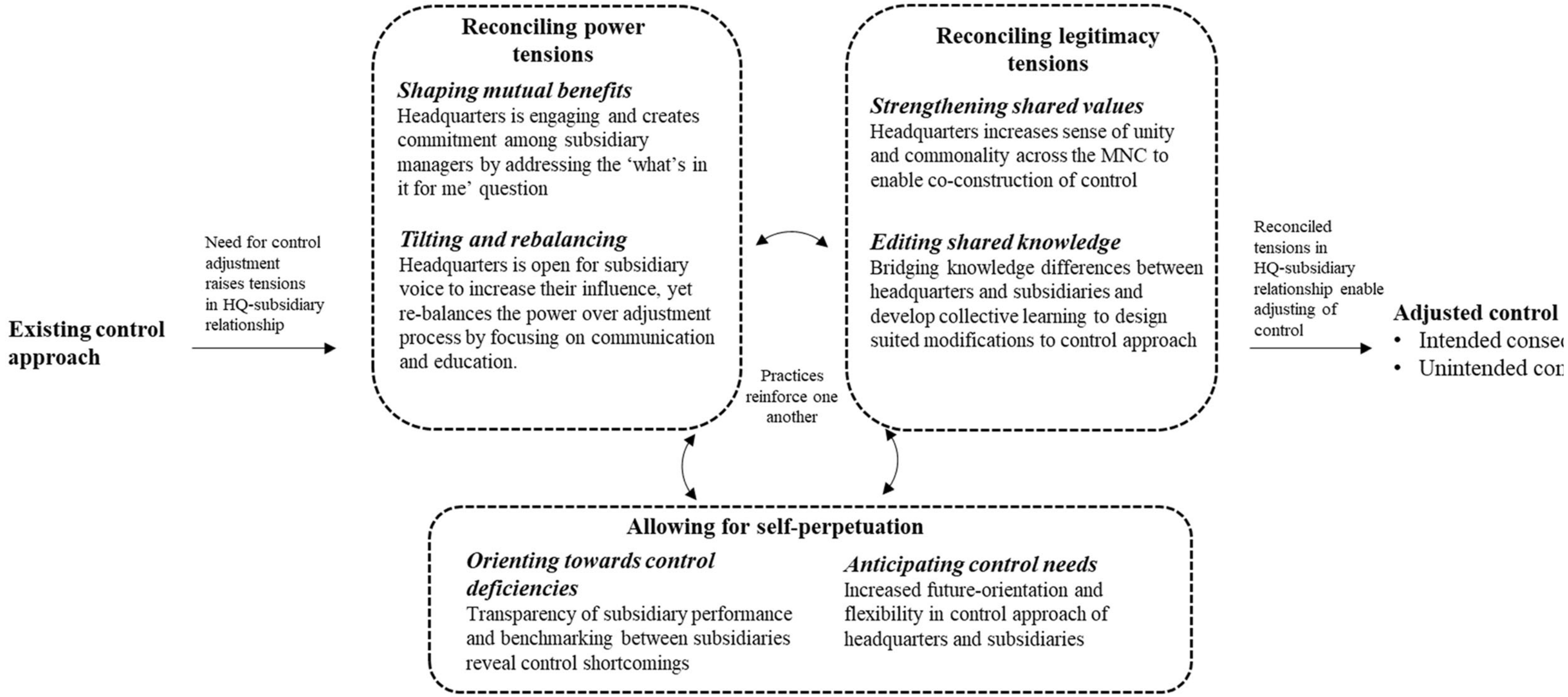

Figure 1 A model for adjusting a control approach in the MNC.

involving the six complementary and essential practices.

To reconcile power tensions, the practice of 'shaping of mutual benefits' is crucial to engage and motivate subsidiaries in the process of adjusting control. We show how the activities of value-added conversations and developing personal relationships brought headquarters and subsidiaries closer, creating a joint process. In addition, we reveal that 'tilting and rebalancing' power is inherent to an effective adjusting of control. Essentially, tilting gives more voice and a sense of ownership to subsidiaries over the re-crafting of control; rebalancing then progressively increases the headquarters' voice as the process advances. This ensures the management of power tensions between headquarters and subsidiaries, a typical stumbling block in determining control in MNCs (Ambos & Schlegelmilch, 2007; Mudambi & Navarra, 2004), and that both headquarters and subsidiaries can contribute and achieve jointly beneficial compromises.

To reconcile legitimacy tensions, the 'strengthening of shared values' serves to engender a high level of social control across the MNC. As an important form of control in MNCs (Bartlett & Ghoshal, 1989; Nohria & Ghoshal, 1994) and trailblazer for other forms of control (Brenner & Ambos, 2013), social control ensures a sense of unity across headquarters and subsidiaries, and promotes the pursuit of common, rather than subsidiary-specific, goals and objectives. Adding to this, we identify that the 'strengthening of shared values' can be a recurrent activity by headquarters to engender continuous support from across the MNC, especially from reluctant subsidiaries. This is instrumental in negotiating the required compromises between the context-specific needs of headquarters and subsidiaries and arriving at a new control approach that is deemed appropriate and therefore institutionalized by units across the MNC. In addition, 'editing through shared knowledge' ensures that headquarters and subsidiaries contribute with their knowledge and expertise to co-create a new control approach. This practice essentially represents boundary-spanning activities as they cross the boundaries between headquarters and subsidiaries (e.g., Birkinshaw et al., 2017; Schotter & Beamish, 2011), and more widely across different units in the MNC (Tippmann et al., 2017), to jointly create new knowledge. Through this co-creation, the new control approach becomes sufficiently sensitive to various local idiosyncrasies of the subsidiaries' context to propel adoption. A lack of local legitimacy has been identified as one of the main reasons for control practices not being adopted by subsidiaries (Kostova, 1999; Kostova & Roth, 2002), and our findings show how this can be avoided.

The practices of 'orienting towards control deficiencies' and 'anticipating control needs' ensure that existing control deficiencies and future control needs are attended to in an ongoing, self-perpetuating, ongoing process. This active orienting towards future control needs, and the strategic flexibility it provides for the MNC, are particularly revealing because they respond to the need for control theory to become more dynamic, especially in light of dynamic international markets (Cardinal et al., 2017). In addition, peer control (de Jong et al., 2014) supports further adjustments of control going forward. Put together, the six practices co-constitute the control adjustment process, whereby all practices are continually intertwined and reinforce each other (illustrated by the curved, two-way arrows in Figure 1).

The practices to reconcile the power tensions, evident from the onset of the process, centered on the idea of co-creating control possible and headquarters inviting subsidiaries into a mutual process with no dominating party. This helped in reconciling the legitimacy tension, as it enhanced the practices of strengthening shared values and editing the gestating control approach with knowledge shared across headquarters and subsidiaries. This settling of legitimacy tensions in turn assisted the practices for reconciling power tensions as subsidiaries became confident that the crystallizing control approach would be appropriate in their local context. Underpinning all this, the practices to allow for self-perpetuation kept the control adjustment process emergent and ongoing, and intermediate outcomes shaped further refinements and modifications. The realized change was a combination of intended consequences – stronger outcome and social control, and unintended consequences – and the emergence of peer control. The open-ended nature during social creation and iterative cycles of modifications led to the unforeseen possibility for orienting towards control deficiencies and anticipating control needs.

Contributions to MNC Control Theory

Our model of adjusting control in MNCs has several theoretical implications for organizational control in MNCs. As elaborated next, these contributions relate to theorizing the contributory role of subsidiaries in the design of control, the reconciliation of raised tensions in headquarters–subsidiary relationships, and highlighting the nature of unintended consequences.

Theorizing subsidiary contribution in control design

The current theories of control in management and organization studies as well as in the MNC context emphasize a top–down process of determining control (Cardinal et al., 2017), where a main role of the parent is seen in choosing and adopting an appropriate control approach (e.g., Foss, 1997; Goold & Campbell, 2002; Doz & Prahalad, 1981). Similarly, findings on the evolution of control (Brenner & Ambos, 2013; Cardinal et al., 2004) found a process driven from the top. While prior literature hints that subsidiaries play a role in setting MNC control (e.g., Ambos & Schlegelmilch, 2007; Ambos et al., 2011; Brenner & Ambos, 2013), and that, in the face of tensions during subsidiary role changes, headquarters cannot "assign" and subsidiaries do not "assume" (Ambos et al., 2020), theoretical insights are under-developed with respect to how to activate and leverage this subsidiary contribution to adjust control.

Addressing this, our model suggests a process whereby headquarters and subsidiaries jointly work together to design an appropriate new control approach. While this process can be initiated by headquarters and guided by their ideas for a new control approach, it gives a substantial contributory role to subsidiaries by explicitly combining a top–down and bottom–up element. Moreover, our model does not imply that headquarters' choice of control mechanisms is "constrained" by the influence of powerful subsidiaries – as a resource-dependency perspective would suggest (Ambos & Schlegelmilch, 2007; Mudambi & Navarra, 2004) – or by the lack of suitability of certain control mechanisms in light of local institutional contexts (Bjerregaard & Klitmøller, 2016; Brenner & Ambos, 2013; Kostova & Roth, 2002). Rather, the main challenge relates to headquarters adopting an approach of working through raised power and legitimacy tensions together with subsidiaries. Such a collaborative process involves a considerable level of ongoing interactions that create coordination costs for the firm; however, the ultimate benefits seemed greater, as it resulted in the design of a new control approach for the MNC.

Reconciling raised tensions in headquarters–subsidiary relationships

Our model also reveals how raised tensions in headquarters–subsidiary relationships can be managed during the adjustment process. Prior studies offer divergent insights as to how tensions in headquarters–subsidiary relationships are addressed during change processes and with what consequences. These include headquarters enforcing compliance (Clark & Geppert, 2011) and working towards reconciliation with "both/and" solutions where subsidiaries and headquarters are both satisfied (Balogun et al., 2011), as well as reframing the change to reduce dissonance among subsidiaries (Balogun et al., 2019). Similar to Balogun et al. (2011), so that the underlying thrust of our model is reconciliation to deliver "both/and" outcomes, rather than "either/or" choices where the subsidiaries are the losers and headquarters the winner (or vice versa). Prior studies have illuminated particular tensions, either the legitimacy tension (Balogun et al., 2019) or power tension (Balogun et al., 2011; Clark & Geppert, 2011; Jarzabkowski & Balogun, 2009). We add to those insights by considering the power and legitimacy tensions jointly, and in so doing reveal a set of practices that reinforce one another and thereby help to address both tensions simultaneously. This offers a more comprehensive explanation of enacting change because it is likely that both tensions are manifest and require concurrent management.

The nature of unintended consequences

We also unpack how the practices lead to intended and unintended consequences in control adjustments. The practice theory perspective does not assume that control adjustments emanate from choosing new control mechanisms, a view described as the "engineering of control" (Cardinal et al., 2017: 562), but from headquarters and subsidiary managers co-creating a new control approach. As our model reveals, this may involve having an eye on some preconceived control mechanisms, but, interestingly, it also includes the creation of new and unforeseen possibilities when drawing on different perspectives across headquarters and subsidiaries. Overall, our model thus suggests fresh theoretical insights into portraying the adjusting of control as a collaborative design between headquarters and subsidiaries rather than a mechanistic choice of mechanisms. Moreover, we demonstrate that unintended consequences in the control adjustment process may not be failures or deviance (e.g., Maitlis & Lawrence, 2003; Wiedner et al., 2017), or re-interpretations (Balogun & Johnson 2005; Sonenshein, 2010), but elaborations to appropriately fill out and extend the initial, headquarters-intended outcome. This has enabled the creation of a suited and appropriate control approach that becomes enacted in practice because it is deemed effective by headquarters and subsidiaries.

Contributions to MNC Change Theories

As our study was concerned with control adjustment following strategic change initiatives, there are also implications for theories of MNC change. Prior studies on change implementation in MNCs theorize large corporate transformations (e.g., Doz & Prahalad, 1988; Mees-Buss et al., 2019) and subsidiary charter change (Balogun et al., 2011, 2019), but not specifically the strategy–control interface. This interface is important, because it relates to constructing strategy–organization alignment for a strategy–structure fit (Chandler, 1962; Stopford & Wells, 1972). We zoom in on how an espoused control approach, conceived during the planning phase of the strategic change, is enacted. Beyond the intended and unintended consequences in terms of the anticipated and unanticipated features of the designed control approach, our model details some mutually constitutive facets of strategizing and structuring (Jarzabkowski et al., 2019). As the adjusting of control is an ongoing social accomplishment – control comes about "in the making" – there is the possibility for ongoing emergence beyond the core remit of the change implementation. As the control approach and their specific use in practice is fine-tuned on an ongoing basis, it allows the MNC to pursue emergent actions that may become part of the realized strategy. In particular, the practices relating to allowing for self-perpetuation – 'orienting towards control deficiencies' and 'anticipating control needs' – keep the control approach open and subject to continuous adjustments. For example, different outcome controls can be designed for each subsidiary on a continuous basis, depending on its particular situation. This engendered strategic flexibility, which is valuable for MNCs as it ensures that emerging opportunities and threats in local and international environments can be responded to in a flexible manner to construct an ongoing strategy–structure alignment.

Managerial Implications

Our model suggests that particular actions and skills by headquarters enable control adjustments. Instead of detailed analysis to select control mechanisms (Collis & Montgomery, 1998; Doz & Prahalad, 1981), headquarters can benefit from a more 'agile' process of control adjusting. Headquarters managers can establish an initial idea for a new control approach, but then collaborate with subsidiaries to co-create, seek win–win reconciliation of tensions, and embrace unintended consequences. For subsidiary managers, such an active contribution to designing control may seem unusual, but it is an opportunity to deal with any potential tensions relating to their power position and the legitimacy of the emerging control approach. Also, the creation of peer control illustrates that the model fosters a willingness among subsidiary managers to embrace corporate goals, an important aspect to deliver on firm-wide objectives.

Limitations and Future Research

The case study approach of our study offers a basis for theoretical generalizability, which was enhanced by the rare opportunity to compare a failure and a success case (Eisenhardt, 1989). For example, the tensions revolving around power and legitimacy are typical for MNCs (e.g., Brenner & Ambos, 2013; Mudambi & Navarra, 2004), and our model depicts a set of generic practices to successfully navigate them simultaneously during a change process. Specifically, the practices to reconcile power tensions seem relevant to other MNCs, for example from other industries and other types of change processes, as the notion of equality, in an appropriate proportion, of headquarters and subsidiary interests is foundational to the management of the MNC (e.g., Bartlett & Ghoshal, 1989). Similarly, the practices to reconcile legitimacy tensions seem relevant beyond our case, as safeguarding legitimacy of new practices across subsidiaries is fundamental to MNC management (e.g., Kostova & Roth, 2002; Kostova & Zaheer, 1999). In addition, allowing for self-perpetuation details practices that seem relevant to other MNCs, and change processes more broadly, as they promote flexibility during change implementation. Nevertheless, our theorization is based on a firm that experienced urgency for strategic change, which may have caused a need, rather than a desire, to work through disagreements. Further research could, therefore, explore control adjustments in other situations where achieving strategy–organization alignment is needed. This could include reorganizations such as headquarters disaggregation (Nell et al., 2017; Schotter, Stallkamp, & Pinkham, 2017), and change in subsidiary roles (e.g., Alfoldi, McGaughey, & Clegg, 2017; Balogun et al., 2019; Tippmann et al., 2018). In any case, theory-testing studies are needed to establish the generalizability and boundary conditions of our findings.

Our findings reveal how the new technological platform generated peer control. Peer control has predominantly been discussed in the organization literature (e.g., de Jong et al., 2014; Kirsch et al., 2010), but has received scarce attention in the MNC control literature. In light of technology affordances that engender performance transparency across international operations, future research could explore how peer control interacts with other control mechanisms in the MNC. We found, for example, that peer control enabled outcome control, because subsidiaries became motivated to increase their performance to that of the most profitable subsidiary. However, more peer control does not always help to accomplish organizational objectives (de Jong et al., 2014); future studies could therefore explore the extent to which peer control is useful.

CONCLUSION

The aim of this paper was to build insights into how MNCs can adjust their control approach. Our novel theoretical model of the adjusting of a control approach offers many new insights into control theory in an international business context and into change processes in MNCs.

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NOTES

[1]There are different modes of engagement with practice theory: practice as phenomenon, practice as a perspective, and practice as a philosophy (Orlikowski, 2010). In contrast to our practice perspective, two of those studies adopted the mode of practice as a philosophy (Jarzabkowski & Balogun, 2009; Jarzabkowski et al., 2019).

[2]The activities of ConstructionCo were not consortia-based, as the subsidiaries did not associate with external organizations to undertake their business; instead, they delivered projects by drawing on their own and intra-MNC competences.

[3]We are very grateful to an anonymous reviewer for pointing this out.

[4]While the first attempt was deemed a "failure", there were important learnings for ConstructionCo that helped the second attempt to become successful.

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