“Coordination Mechanisms and Management Control in International Business: A Case Study of Hansgrohe AG”

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Abstract

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Title
Coordination Mechanisms and Management Control in International Business: A Case Study of Hansgrohe AG

Problems
- What are the formal and informal structures of coordination mechanisms that can be used to manage subsidiary?
- How do the headquarters and the subsidiary solve conflicts that occur in business coordination?
- Does the headquarters have a strategy to respond to national and local responsiveness in managing the subsidiary?

Purpose
The purpose of this study is to examine the relevant literatures about coordination mechanisms as well as study the use of coordination mechanisms by MNCs. Since many scholars have presented various models and claimed that their ideas are useful for MNCs and subsidiary. This is due to getting a better understanding of how coordination works and what problems may occur.

Methodology
Qualitative Research

Conclusion
It is clear from this study that Hansgrohe has implemented all types of formal structure and informal structure of coordination mechanisms in managing its subsidiary. Besides this, the company solves the conflict that occurs in business coordination between headquarters and Thai subsidiary by replacing a German Director with Thai staff members who has a background in German working culture. Finally, the company responses to the national responsiveness and the local responsiveness strategy by adapting its product and service to fit with local condition as well as hiring local people to management position in local subsidiary.

Keywords
Coordination Mechanisms, Control Mechanisms, Headquarters and Subsidiary, Multinational Corporations
Acknowledgement

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We are heartily thankful to our supervisor “Mona Andersson” whose encouragement, supervision and support from the preliminary to the concluding level enabled us to develop an understanding of the subject. For us, Mona Andersson is one of the greatest teachers we have in our life.

We are thankful to Hansgrohe AG especially our interviewees Dr. Carsten Tessmer, Head of Public Relations Department of Hansgrohe AG and Ms. Satrirat Thiranant, Director of Hansgrohe Thailand Branch for giving us the important information.

We offer our regards and blessings to Mr. Tawatchai Yamroj who supported us in any helpful during the completion of the study in Sweden.

Finally, and most importantly, we would like to thank our family, receive our deepest gratitude and love for their dedication and the many years of support during our undergraduate studies that provided the foundation for this work.

Vasin Manasurangul
Patawee Nuanplub

Västerås, June 2010
# Contents

Chapter 1: Introduction .................................................................................................................................................. 1  
1.1 Research Background .................................................................................................................................................. 1  
1.2 Hansgrohe AG – Our Investigated MNC ...................................................................................................................... 2  
1.3 Problem Statement ...................................................................................................................................................... 2  
1.4 Problem Question ...................................................................................................................................................... 3  
1.5 Purpose of Study ......................................................................................................................................................... 3  
1.6 Target Audience ........................................................................................................................................................ 3  
1.7 Limitations .................................................................................................................................................................. 3  

Chapter 2: Research Methodology ................................................................................................................................. 4  
2.1 Research Process .......................................................................................................................................................... 4  
2.2 Methodology Approach .............................................................................................................................................. 4  
   2.2.1 Deduction or Induction ........................................................................................................................................... 4  
   2.2.2 Qualitative or Quantitative ................................................................................................................................... 4  
2.3 Choice of Topic ............................................................................................................................................................ 6  
2.4 Methods of Data Collection ....................................................................................................................................... 6  
   2.4.1 Literature Review .................................................................................................................................................. 6  
   2.4.2 Empirical Data .................................................................................................................................................... 6  
      2.4.2.1 Primary Data .................................................................................................................................................. 7  
      2.4.2.2 Secondary Data .............................................................................................................................................. 8  
2.5 Reliability .................................................................................................................................................................... 8  

Chapter 3: Literature Review ............................................................................................................................................ 10  
3.1 Coordination Mechanisms in Management Control .................................................................................................. 10  
   3.1.1 The Formal Structure ........................................................................................................................................... 11  
      3.1.1.1 Departmentalization ..................................................................................................................................... 11  
      3.1.1.2 Centralization or Decentralization of Decision Making .............................................................................. 11  
      3.1.1.3 Formalization and Standardization ............................................................................................................. 12  
      3.1.1.4 Planning ....................................................................................................................................................... 13
3.1.1.5 Output and Behavioral Control ................................................................. 13
3.1.2 Informal Structure .......................................................................................... 13
3.1.2.1 Organizational Culture ............................................................................. 14
3.2 Managing subsidiaries and its responsiveness ...................................................... 14
3.3 The Role of Subsidiaries .................................................................................... 15
3.4 Handling Conflict between Headquarters and Subsidiary .................................. 17
3.5 Limitations of the Coordination Mechanism ....................................................... 18
3.6 Conceptual Framework ...................................................................................... 19
Chapter 4: Empirical Data .......................................................................................... 21
4.1 History of Hansgrohe AG .................................................................................. 21
  4.1.1 Significant Timeline of Company (Hansgrohe Annual Report, 2008) .............. 21
4.2 Management Structure ...................................................................................... 22
4.3 Management Style ............................................................................................ 23
4.4 Standard Practices and Corporate Culture ......................................................... 25
4.5 Meeting, Training, and Development Program ................................................ 26
4.6 Motivation for Employees .................................................................................. 27
4.7 Thai Subsidiary Management ............................................................................ 28
4.8 Conflict Management with Thai Subsidiary ....................................................... 28
4.9 Difficulty and Limitation in Managing Thai Subsidiary ...................................... 29
Chapter 5: Analysis ................................................................................................... 30
5.1 Coordination Mechanism (Formal and Informal Structure) ............................... 30
  5.1.1 The Formal Structure .................................................................................. 30
    5.1.1.1 Departmentalization .............................................................................. 30
    5.1.1.2 Centralization or Decentralization of Decision Making ......................... 31
    5.1.1.3 Formalization and Standardization ....................................................... 32
    5.1.1.4 Planning ............................................................................................... 32
    5.1.1.5 Output and Behavioral Control ........................................................... 32
  5.1.2 Informal Structure ....................................................................................... 33
5.1.2.1 Organizational Culture ................................................................. 33
5.2 Handling Conflict between Headquarters and Subsidiary ...................... 33
5.3 National and local responsiveness strategy in managing the subsidiary ...... 34
Chapter 6: Conclusion .................................................................................. 36
  6.1 Study Result Summary ......................................................................... 36
  6.2 Implication ............................................................................................ 38
  6.3 Further Studies ...................................................................................... 38
Chapter 7: Recommendation ......................................................................... 39
References ...................................................................................................... 40
Appendix ......................................................................................................... 43
Chapter 1: Introduction

In this chapter, we will present the research background, motivation of our study, the study purpose, problem statement, the purpose of study, target audience, and limitations.

1.1 Research Background

Nowadays, the competition in the international business is very intense and aggressive. Every Multinational Corporations (MNCs) need to have an effective business strategy in order to compete with others and achieve their goals. In the international business field, there are many theoretical models that MNCs have applied to use in their business. For example, some company has applied eclectic paradigm which explains that firm will invest in production facilities abroad if it has ownership specific advantage, location specific advantage, and internalization advantage (Dunning, 2001). Some company has applied Uppsala Model, which explained a process that firm will gradually increase in international business involvement (Johanson and Vahlne, 2007), into its strategies. These theoretical models require good control and cooperation between their headquarters and subsidiary, i.e., coordination mechanisms.

According to Clemmons and Simon (2001, p.206), coordination is “a part of organizations which have certain level of specialization or differentiation among their units.” Martinez and Jarillo (1989) and Clemmons and Simon (2001) define a coordination mechanism as any administrative tool for executing integration among different units within organization. Erden (2001) cites that the increasing number of international competition stimulated MNCs to recognize the importance of coordination within company. Coordination mechanisms are not exclusive tools for MNCs but they are common to all large and complex firms in the international market because they can create a good relationship between headquarters and subsidiary, and integrates activities of every unit goes under the same strategy.

In the past, the coordination between headquarters and subsidiary was emphasized on the hierarchical perspective of the headquarters and the subsidiary (Tolentino, 2002). The top management at the headquarters was assumed to make decisions and the subsidiaries were strictly required to follow their guidelines. For example, all strategic decision making came from headquarters while subsidiaries were responsible to the operation.

At present, the coordination has been evolved not focusing only hierarchical perspective but it has developed into deep dimension such as centralization and decentralization. Heterarchical model, which described that MNCs consist of many centers of different kinds in order to avoid the risk of centralization backlash (Solvell and Zander, 1995), is introduced as one of the coordination mechanisms that can handle the complex situation in the local countries and subsidiaries can freely make the decision by themselves because they have the knowledge about the level of complexity in local market. Besides this, many scholars have presented theoretical models such as Home-Based Model (Solvell and Zander, 1995), Institutional Theory (Westney, 2005), Differentiated Fit and Shared Values (Nohria and Ghoshal, 1994), Integration and Responsiveness Framework (Haugland, 2010), and Agency Theory (Tasoluk et al., 2006 and Bonazzi and Islam, 2007) as the tools of coordination mechanisms in order to understand how MNCs cooperate their relationship between headquarters and subsidiaries.
Presently, the pressure of international business competition challenged the ability of MNCs managers to closely handle coordination mechanisms. At the same time, the evolution of coordination mechanisms have created an opportunity for us to study the importance of coordination mechanisms and we want to study which kinds of coordination mechanisms that MNCs use to manage the relationships between headquarters and subsidiaries in international business.

According to the many models and theories that have been suggested by scholars, we would like to do the research that deals with coordination mechanisms which is exercised in MNCs. We want to focus on what kinds of coordination mechanisms that headquarters exercises to manage and control its subsidiary. We strongly believe that our study would be a benefit for the company that is finding a guideline to manage and control its foreign subsidiary.

1.2 Hansgrohe AG – Our Investigated MNC
To illustrate how the coordination mechanisms can be used, Hansgrohe Company, which has 33 subsidiaries around the world (Hansgrohe Annual Report, 2008), was chosen to find out all coordination mechanisms, i.e., departmentalization, centralization or decentralization of decision making, can be used when a headquarters needs to control subsidiaries. The study will focus on the coordination mechanisms that Hansgrohe uses between headquarters in Germany and its subsidiary in Thailand. Our chosen case company is one of the industry leaders in the sanitation sector. And its subsidiary in Thailand is strict on following the policy from headquarters. Also, we think that this company is carrying business practice with innovative design that makes them different from other competitors. Hansgrohe have invented many innovative designs that are very useful and widely used today. For example, the first hand showers with a rotational head and three spray modes. Moreover, we would like to study the types of management control, for example, coordination mechanism, are suitable for headquarters to manage their own foreign subsidiaries.

1.3 Problem Statement
The coordination mechanism between headquarters and subsidiaries is a key to drive organization to compete in the high business competition as well as the strength of company. As described in the research background, there are many theoretical models presented as coordination mechanisms in the international business. But which types can be used for MNCs and subsidiaries? Indeed, MNCs are forced to expand to international business for better resources, sale decline in home country or to gain competitive advantages. Researchers have concluded that the coordination is a part of organizations which have certain level of specialization or differentiation among their units (Clemmons and Simon, 2001). In addition, there is an increasing number of international competition stimulated MNCs to recognize the importance of coordination between headquarters and subsidiary. But managing relationship between headquarters and subsidiary is not easy because conflict can occur anytime. For example, conflict of interest or distrust in the representative from headquarters. Therefore, the success of MNCs requires a good coordination between headquarters and subsidiary as well as conflict management.
1.4 Problem Question
In this thesis, we are mainly focus on what kinds of coordination mechanisms that headquarters uses to manage its subsidiaries. By the way, we are also interested in studying how headquarters solves the conflict in managing subsidiaries, and how headquarters responds to the national and local responsiveness.

Main research question: What are the formal and informal structures of coordination mechanisms that can be used to manage subsidiaries?

Sub-research question 1: How do the headquarters and the subsidiary solve conflicts that occur in business coordination?

Sub-research question 2: Does the headquarters have a strategy to respond to national and local responsiveness in managing the subsidiary?

1.5 Purpose of Study
The purpose of this study is to examine the relevant literatures about coordination mechanisms as well as study the use of coordination mechanisms by MNCs. Since many scholars have presented various models and claimed that their ideas are useful for MNCs and subsidiaries. So we want to investigate how Hansgrohe coordinates its subsidiary in Thailand. This is due to getting a better understanding of how coordination works in reality and what problems may occur.

1.6 Target Audience
The target audience of this research is entrepreneurs, top management officers, and all readers who are interested in using coordination mechanisms to manage subsidiaries in Thailand. Business scholars, academic researchers, and students can learn from our study and understand what coordination mechanisms are appropriated to use in subsidiaries control.

1.7 Limitations
In this research, we mostly refer to the theoretical models of coordination mechanisms that were taught at Mälardalen University, in the Master in International Business and Entrepreneurship course. In this course, we have studied how to start, manage, control and expand international business. Due to time limitation, we will focus only on management and control in international business by using theoretical models of coordination mechanisms that we learnt from the course that are Home-Based Model, Institutional Theory, Differentiated Fit and Shared Values, Integration and Responsiveness Framework, and Agency Theory. In reality, there are other coordination mechanisms models that MNCs can use to manage subsidiaries. But as we mentioned about time limitation, we will focus on our knowledge that we derived from this course. Therefore, this research will not represent the overall types of coordination mechanisms used by MNCs.
Chapter 2: Research Methodology

In this chapter, we will discuss and describe the research methodology that has been used in our study by explaining research process, methodology approach, choice of topic, methods of data collection, and validity and reliability of our data.

2.1 Research Process

Our research begins with identify research topic, which is coordination mechanisms in the international business, and formulate the research problem relating in literature. After that we choose the relevant literatures to solve the problem and develop the conceptual framework. Empirical data were gathered by semi-structured interviews with company's representative both headquarters and subsidiary. Then, we will interpret and analyze data in order to reach the conclusion for this research.

2.2 Methodology Approach

Methodology approach can properly refer to the theoretical analysis of the methods appropriate to a field of study or to the body of methods and principles particular to a branch of knowledge. According to our research, we have two sections, which are Deduction or Induction and Qualitative or Quantitative, on below details to take into consideration.

2.2.1 Deduction or Induction

There are two general approaches to reach the conclusions in relationship between theory and empirical study. First is the deductive approach. Second is the inductive approach. According to Hyde (2000) and Amaratunga et al. (2002), deductive approach is a process of testing theory for validity, while inductive approach is process of collecting data by observation the fact and analyze it in order to create the general conclusion.

In our research, we will use deductive approach because we want to test theories and focus on general conclusions from the empirical study. We strongly believe that deductive approach is a good choice due to the limited timeframe of more or less two months.

2.2.2 Qualitative or Quantitative

There are two research approaches that researchers can use when conducting research. First is a qualitative approach and second is a quantitative approach. Qualitative research is
defined as research that collects, analyzes, and interprets data by observation and words, while quantitative research is defined as research that emphasizes on numbers and statistical data to represent concepts or opinions (Eldabi et al., 2002; Amaratunga et al, 2002, and Cassell et al, 2006). Qualitative research is not emphasized on the quantification and measurement of data. In contrast, quantitative research is concerned with the statistical measurement of validity (Eldabi et al., 2002). The differences between two approaches are presented as follows:

<table>
<thead>
<tr>
<th>Qualitative Method</th>
<th>Quantitative Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>Emphasis on understanding</td>
<td>Emphasis on testing and verification</td>
</tr>
<tr>
<td>Focus on understanding from respondent’s/informant’s point of view</td>
<td>Focus on facts and/or reasons for social events</td>
</tr>
<tr>
<td>Interpretation and rational approach</td>
<td>Logical and critical approach</td>
</tr>
<tr>
<td>Observations and measurements in natural settings</td>
<td>Controlled measurement</td>
</tr>
<tr>
<td>Subjective “insider view” and closeness to data</td>
<td>Objective “outsider view” distant from data</td>
</tr>
<tr>
<td>Explorative orientation</td>
<td>Hypothetical-deductive; focus on hypothesis testing</td>
</tr>
<tr>
<td>Process oriented</td>
<td>Result oriented</td>
</tr>
<tr>
<td>Holistic perspective</td>
<td>Particularistic and analytical perspective</td>
</tr>
<tr>
<td>Generalization by comparison of properties and contexts</td>
<td>Generalization by population of individual membership</td>
</tr>
</tbody>
</table>

Figure 2: The differences between qualitative and quantitative methods

*Source: Ghauri and Gronhaug (2005, p. 110)*

When considering the explanation in figure 2, we have applied qualitative method for our research since we focus on understanding and are oriented of Hansgrohe in managing the relationship between headquarters and subsidiary rather than statistical data, hypothesis testing, and result oriented as well as a subjective insider views.

However, we admit that qualitative method has weakness. In figure 3, we will present the strengths and weaknesses of qualitative method:

<table>
<thead>
<tr>
<th>Theme</th>
<th>Strengths</th>
<th>Weaknesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Phenomenological (qualitative paradigm)</td>
<td>Data-gathering methods seen more as natural than artificial</td>
<td>Data collection can be tedious and require more resources</td>
</tr>
<tr>
<td></td>
<td>Ability to look at change processes over time</td>
<td>Analysis and interpretation of data may be more difficult</td>
</tr>
<tr>
<td></td>
<td>Ability to understand people’s meaning</td>
<td>Harder to control the pace, progress and</td>
</tr>
<tr>
<td></td>
<td>Ability to adjust to new issues and ideas as they emerge</td>
<td>End-points of research process</td>
</tr>
<tr>
<td></td>
<td>Contribute to theory generation</td>
<td>Policy makers may give low credibility to</td>
</tr>
</tbody>
</table>

Figure 3: The strengths and weaknesses of qualitative method

*Source: Amaratunga et al. (2002, p.20)*
The strengths of qualitative method are to get close to the subject of our study and provide us with better understanding. In contrast, the weaknesses of qualitative method are time-consuming in collection and analysis of data. The primary data, for example, an interviewee, might not have the free time to give us the interview. So it is difficult to control the pace and progress as mentioned in the figure 3.

2.3 Choice of Topic

After we have completed all subjects in International Business and Entrepreneurship course, we are still interested in the subject “International Business and Some Theoretical Perspectives” that taught us how to do, manage, and expand international business. According to Fisher (2004), the researchers should select a thesis topic that they are interested in it can help them in maintaining their motivation and complete their work. As we mentioned in chapter 1, we are interested to study what types of management control, i.e., coordination mechanisms that help multinational corporations manage the relationship between headquarters and subsidiaries.

Companies that firstly came to our thoughts were Electrolux, a Swedish manufacturer of home products, and Scania AB, a Swedish automotive manufacture. Both of them have the subsidiary in Thailand. We have sent email to request information but they did not respond our request. We also sent email to 3-4 other companies but only one responded and gave us access to the data. This company is Hansgrohe AG which is a German plumbing manufacture that has subsidiary in Thailand.

2.4 Methods of Data Collection

There are several ways to collect the data for our study. In this section, we will describe the source and how we collect data for this research.

2.4.1 Literature Review

In our research, literatures were retrieved from the electronic databases of Mälardalen University, such as Emerald, ELIN@Mälardalen, Google Scholar, and Samsök-metasearch engine. Keywords for our searching are coordination mechanism, control mechanism, headquarters and subsidiary, and multinational corporations. The relevant literatures will be described and explained in next chapter, i.e., Literature Review.

Moreover, we have borrowed the books from Mälardalen University Library in order to reach the useful theories for this research.

2.4.2 Empirical Data

There are many ways of collecting empirical data, for example, interviews and questionnaires. We decide to use interview because we want to emphasize on the details that the interviewees give us rather than numerical data from questionnaire. Moreover, Fisher (2004, p.140) mentioned that “interview is the most widely used method in doing Master’s level research into organization and business”. Saunders et al. (2007, p. 310) supports this by stating that “Interviews can gather valid and reliable data that is relevant to your research
question(s) and objectives”. In this research, we have used semi-structured interviews that consist of a list of questions to be covered. The interviewees will be asked to think of situations in their workplace such as coordination between headquarters and subsidiary, and interviewer will ask them to explain in-depth details (Fisher, 2004).

2.4.2.1 Primary Data

Due to the distance problem, such as location and time zone, it causes the limitation to conduct face-to-face interviews with the respondents. So we decide to conduct interviews by using e-mail interview and telephone interview with our respondents. According to Saunders et al. (2007), e-mail interview provides time for interviewee to search and recall the particular circumstance. As the result, the answers are more reliable than face-to-face interview that gives a short time to interviewee to respond. Meanwhile, telephone interview is often used to reach people who do not have enough time for you to give interview (Fisher, 2004). So the advantage of telephone interview is safe time and easy to get information.

At first, we have sent email to the headquarters of Hansgrohe AG in Germany in order to ask for access to data, such as Sales Director from headquarters and Sales Manager from subsidiary in Thailand. The company replied us and also gave the names of interviewees. Unfortunately, Hansgrohe explained that there are many students who wrote email to ask permission to interview top management level in headquarters, such as Directors, so the company decided to assign Public Relations Department to be the representative of headquarters’ office in answering all our questions because it can save time for top management level and students. If some question requires in-depth answers, Public Relations Department will pass it to top management level to answer it. Therefore, the names of interviewees are Dr. Carsten Tessmer, Head of Public Relations of Hansgrohe AG and Ms. Satrirat Thiranant, Director of Hansgrohe Thailand Branch.

We have drafted interview questions (see appendix) and will conduct e-mail interview with Dr. Carsten Tessmer and telephone interview with Ms. Satrirat Thiranant. The questions are related to the coordination mechanisms that headquarters uses to control the subsidiary in Thailand, for example, how does headquarters respond to the local market demand, how to solve the conflict problems between headquarters and subsidiary, etc.

For telephone interview with Ms. Satrirat Thiranant, we conducted the interview with her for two times caused the unrest situation in Bangkok, Thailand that occurred from 11-23 May 2010. So it is very difficult to contact our Thai interviewee because Thai subsidiary office is closed because it is located in the war zone area. Therefore, we cannot get data from Thai subsidiary as much as we want.
Below is an outline of the communication between us and our interviewees.

<table>
<thead>
<tr>
<th>Name</th>
<th>Contact Information</th>
<th>Details</th>
</tr>
</thead>
</table>
| Dr. Carsten Tessmer  | carsten.tessmer@hansgrohe.com | - Sent information to ask for accessing to data on 29 April 2010.  
- Received reply for conducting e-mail interview on 4 May 2010.  
- Sent email questions on 7 May 2010.  
- Received reply on 14 May 2010. |
| Ms. Satrirat Thiranant | satrirat.thiranant@hansgrohe.com | - Sent information to ask for accessing to data on 29 April 2010.  
- Received reply for conducting telephone interview on 3 May 2010.  
- Sent email questions on 7 May 2010.  
- Conduct telephone interview on 19 May 2010 (We could not finish this interview because Thai government announced curfew in Bangkok)  
- Conduct telephone interview on 24 May 2010 |

Figure 4: Communication Details with Interviewees

After we have gathered all primary data, we will analyze them based on our theoretical model in our literature review.

2.4.2.2 Secondary Data

The main sources for secondary data will come from document, journals, online materials, and company's website. Documentary and online sources are gathered from company annual report, press release, and search engine. Using the information from internet, for example, Google, are criticized that it is not reliable. But we want to argue that it depends on which sources you collected data because there are many reliable sources, for example, university library that provided the correct information for the readers.

2.5 Reliability

One of criticisms to our research is the reliability data from interviewee. The interviewee from headquarters should be top management level such as Director of Sales and Marketing
in Asia-Pacific Region rather than the Head of Public Relations Department. However, the interviewee from subsidiary in Thailand, Ms. Satrirat Thiranant, is a reliable primary source because she has been working with Hansgrohe Thailand for 9 years. She has a strong understanding of the company’s background, business structure, and culture. Moreover, we believe that the secondary data collected from company’s website and other sources are adequate to present the reliable research.
Chapter 3: Literature Review

In this chapter, we describe coordination mechanisms that are provided to use for MNCs in relationship management to their subsidiaries. The literature review will be presented by applying knowledge from literatures about coordination mechanisms, managing subsidiaries and its responsiveness, integration and responsiveness framework and subsidiary management, agency theory, and limits of control the multinational corporation.

3.1 Coordination Mechanisms in Management Control

In the past, many factors such as technological change, demand raises in the foreign market, demand drops in the domestic market etc. have fostered the MNCs to expand their business into the international market. Meanwhile, when MNCs want to expand their business to compete on the global competitive market, it requires the capability and skills of coordination to control their business around the world. Bartlett and Ghoshal (1987) stated that if the company wants to achieve the goals in the global competition, it must be willing to adapt and develop its structure and function in order to effectively respond to the demand and the complexity of foreign market.

In the literature of management control, DuBrinpi (2000), as cited in Herath (2007), defined management as the process of optimizing resources in an organization to reach its goals by planning, organizing, and controlling. Merchant (1985), as cited in Herath (2007), defined the control as keeping track their command in organization and it is a tool for managers to instruct people regarding what they should do and should not do for organization. Clemmons and Simon (2001) mentioned that control is a process of using power or authority to reach the goal. Control is used to administrate the integration of activities in MNCs. Control plays an important role in MNCs because it can reduce the risk, increases the certainty, and assures that subsidiaries will follow headquarters’ policy. Anthony et al. (1989), as cited in Herath (2007), clarified the meaning of management control as a tool for managers to interact with their subordinates. Top management officers design the strategic plans and attaining goals, they influence people to perform as their plans. Management control is very important for organization without a proper management control can harmful organization such as defective products, unsatisfied customers or weak coordination within organization.

In the literature of coordination mechanisms, Clemmons and Simon (2001) state that coordination is a part of organizations which have certain level of specialization or differentiation among their units. The increasing number of international competition stimulated MNCs to recognize the importance of control and coordination within company (Erden, 2001). Martinez and Jarillo (1989) and Clemmons and Simon (2001) define a coordination mechanism as any administrative tool for executing integration among different units within organization. Thus, coordination mechanisms are not exclusive tools for MNCs but they are common to all large and complex firms in the international markets because they can create a good relationship between headquarters and subsidiaries.

Why do MNCs need to exercise management control over their subsidiaries by implementing the coordination mechanisms? Bartlett and Ghoshal (1987) argue that coordination
mechanisms are the tool to get rid of the distance problem as well as the level of complexity in the local countries like culture, political, and etc.

In our research, we are highly interested in studying the coordination mechanisms. We are inspired by the work of Martinez and Jarillo (1989), called “The Evaluation of Research on Coordination Mechanisms in Multinational Coordination”. Their research highly focused on the coordination mechanisms which can be related to our research purpose. Martinez and Jarillo (1989) suggest that the coordination mechanism is crucial in studying relationship management between headquarters and subsidiaries. Besides this, they present coordination mechanisms which are divided into two parts; formal or structural mechanism and informal structure. Formal or structural mechanism is a tool that consists of the apparent rules used in intra-organization. It is normally instructed in writing with a language of rules and all staff members are strictly required to follow the rules. While informal structure is the opposition. It is a tool for governing people working together in practice. It comprises of a set of communication, socialization, common interest, and motivation, and personal relationship. Firstly, we will describe the formal structure that might affect Hansgrohe in managing relationship between headquarters and subsidiaries. Later, we will explain about the informal structure.

3.1.1 The Formal Structure
From the coordination mechanism, Martinez and Jarillo (1989) describe that the formal structure divided in to five types which are Departmentalization, Centralization or Decentralization of Decision Making, Formalization and Standardization, Planning and Output and Behavioral Control.

3.1.1.1 Departmentalization
Simon (1976) as cited in Martinez and Jarillo (1989) stated that departmentalization is the mechanism for influencing activities in organization to be the units. This concept can be applied with the home-based model and heterarchical model. Solvell and Zander (1995) describe the home-based model as the place where the firm combines a group of essential functions such as research and development, innovation, strategic department, and other major department in one place. Sometimes home-based is understood as the home country where the company started its business. According to Solvell and Zander (1995), they cite that heterarchical MNC consists of various centers of different kinds. For example, research and development department is in one country and production is in another country. Each department is independent and has different roles and responsibilities depending on the assignment.

3.1.1.2 Centralization or Decentralization of Decision Making
Martinez and Jarillo (1989) mention that centralization and decentralization of decision making is the power of decision making in the higher or lower rank of the chain of command. The definition and difference between centralization and decentralization are mentioned by Rodrigues (1995). According to him, centralization is a process that headquarters does not give much self-control to the subsidiaries and it makes most significant decisions which affect local operations. Decentralization is a process that subsidiaries are given a great deal of self-control and they can make most significant decisions relating to local operations.
According to Hedlund (1986), MNCs can be categorized regarding the relationship between headquarters and subsidiaries into 3 types. First is the ethnocentric MNCs. It is the MNCs that manage the business from the home country. The governance style is hierarchy and the company uses the centralization to control its subsidiaries. Solvey and Zander (1995) as well as Tolentino (2002) give further explanation that ethnocentric or home-based company uses one way flow of communication from headquarters to subsidiaries which is called centralization. The second type is polycentric MNCs, which has the core function in home country but major business areas are located to other parts of the world. For example, Xerox, which is the manufactures of printers, has the headquarters in Switzerland but its color copiers segment is located in Japan (Solvey and Zander, 1995). The governance style is decentralization and foreign subsidiary can make decision by itself. The third type is geocentric MNCs. Tolentino (2002, p.75) mentioned that geocentric MNCs is “the hybrid of global and multi-domestic company, but also has unique features of its own”. Foreign subsidiaries can have strategic roles and the level of coordination mechanisms from headquarters is slightly lower when compared with ethnocentric MNCs. In addition, Hedlund (1986) cite that geocentric MNC is the heterarchica MNC that consists of many centers of different kinds. For example, R&D is in one country and Production is in another country. In the heterarchical MNCs, all units are given equal power in decision making which is called decentralization.

3.1.1.3 Formalization and Standardization
Westney and Ghoshal (2005) write that formalization and standardization is the rules, policies, values, and procedures that the company uses to set up a routine or pattern in order to make all staff members to follow it. This mechanism is given different names from scholars such as standard practices, standardization, and rules.

Westney and Ghoshal (2005) state that institutional theory is the combination of formal rules, formal constraints, and their enforcement characteristic that create an impulsion of action patter in organization that may not necessarily reflect true efficiency to survive and succeed. Moreover, institutional theory is particularly important in the business world today which can explain organization behavior as markets emerge.

According to Westney and Ghoshal (2005), they have divided institutional structure into three pillars which are cognitive, normative and regulative approaches. Cognitive is the social knowledge that is used by all staff members in MNCs to recognize the right thing to do. For example, what is right and what is wrong. Normative is the value system. It is the legitimacy, social constructed with values and norms. Hedlund (1986) claims that heterarchy model is the integration that firstly derived from normative control. So MNCs can use the normative approach in order to sustain and control organization. And regulative approach is the government policies. It is how the governance regulates with policies.

However, Westney and Ghoshal (2005) argue that the distance between headquarters and subsidiaries is the obstacle for MNCs to establish legitimacy in the host country and to transfer organizational practices from the headquarters to the foreign subsidiaries. But MNCs can solve this problem by exercising output and behavioral control which we will describe it later in the paper.
3.1.1.4 Planning
Planning is the processes such as strategy, budget, timetable, and goal setting that aim to lead and convey the activities and actions of all units. According to Solvell and Zander (1995), all major activities, including strategic planning processes and budget plan, are executed in the home-based country. Solvell and Zander (1995) also mention that one of the strategies that home-based company uses is the selective tapping strategy which is the implementation to collect some resource from foreign locations. This strategy is used for informing headquarters regarding the demand or information in foreign countries. This means that headquarters will get the information and tries to standardize resources to gain economic of scales, while the role of subsidiary is the local operation such as sales and maintenance service. And for heterarchical model, Hedlund (1986) asserted that the strategic role is not restricted only to headquarters but it goes for MNCs as a whole. Every subsidiary has the authority to carry a strategic role. Therefore, in the heterarchy model, subsidiary will act as the global coordinator and it can talk with other subsidiaries directly.

3.1.1.5 Output and Behavioral Control
Ouchi and Maguire (1975) and Ouchi (1977) as cited in Martinez and Jarillo (1989) stated that there are two independent figures for managing control in company. First is output control. Second is behavioral control. Output control has many names, Child (1972, 1973) as cited in called it as “bureaucratic control”, Mintzberg (1979) named it “performance control”, and Blau and Scott (1962) as cited in Martinez and Jarillo (1989) asserted it “impersonal control”. Output control can be summarized as the paper, records, and reports submitted by organizational units to the executive management. Kobrin (1984) as cited in Hedlund (1986) stated that if the output (performance) of subordinates is good, the company should reward them by paying the bonus based on the profitability. While behavioral control is ground on personal observation. Mintzberg (1983) mentioned it as the personal control which manager always personally uses to observe the behavior of subordinates. Behavioral control can be applied with the institutional theory which consists of three aspects which are cognitive approach, normative approach, and the regulative approach. As mentioned in the formalization and standardization part, cognitive approach is the social knowledge that is used by all staff members in MNCs to recognize the right thing to do. For example, what is right and what is wrong. Normative is the value system. It is the legitimacy, social constructed with values and norms. And regulative approach is the government policies. It is how the governance regulates with policies. All of these 3 types can be the instrument for managers to measure the behavior of his team.

3.1.2 Informal Structure
As we mentioned above, informal structure is a tool for governing people working together in practice. It comprises of a set of communication, socialization, common interest, and motivation, and personal relationship. In the study of Martinez and Jarillo (1989), they describe that informal structure has three different types. Firstly is lateral relation which is the situation when managers from different departments come to share their problems with each other such as working pressure. Secondly is informal communication which is unofficial personal contact between managers from different departments in the company. Thirdly is organizational culture which is a procedure that headquarters trains subsidiaries to lead them have the common values, loyalty, beliefs, and etc. In this research, we recognize
the importance of lateral relation and informal communication but as we mentioned in the first page that we focus on the control and coordination mechanisms between headquarters and subsidiaries. So we will describe only organizational culture since this can be fit with our research.

### 3.1.2.1 Organizational Culture

Pfeffer (1982) as cited in Martinez and Jarillo (1989, p.492) gave the definition of organizational culture as a “process of socialization of individuals by communicating the way of doing things, the decision-making style, and the objectives and values of the company”. Galbraith and Edstrom (1976) as cited in Martinez and Jarillo (1989) claimed that organizational culture is the process of training corporate and subsidiary managers, training their loyalty, minimize the divergence, and reward staff members when they perform good performance. This concept can be applied with the differentiated fit and share values which Nohria and Ghoshal (1994) offer that it is the alternatives for managing headquarters–subsidiary relations. The differentiated fit is controlled by each subsidiary where they use suitable formal structure to fit its own contingency, so the structure in each subsidiary is different to match with distinctive environmental and resource conditions of subsidiary. It depends on the formal structure and action by using bureaucratic and hierarchical governance. The second one is shared values. The control of organization is in the form of normative control that every member in organization shares and value. This can reduce the divergence and develop mutual independence. The link between the formal structure and action is weak. The control is normative cultural.

The study of coordination mechanisms is not restricted to only Martinez and Jarillo (1989). Other scholars have presented their theoretical models as a choice for MNCs to choose and apply into their strategies. Next we will describe other models, for example, managing subsidiaries and its responsiveness, integration-responsiveness framework and subsidiary management, and agency theory, that MNCs can exercise in coordinating relationship between headquarters and subsidiaries.

### 3.2 Managing subsidiaries and its responsiveness

In collaboration of international business, it is very important to understand how to manage subsidiaries. Haugland (2010) cites that the increase in internationalization and globalization make subsidiary management more and more a significant strategy for MNCs. Barlett and Ghoshal (1987) write that competitive battles among large MNCs regarding similar skills and resources, fluctuation of exchange rates, governance policy of host country, and demand of consumers to standardize global products increased the importance of nationally responsiveness differentiated approaches which is the ability to learn to transfer knowledge from headquarters to foreign subsidiaries. As the result, MNCs managers are confronted with the task of exercising responsiveness in order to challenge to the increasing of complexity of local environment.

In managing subsidiaries, there are two responsiveness strategies. First is the national responsiveness strategy, second is the local responsiveness strategy.

As Barlett and Ghoshal (1987) stated the national responsiveness is an important feature to lead MNCs accomplish their goals in the international business. MNCs exercise national
responsiveness strategy by adapting product, service, or strategy to fit with local conditions in different national markets. For example, in the past, laundry detergents industry had one standardized product around the world. As late as 1980, washing machine became general in all households. Northern European countries practiced washing machine with boil water while southern European countries practiced washing machine with cold water. So laundry detergent manufacturers, such as Unilever, need to apply their product and strategy in order to fit with each local condition market (Barlett and Ghoshal, 1987).

However, local responsiveness strategy refer to mangers of subsidiaries which pursue a local responsiveness strategy manage their subsidiaries much like a portfolio of business whereby each subsidiary controls their primary activities of business and each experiences a great deal of autonomy. This includes hiring the local people to important positions that can help company get good performance rather than using the staff members from headquarters. Therefore, local responsiveness strategy can be applied when headquarters has limited knowledge and no experience about local market.

In addition, another significant aspect in managing the subsidiaries is the administrative heritage. According to Barlett and Ghoshal (1987, p.14), they state that “administrative heritage is the company’s greatest assets which enhance the long-term relationships between the company and its staff.” For example, ITT corporation, which is the global supplier of telecommunications equipment from United States, has a strong tradition that headquarters managers could not intervene operating decisions and strategic autonomy of foreign subsidiaries. This can create relationship within the organization because all staff members can work without the fear from interruption (Barlett and Ghoshal, 1987). Besides this, culture in home country and social systems play important influences organization’s administrative heritage. For example, in Japanese cultural norms, it emphasized on long-term welfare of employees. All staff members will be secure and feel stable in working for company in a long-term. It builds the trust for employees and increases relationship within organization. To sum up, MNCs can respond to the complexity and diversity of local market, and changeable of external environment by exercising the administrative heritage.

Besides managing subsidiaries and its responsiveness, we would like to describe more about the roles of subsidiaries which are the result of implementing national and responsiveness strategy.

3.3 The Role of Subsidiaries
To clearly understand national and responsiveness strategy, Roth and Morrison (1990), as cited in Haugland (2010, p.94), have presented Integration and Responsiveness Framework (I-R Framework) which claim that when organizations operating international business on the one hand must balance the need to be responsiveness to local demands imposed by government or market forces, and on the other hand, must exploit market imperfections due to firms multiply country locations. According to Taggart (1997) as cited in Lin and Hsieh (2010, p.53), integration is “the firm’s response to pressures to minimize overall costs and maximize returns by exploiting the market imperfections in the international operations, while responsiveness is the firm’s response to pressures of market and local forces in local countries.” The essential point of the framework is to utilize benefits across national borders
and responsiveness relates to the need of local market and adaptation (Benito, 2005 as cited in Haugland, 2010).

When MNCs assign the strategic role to subsidiaries, we can categorize the types of subsidiaries according to their response into four types (see in figure 5) that are (1) receptive, (2) active, (3) autonomous, and (4) quiescent subsidiaries (Barlett and Ghosal, 1986; Birkinshaw and Morrison, 1995; Gupta and Govindarajan, 1991; Jarillo and Martínez, 1990; Roth and Morrison, 1992 as cited in Lin and Hsieh, 2010).

![Diagram of Degree of Responsiveness and Integration](image)

**Figure 5: Role of Subsidiaries**


Receptive subsidiary is the subsidiary that is high integrated with headquarters but less responsiveness to headquarters’ policy. Active subsidiary is the subsidiary that is high integrated with headquarters and has high responsiveness as well. Active subsidiary strictly follows the mandatory from headquarters as well as focusing to respond local demand of local country. As the result, its performances are integrated with headquarters and other subsidiaries in the same direction. Autonomous subsidiary is the subsidiary that is low integrated but has high responsiveness. It is quite independent from headquarters but it highly focuses on local market. Lastly, a quiescent subsidiary is the subsidiary that is better in integrated and responsiveness.

Role of subsidiaries bring us to know the situation of each subsidiary. One of the reasons that oppose subsidiary in having high integration and responsiveness is the conflict between headquarters and subsidiary. In next section, we will describe the agency theory that talks about the conflict in managing headquarters and subsidiary relationship.
3.4 Handling Conflict between Headquarters and Subsidiary

Another theory that can be applied for our thesis is the agency theory. According to Nohria and Ghosal (1994) as cited in Tasoluk et al. (2006) agency theory applications in international business have typically viewed the efficient contract as one that would bring about the best possible outcome for the headquarters given the constraints imposed by situation, rather than one what would maximize the joint of both the headquarters and the subsidiaries. Agency theory is concerning about the relationship between a principal (headquarters) and an agent of the principal (subsidiary). Moreover, this theory involves the costs of resolving conflicts between principal and agent due to differences in risk preferences and interests (Tasoluk et al., 2006).

However, the conflicts may arise from the risk associated with the agent’s possible misrepresentation of its abilities and capabilities either at the time of the headquarters’ initial entry into a relationship with the subsidiary or while their relationship is ongoing. Tasoluk et al. (2006) state that the solution to overcome conflicts the headquarters need to invest in information and budgeting systems, reporting procedures and better monitor the subsidiary’s behavior.

Moreover, agency theory has influenced decision making processes in international business where there is different ways in achieve the target goal from both headquarters and subsidiary. For instance, headquarters and the subsidiary might agree on congruent goal but disagree on the incongruence means to achieve it (Tasoluk et al. 2006). These conflicts are result from different perspective, trust and the role of collaboration between headquarters and the subsidiaries which lead to different levels of control. According to Tasoluk et al. (2006), trust is divided into two parts which are (1) a partner’s ability to perform according to the intentions and expectation of other partner (competence trust) and (2) the partner’s intentional no to defect (intentional trust). Many studies pointed out that if both headquarters and subsidiary cannot collaborate, they will not succeed and previous research also state that trust play an important role in inspiring collaboration whether among individuals or organization (Bartlett and Ghoshal, 1989; Prahalad and Doz, 1987 as cited in Tasoluk et al. (2006).

The agency theory deals with conflicts of perception as the consequence. It disrupts the collaboration between headquarters and the subsidiary. Bazerman and Neal (1984) as cited in Tasoluk et al. (2006) stated that the factors that are associated with management of conflicts interactively which are two way communication and openness to engage in solving that result in win-win solution. However, in the case where headquarters believe that the subsidiary has less competence or reverse Tasoluk et al. (2006) suggest either to increase the subsidiary’s competence by providing additional resources (training or marketing summit) or improve the subsidiary’s perception with regard to the headquarters’ competence to reduce gap of perception from both parties.

Even MNCs will exercise control and coordination mechanisms into organization but we have to admit that there might have some limitation in implementation. Therefore, we will present the limitations of control and coordination in the next section.
3.5 Limitations of the Coordination Mechanism

Mentzer (1991) studies the limit of control and coordination in MNC and states that for limitations which are (1) the limits of hierarchy, (2) the limits of the matrix structure, (3) the limits of loose coupling, (4) the limits of corporate culture, and (5) the limits of personnel rotation.

As for the limits of hierarchy, it is good for organization to keep the hierarchical level to a minimum which keep the communication lines shorter. However, as the organization is growing, it increases more layers and it reduces flexibility within the organization. As a result, multinational organization having a difficulty to escape many layer, become inefficient and inflexible.

The second limitation is the limits of the matrix structure. The matrix structure is a variation of customary bureaucratic control (Ouchi, 1980 as cited in Mentzer, 1991) and lead to conflict in two-boss management. When organization is doing business in many counties, it would result in three dimensional matrix reflecting functional, business line and geographic orientation. As the result, one person may have three different mangers in different counties.

Another limitation is the limits of loose coupling. According to Weick (1976) as cited in Mentzer (1991), loose coupling occurred when units were attached to one another but maintain separated identities. With MNC’s, it allow for loose coupling in large dispersed organization to function better than they would when inter-unit linkages are rigid. More over it would happen to extreme decentralization organizations.

Next according to Mentzer (1991) is the limit of corporate culture which refers to a control device. Indeed, organization shares the value or cultures within the functions. In addition, MNC’s are facing difficult in management control because of culture differences since one strategy may not suitable for another subsidiary in another country. Mentzer states that corporate culture will be strongest in the headquarters country when applied in non-headquarters countries, corporate cultures are most likely to be used where animosity toward the headquarters country is minimal.

The last is the limit of personnel rotation which refers to mangers rotation among locations. A pattern of frequent transfers creates staffing flexibility but also has a hidden agenda of strengthening the corporate culture as well. Moreover, it can strengthen organizational control when the manger returns to the headquarter country as they bring back the first-hand information and has developed relationships with other branches which difficult is to obtain (Mentzer, 1991). However, there are some augments that personnel rotation can be expensive and sometime difficult for mangers with family to go aboard which also makes it a limitation.

In the next section, we will present our conceptual framework connected to what theories we have used.
3.6 Conceptual Framework

According to Fisher (2004, p.102), conceptual framework is “formed of patterns of concepts and their interconnections”. After reviewing different literatures about coordination mechanisms, we will present the conceptual framework in order to answer the main research question as well as sub-research questions that are as follows:

- What are the formal and informal structures of coordination mechanisms that can be used to manage subsidiaries?
- How do the headquarters and the subsidiary solve conflicts that occur in business coordination?
- Does the headquarters have a strategy to respond to national and local responsiveness in managing the subsidiary?

Firstly, we will study the coordination mechanisms that headquarters exercises to manage subsidiary. As Martinez and Jarillo (1989) stated that coordination mechanisms in business
management can be categorized into 2 types that are formal structure and informal structure. Formal structure divided into five kinds which are departmentalization, centralization or decentralization of decision making, formalization and standardization, planning and output and behavioral control. Informal structure is a tool for governing people working together in practice. In this research, it is organizational culture that we focus on.

Secondly, subsidiary responds to the different coordination mechanisms in different ways. In this step, conflicts may occur. When conflict is occurred there would be a need in controlling and improve the relationship among headquarters and subsidiary. Hence, we will use the role of agency theory which involves the costs of resolving conflicts between headquarters and subsidiary due to differences in risk preferences and interests (Tasoluk et al., 2006).

Finally, national responsiveness and local responsiveness strategy will be discussed after agency theory is exercised to solve the conflict. The conceptual model is intended to help us to find out how national responsiveness and local responsiveness strategy helps headquarters manage subsidiary.
The purpose of this chapter is to present the empirical data collected from Hansgrohe Germany and its subsidiary in Thailand. We will present the primary data collected from our interview with Dr. Carsten Tessmer, a representative from headquarters, and Ms. Satrirat Thiranant, a representative from subsidiary.

4.1 History of Hansgrohe AG

Hansgrohe AG was established in Schiltach, Germany in 1901 by Hans Grohe. Currently, the company is a private shareholder company where 68 percent of shares held by Masco Corporation from the USA and 32 percent held by the Klaus Grohe family. At first Hansgrohe began by selling metal spun products including parts for clocks, brass pans and anchor plates for stove pipes. In 1908, the company began to expand to international market in Hamburg, Rhineland and Switzerland by supplying plumbers and pipe layers to wholesalers. From 1968, Hansgrohe have introduced its products to USA which was a big and challenging step for the company. The company has ten production plants in Europe, North America, and Asia. Products are manufactured at six plants in Germany, one plant in USA, the Netherlands, France, and China. Hansgrohe is one of the leaders in sanitation industry with more than 3,200 employees working at headquarters and 34 subsidiaries around the world. (Hansgrohe Annual Report, 2008)

Today, Hansgrohe becomes the world’s leading sanitation sector. Moreover, the company has run its business with innovative products, a suitable business concept and the passion the elements of water that lead to today success. Design and innovation is highly concern for the company which can be guarantee by numerous awards such as Red Dot Design Award, 2008 and IF Product Design Award, 2008. As part of business success, they have focus on five main strategic approaches: (Hansgrohe Annual Report, 2008)

4.1.1 Significant Timeline of Company (Hansgrohe Annual Report, 2008)

1901 - Hansgrohe was established in Schiltach, Germany. After only six months, it was already possible to hire a third worker, and after a year, a fourth metal worker was added.

1908 - Opening new markets - Hans Grohe travelled to Hamburg, Rhineland, and Switzerland, supplying wholesalers instead of individual plumbers and pipe-layers. The first company catalogue was published.

1910 - Hans Grohe travelled to Vienna, and contacts with Hungary were established.

1945 - Despite the economic collapse and the shortage of raw materials, the company managed to maintain production and even to launch new products.

1968 - Hansgrohe products are introduced to the United States.

1974 - Hansgrohe products are introduced to Thailand.

1983 – Hansgrohe establishes Siam Hunsa Co. Ltd. as an exclusive sales subsidiary in Thailand.

1998 - Hansgrohe becomes the world’s largest manufacturer of shower heads.
2000 – Hansgrohe operates its first office in Thailand. It is located at Silom Road which is the main business district area in Bangkok.

4.2 Management Structure

Hansgrohe AG is managed by the Executive Board which consists of five members. The Executive Board is responsible for setting vision and policy, selecting and reviewing the performance of the president and chief executive, approving the annual budget, and making strategic direction for the best interest of the company. The current President and CEO is Siegfried Gänßlen who is responsible for the operational running of the company with seven departments that are Production, Accounting, Engineering, Sales and Marketing, Information and Technology, Logistic, and Public Relations. Each department has a Vice President being a head to manage business and report to the President and CEO. Hansgrohe's organizational structure is divided into 3 levels named as global, continental, and regional. Global level consists of Executive Board, President and CEO, and seven departments. Continental level consists of five divisions of Sales and Marketing Department that are responsible the business in Germany, Europe, North and South America, Asia-Pacific, and Middle East and Africa. And regional level is the subsidiary in each continent, i.e., Australia, Japan, China, Thailand, and Singapore that are the subsidiaries in Asia-Pacific. Hansgrohe believes that these three management levels are the key to control and
combine headquarters and subsidiaries to be one body. It is a vertical structure that helps headquarters keeps closure with subsidiary. Besides this, it allows headquarters and subsidiary exchange ideas together and it can solve the cultural problem and distance problem. (Dr. Carsten Tessmer, Interview, 14 May 2010)

![Figure 8: Hansgrohe Thailand Organizational Structure](image)

In case of Hansgrohe Thailand which is a subsidiary in regional level, it is managed by Director who is selected from headquarters in Germany. The current director is Ms. Satrirat Thiranant who is responsible for the operational running of the company with two departments that are Sales and Marketing, and Accounting. Ms. Satrirat reveals that the main function of Hansgrohe Thailand is a sales house and customer service office. Besides this, she has to report the operating result to the Asia-Pacific Division every quarter, after that the Asia-Pacific Division will report all operating results of its members to the Sales and Marketing Department at headquarters (Ms. Satrirat Thiranant, Interview, 19 May 2010).

4.3 Management Style

In the past, Hansgrohe used to decentralize its business when expanding to Switzerland. Hans Grohe Jr., who is the elder brother, took a responsibility in running business in Germany while Friedrich Grohe, who is the younger brother, took a responsibility in running business in Switzerland. At the beginning, the relationship between two brothers went well until they faced the conflict of interest. In August 1934, Friedrich Grohe decided to sell his share and established the new company named Grohe. As the result, Grohe is the main competitor which operates the same business as Hansgrohe. The conflict between the brothers gave an invaluable lesson to Hans Grohe Jr. that the best way to control foreign subsidiaries is centralization. Besides this, working culture of German people emphasizes on systematic rather than individual performance, and the company wants to control and manage the foreign subsidiaries to go in the same direction, i.e., under corporate strategy which is a long-term business plan. So Hansgrohe’s organizational structure is hierarchical. Decision-making is held at the global level which is the top of company. (Dr. Carsten Tessmer, Interview, 14 May 2010)
Hansgrohe believes that the centralization is the effective strategy to drive company achieves the corporate goals. When considering the net sales from 2004-2008, it has increased consecutively. In 2004, Hansgrohe gained €318 million from net sales abroad which contributed 74 percent to total sales. In 2005, the company gained €361 million from net sales abroad which contributed 76 percent to total sales. In 2006, net sales increased to €435 million which was 76 percent of total sales. While 2007, the net sales reached to €521 million which contributed 79 percent to total sales. And 2008, net sales increased to €531 million which was 80 percent of total sales. This volume can reflect the effective management and strategy between headquarters and subsidiaries around the world (Hansgrohe Annual Report, 2008).

When asking the management style that Hansgrohe Thailand uses to govern its organization, Ms. Satrirat answers that Thai subsidiary uses centralization like headquarters. The management style of Hansgrohe is one-way flow from global level to regional level. All strategic plans, i.e., marketing strategy, budget plan, and financial plan, must be derived from the headquarters and Thai subsidiary has to strictly follow it. Therefore, Thai subsidiary cannot create business strategy by itself. According to Ms. Satrirat, headquarters views Thailand as a small market. Hence, centralization is an easy tool to control Thai subsidiary to go in the same direction with headquarters (Ms. Satrirat Thiranant, Interview, 19 May 2010).

However, it has a special case in China where Hansgrohe uses decentralization to control its subsidiary. Dr. Tessmer explained that doing business in China is extremely difficult, especially for foreign companies that have no experiences in this country. China is a very diverse market and the company has to face the language and cultural difference, the
intervention from government, and the complicated taxation system. Moreover, Hansgrohe needs to adapt many products, i.e., shower head, to fit with the local condition because the water pressure in Asia and Europe is totally different. Dr. Tessmer said that when considering demand and market potential in long-term, Hansgrohe decided to take a risk by using decentralization in Chinese subsidiary because the company sees brilliant future in this market. Decentralized management in China does not give a negative effect to Hansgrohe. On the other hand, it allows regional level managers, who have more details and up-dated information about local conditions than global and continent managers, to use their knowledge to solve the problem such as taxation system.

Regarding the overseas business expansion, Hansgrohe’s Executive Board will make decision based on demands of local market, market potential, legal and taxation system, and local government’s real estate policy. The process of overseas expansion started from exporting products in order to test the demand in a target country. If the reception is good, Hansgrohe will establish the office in a target country. But the process of testing demand takes a long time. For example, in Thailand it took more than 26 years until the company had launched its subsidiary office in Bangkok (Dr. Carsten Tessmer, Interview, 14 May 2010).

4.4 Standard Practices and Corporate Culture

When asking about the standard practices that Hansgrohe issues to employees, Dr. Tessmer and Ms. Satrirat said that all standard practices, used at headquarters, is applied with all subsidiaries around the world, including Thai subsidiary. For example, when you are in the meeting, the chairman will ask all participants to switch off their mobile phone. The chairman will be the first person to switch off his mobile phone and show it to all participants. This practice can reflect the mutual respect to each other and allow participants to pay attention in the meeting. Besides this, the communication in Hansgrohe must be formal way. All employees must communicate through e-mail because the company wants to make sure that all communication can be track and proved (Dr. Carsten Tessmer, Interview, 14 May 2010, and Ms. Satrirat Thiranant, Interview, 24 May 2010).

Hansgrohe also has the corporate culture that is “TEAM WIN” plan which is the values that the company sets up in order to make all staff members to follow it. “T” is teamwork. As mentioned in the beginning of this chapter, Hansgrohe emphasizes on teamwork rather than individual performance. “E” is equality of work. It means that the company recognizes the equality and freedom from harassment in the workplace. All employees must have the good working conditions when they are in Hansgrohe. “A” is accountability. It is the responsibility to your own work. “M” is moral. All employees have to strictly follow codes of conduct. “W” is willful. It is the commitment that employees give to their work. “I” is improvement. Employees need to improve their performance all the times. Hansgrohe encourages all staff members learn from their mistake. “N” is network and communication. Hansgrohe gives freedom to all employees to share their opinion to a manager and the top management is committed to listen to their voices. Hansgrohe has “Open Doors” culture that means all managers have to open the doors when they are working in the office. It reflects that all staff members can go and consult with their bosses anytime. (Dr. Carsten Tessmer, Interview, 14 May 2010, and Ms. Satrirat Thiranant, Interview, 24 May 2010).
“Well-trained employees with good qualifications are essential for the success of a company. The Hansgrohe Group, therefore, attaches a great importance to ensuring good working conditions, appropriate opportunities for development and a supportive corporate culture for all employees.” (Hansgrohe, Sustainability Report 2005)

And for the internal rules, Dr. Tessmer said that Hansgrohe gives the Condition of Employment Book, which is the rules and conditions in company, to all employees when they signed an employment contract. Internal rules are applied to use in headquarters and subsidiaries around the world.

According to Dr. Tessmer and Ms. Satrirat, the basic rule for employees is being on-time. The company is really serious if some employee is late. Dr. Tessmer revealed that other companies may issue warning two or three times before taking the penalty if an employee is late. But Hansgrohe will issue only one time because the company believe that being on-time is the self-discipline. If the employee does not have self-discipline, he or she cannot perform the best performance for the company (Dr. Carsten Tessmer, Interview, 14 May 2010, and Ms. Satrirat Thiranant, Interview, 24 May 2010).

Hansgrohe does not allow all employees give an interview to public if they do not get permission from top management. When the company wants to communicate or answer the questions from public, the Public Relations Department will exclusively take this responsibility. Another important internal rule is protection the data and information security about the corporate strategy, research and development data, financial information, etc. It means that company resources and information must not be used for private reason and personal benefit. The company also prevents the conflict of interests between individual staff members by not allowing a member of staff accept a gift from customer or suppliers. Moreover, the company is very strict on safety and alcohol consumption for the employees who work in production plants. Hansgrohe has the alcohol checking system for drivers and the safety procedures in the lab and factory that all employees are required to follow (Dr. Carsten Tessmer, Interview, 14 May 2010).

### 4.5 Meeting, Training, and Development Program

When asking about how Hansgrohe manage and solve the psychic distance, for example, cultural problem, in the company between headquarters and subsidiary. Dr. Tessmer revealed that Hansgrohe solves this problem by establishing “Hansgrohe Business School” which is a section that provides the range of training options such as corporate culture training, working culture training, and foreign language skills, for all management levels. The training of management-level employees is an important aspect of Hansgrohe’s training activities. Furthermore, the company has invited all subsidiary managers to attend the semi-annual meeting in order to exchange ideas, share experiences, receive the corporate policy and business strategy, and pass to subsidiary officers. The first meeting will be held in May at headquarters and the second meeting will be held in November at selected subsidiary office. In the first meeting, the company will announce the representative names to work in subsidiary offices and some of foreign subsidiary managers will be elected to work at
headquarters too. The semi-annual meeting can improve the mutual understanding and relationship between headquarters and subsidiaries.

And for subsidiary staff members, the company has a plan to launch “Junior Development Program” which is the course that trains subsidiary officers to learn the Hansgrohe’s working culture as well as train them to have professional working skills and foreign language skills. Hansgrohe believes that Hansgrohe Business School and Junior Development Program is the key to solve psychic distance problem and they can increase the relationship, mutual respect, and fair attitude when headquarters deals with subsidiaries.

“The Hansgrohe Group aims to create a working environment in which all employees can develop their full potential. The Group, therefore, advances the skills of its employees through a wide range of training programs.” (Hansgrohe, Sustainability Report 2005)

When asking Ms. Satrirat regarding “Hansgrohe Business School” and “Junior Development Program”, she admits that these two programs give a lot of benefits to all staff members in Thai subsidiary in terms of exchanging the different ideas and learning the different working culture. Hansgrohe Business School helps the global level and continental level understand Thai working culture, for example, blame a staff member in public is impolite. When a representative from headquarters has a meeting with Thai staff members, he or she will not blame them in public. As the result, it can increase the relationship and mutual respect between headquarters and Thai subsidiary. For Junior Development Program, Ms. Satrirat mentions that it helps her subordinates recognize the importance of hierarchical system and being on-time. German culture seriously emphasizes on hierarchy but Thai culture emphasizes on personal relationship. Thus, when Thai staff members have learnt the hierarchical culture from Junior Development Program, they will understand the working culture of Hansgrohe as well as German people.

4.6 Motivation for Employees

Regarding the working motivation in form of salaries, incentive wages, and bonuses, Dr. Tessmer said that the salaries and incentive wages will be increased every year based on employee’s performance. It can be measured by key performance indicator (KPI) such as behavior and sales volume. For bonuses, the company will consider and pay based on operating result in each fiscal year. Apart from salaries and incentive wages, Hansgrohe provides a lot of supplementary benefits for all employees, such as employer-funded employee pension scheme which allows employees to use public transport to and from work free of charge. All employees also have meal allowances, Christmas activities, and special offers within the framework of the company health management system. These salaries, incentive wages, and bonuses system are applied to use with all foreign subsidiaries as well.

In case of Hansgrohe Thailand, Ms. Satrirat says that all managers in Thai subsidiary will evaluate their subordinates’ performance (KPI) every December. The evaluation form will be submitted to regional level in order to make decision about the salaries and incentive wages.
for all staff members in Thai subsidiary. Refer to bonuses, the criteria for evaluating is based on profitability of Thai subsidiary in each fiscal year. Ms. Satrirat says that the incentive wages, bonuses, and supplementary benefits are the moral support for all staff members and they can build the loyalty among staff members.

4.7 Thai Subsidiary Management

When asking about the planning or annual goals for subsidiary in Thailand, Dr. Tessmer said that the annual goal for Thai subsidiary focuses only the sales value because Hansgrohe Thailand does not have the production plant. It is a sales house and customer service office. The headquarters will measure the response from Thai subsidiary by considering from the sales value that is reported to the Financial Department at headquarters office.

For the responsiveness to local demand, Hansgrohe really emphasizes and focuses on this issue. Hansgrohe views that the ignorance to local demand is the obstacle to delay the growth of company. In case of Thailand, Hansgrohe have faced the same problem as China. The water resource in Thailand is low water pressure system but most of Hansgrohe’s head showers are designed to use with high water pressure system. So Research and Development Department needs to create and design a new product that fits with the low water pressure system in Thailand.

Another example is customer service. In the past, customer service office opened Monday to Friday, 8.30-16.00. But Thai customers complained that they were inconvenience to go to the showroom during this period because it was their working time. Finally Thai subsidiary reported this problem to headquarters and the company decided to extend the service hours to be 7 days per week. As the result, the company has received good feedback and it gives a lesson regarding Thai culture and lifestyle (Ms. Satrirat Thiranant, Interview, 24 May 2010).

4.8 Conflict Management with Thai Subsidiary

When asking about the conflict problem in managing relationship with subsidiary in Thailand, Dr. Tessmer admitted that it was a problem in the past but at the present it is solved. The conflict occurred from working culture. Headquarters sent the German Director to manage Thai subsidiary but it seemed that they did not understand Thai tradition and culture. For example, when a German Director needs to give the negative feedback to Thai staff members, he will do it in the meeting room in front of the participants. According to Thai culture, Thai staff members feel that their boss do not respect them and his action is very impolite. As the result, many Thai staff members did not like German Director and they tried to work in their own way, not follow their Director’s assignment. Hansgrohe solved this problem by appointing the new Director who has working experiences in Germany and South East Asia region and deeply understand Asian culture to run business in Thailand. At the present, the country representative for Thailand is Ms. Satrirat Thiranant who has been working for Hansgrohe for 9 years. Ms. Satrirat can speak German fluently because she graduated from Ludwig Maximilian University of Munich, Germany. So she understands German working culture and Thai working culture very well.
When asking Ms. Satrirat regarding the solution that headquarters uses to solve this conflict, she said all Thai staff members gave a positive feedback after German Director was replaced. Ms. Satrirat said that put the right man in the right job is a key to solve conflict problem. It can increase the collaboration between headquarters and subsidiary, and improve the subsidiary’s performance with regard to headquarters’ strategy.

4.9 Difficulty and Limitation in Managing Thai Subsidiary

The last question in our interview deals with the difficulty and limitation in managing the subsidiary in Thailand. Dr. Tessmer stated that the unstable political situation is the most difficulty for running business in Thailand. Currently, Hansgrohe cannot open its office and showroom because of the unrest situation in Bangkok. Regarding the limitation in managing Thai subsidiary, Hansgrohe faces the problem that some corporate culture cannot be applied with Thai people. For example, Germans always use direct communication when they are in the meeting because it shows the honesty to other people. But in Thai culture, you have to begin the meeting with indirect communication, such as asking about the private life, because Thai people think that it is polite and creates an impression of sincerity to them. Therefore, Hansgrohe has learnt that the direct communication culture is not suitable with Thai subsidiary. As the result, the company has decided to add this problem in the training lesson for those who attend the Hansgrohe Business School to learn Thai culture.
Chapter 5: Analysis

In this chapter, we will present our analysis formed on the basis of our conceptual framework and literature review.

5.1 Coordination Mechanism (Formal and Informal Structure)

According to Martinez and Jarillo (1989) and Clemmons and Simon (2001), coordination mechanisms are the administrative tools for executing integration among different units within organization. Coordination mechanisms can be described into two types: formal structure and informal structure. Formal structure is divided into five types which are departmentalization, centralization or decentralization of decision making, formalization and standardization, planning and output and behavioral control. Informal structure is the organizational culture that is a procedure that headquarters trains subsidiaries to lead them by the common values, loyalty, beliefs, etc. It is apparent that Hansgrohe exercises coordination mechanisms to manage and control the relationship between headquarters and subsidiaries. The company has implemented formal structure and informal structure into its strategy and management that we will discuss in the next section. From our telephone interview with Dr. Carsten Tessmer, a representative from headquarters, we were informed that Hansgrohe believed that coordination mechanisms can solve the cultural problem and distance problem (Dr. Carsten Tessmer, Interview, 14 May 2010). This statement matches the article by Bartlett and Ghoshal (1987) where "coordination mechanisms are the tool to get rid of the distance problem as well as the level of complexity in the local countries, for example, culture, political, etc."

5.1.1 The Formal Structure

In this part, we will discuss how Hansgrohe implements formal structure in its organization.

5.1.1.1 Departmentalization

Simon (1976) state that departmentalization is the mechanism for influencing activities in organization to be the units. In case of Hansgrohe, the company has established seven departments at headquarter office that are Production, Accounting, Engineering, Sales and Marketing, Information and Technology, Logistic, and Public Relations. All departments at headquarter office are called "Global Level" (Dr. Carsten Tessmer, Interview, 14 May 2010). Each department has to directly report its performance to the President and CEO, at the same time, each department has to control its line which is called division or "Continental, and Regional Level" and report the operating result to President and CEO as well. For example, Sales and Marketing Department in the global level has to manage and control its continental level that consists of Germany, Europe, North and South America, Asia-Pacific, and Middle East and Africa Division. Continental level also has to control its regional level, for example, Asia-Pacific Division has to control subsidiary in Australia, Japan, China, Thailand, and Singapore. The management between global, continental, and regional level can be seen as departmentalization because all activities are influenced by global level and continental and regional level need to follow it. This confirms that Hansgrohe has exercised departmentalization in managing the business in headquarters and its subsidiaries.
Besides this, Hansgrohe has clustered its core functions, for example, Research and Development Department, Engineering Department, and Production Department, at headquarter office which is located at Schiltach, Germany. The company has four production plants outside Germany but the major production is located in Germany. Thai subsidiary does not have the core functions in its office. It has only two departments that are Sales and Marketing Department and Accounting Department. This can be directly matched with the studies of Solvell and Zander (1995) that the home-based model as the place where the firm combines a group of essential functions in one place.

5.1.1.2 Centralization or Decentralization of Decision Making

Hansgrohe, at the beginning, decentralized its business when expanding to Switzerland. But it did not work because it created conflict of interest within the management board. As the result, the conflict led Oliver Grohe, who was a head of Swiss subsidiary, to sell his share and establish a new company named Grohe. So Hansgrohe decided to change the subsidiary management style from decentralization to centralization because the company wants to control and manage the foreign subsidiaries to go in the same direction under corporate strategy. For example, when Hansgrohe wants to make the strategic decision making or want to expand its business to overseas, it will be made at the global level which is the top management of company. (Dr. Carsten Tessmer, Interview, 14 May 2010) This statement is related with Ms. Satrirat Thiranant, a representative from Thai subsidiary, who said that all strategic decision for Thai market will be issue from a headquarters because Thai market size is small and it is easy to control business strategy to go in the same direction with headquarters (Ms. Satrirat Thiranant, Interview, 19 May 2010).

However, Hansgrohe has decided use decentralization in China because “doing business in China is extremely difficult, especially for foreign companies that have no experiences in this country. China is a very diverse market and the company has to face the language and cultural differences, the intervention from government, and the complicated taxation system. Thus, the company allows regional level managers who are Chinese and have more details and up-dated information about local conditions than global and continent managers, to use their knowledge to solve the problem such as taxation system” (Dr. Carsten Tessmer, Interview, 14 May 2010).

According to Martinez and Jarillo (1989) and Rodrigues (1995), they state that centralization is a process that headquarters does not give much self-control to the subsidiaries, while decentralization is a process that subsidiaries are given a great deal of self-control and they can make most significant decisions relating to local operations. In case of Hansgrohe, the company uses both centralization and decentralization of decision making in managing its subsidiaries, i.e., Thailand and China. When considering from Net Sales for last 5 years and the situation in Chinese market, Hansgrohe believes that centralization and decentralization of decision making in managing subsidiary gives the positive return for company (Dr. Carsten Tessmer, Interview, 14 May 2010).

Hansgrohe can be considered as an ethnocentric MNC when it manages and controls foreign subsidiaries except China. On the other hand, it can be considered as a polycentric MNC when it manages and controls subsidiary in China. As Hedlund (1986); Solvell and Zander (1995); Tolentino (2002) cite that ethnocentric MNC is the company that manages the business from the home country. The governance style is hierarchy. The company uses the centralization to control its subsidiaries and also uses one way flow of communication from
headquarters to subsidiaries. This statement matches with Dr. Tessemer’s interview that “Hansgrohe’s organizational structure is hierarchical. Decision-making is held at the global level which is the top of company” (Dr. Carsten Tessmer, Interview, 14 May 2010) and Ms. Satrirat also supports this by saying “Thai subsidiary cannot create business strategy by itself, Hansgrohe has corporate culture that the decision from headquarters must be respected. When the decision is made, it is final.” (Ms. Satrirat Thiranant, Interview, 19 May 2010). According to Solvell and Zander (1995), polycentric MNC is seen as the company that has core function in home country but major business areas are located to other parts of the world. The governance style of polycentric MNC is decentralization and foreign subsidiary can make decision by itself. Thus, we believe that the decentralization that Hansgrohe gives to its Chinese subsidiary can be related with polycentric MNC.

5.1.1.3 Formalization and Standardization

Pugh et al. (1968) mention that formalization and standardization is the rules, policies, values, and procedures that the company uses to set up a routine or pattern in order to make all staff members to follow it. In case of Hansgrohe, all rules, policies, values, and procedures that are used at headquarters, are also applied with all subsidiaries around the world (Dr. Carsten Tessmer, Interview, 14 May 2010). One of the internal rules that Hansgrohe uses in headquarter office and subsidiary offices is the communication in the company must be formal way. All employees must communicate through e-mail because it is easy to track and proved the work and job assignment. Other important internal rules are being on-time, the restriction to give an interview with public if you do not get permission from top management, do not allow a member of staff accept a gift from customer or suppliers, company resources and information must not be used for private reason and personal benefit. This is related with Ms.Satrirat’s interview, she revealed that Thai subsidiary has the same internal rules as headquarters. Therefore, we can conclude that Hansgrohe uses formalization and standardization in managing subsidiary.

5.1.1.4 Planning

According to Solvell and Zander (1995), they state that all major activities, such as strategic planning processes and budget plan, are planned in the headquarters. Moreover, headquarters will use the selective tapping strategy which is a method that subsidiary will inform headquarters regarding the demand or information in foreign countries. After getting information about local market and condition, the company will standardize resources to fit with the local condition. Hansgrohe is an example of company that matches with the study of Solvell and Zander. As Dr. Tessmer and Ms. Satrirat said in the interview, the strategic plan, marketing plan, budget plan, financial plan, and all major business plans must come from the global level in the headquarters. Subsidiaries have to strictly respond and follow it. For selective tapping strategy, the distinctive examples are in China and Thailand. Hansgrohe has received the information about its shower head problem. As the result, the company has developed its product to fit with the local condition by introducing the new shower head with low water pressure system. Thus, we can state that planning is used by Hansgrohe in managing its subsidiaries around the world.

5.1.1.5 Output and Behavioral Control

In our literature review, there are two independent figures for managing control in company. First is output control. Second is behavioral control. Ouchi and Maguire (1975); Ouchi (1977) as cited in Martinez and Jarillo (1989); Child (1972, 1973); Mintzberg (1979); Blau and Scott
(1962) mention that output control is the paper, records, and reports submitted by organizational units to the executive management. If the output (performance) of subordinates is good, the company should reward them by paying the bonus based on the profitability (Kobrin 1984) as cited in Hedlund (1986). In case of Hansgrohe, the company uses output control by implementing key performance indicator (KPI) to measure the employees’ performance. The managers in each level will evaluate their subordinates’ performance and report to the management level in order to decide the rewards in form of incentive wages and bonuses to them (Dr. Carsten Tessmer, Interview, 14 May 2010). Ms. Satrirat has confirmed this statement by saying that she needs to evaluate her subordinates’ performance every December. After that, she will send the evaluation forms to regional level in order to make the decision about the bonuses for staff members in Thai subsidiary. For behavioral control, Mintzberg (1983) cites that it is the personal control which manager uses to observe the behavior of subordinates. At Hansgrohe, behavioral control is implemented by allowing all managers observe the subordinates that who come to work late, who violate the internal rules by giving interview to public without permission from top management, and etc. Therefore, we can conclude that Hansgrohe uses output control and behavioral control in managing its subsidiaries.

5.1.2 Informal Structure
In this part, we will discuss how Hansgrohe implements informal structure in its organization.

5.1.2.1 Organizational Culture
According to Pfeffer (1992); Galbraith and Edstrom (1976), they cited that organizational culture is the process of training corporate and subsidiary managers, training their loyalty, minimize the divergence, and reward staff members when they perform good performance. In our empirical finding, we come to know that Hansgrohe has the corporate culture that is “TEAM WIN” plan which is the values that company sets up in order to make all staff members to follow it (Dr. Carsten Tessmer, Interview, 14 May 2010). Besides this, the company also has Hansgrohe Business School and Junior Development Program to train its staff members in order to learn working culture in each country, build the loyalty among the employees. Therefore, we can state that Hansgrohe has exercised the informal structure by implementing organizational culture in organization.

5.2 Handling Conflict between Headquarters and Subsidiary
Tasoluk et al. (2006) state that agency theory concerns about the relationship between a principal (headquarters) and an agent of the principal (subsidiary). The conflicts may occur from the risk associated with the agent’s possible misrepresentation of its abilities and capabilities either at the time of the headquarters’ initial entry into a relationship with the subsidiary or while their relationship is ongoing. Therefore, the headquarters needs to closely monitor the subsidiary’s behavior in order to solve conflicts.

In the past, Hansgrohe had the conflict problem, i.e., working culture, in managing Thai subsidiary. As Dr. Tessmer said during the interview “Headquarters sent the German
Director to manage Thai subsidiary, but it seemed that they did not understand Thai tradition and culture. For example, when a German Director needs to give the negative feedback to Thai staff members, he or she will do it in the meeting room in front of the participants. According to Thai culture, Thai staff members feel that their boss do not respect them and his action is very impolite. As the result, many Thai staff members did not like German Director and they tried to work in their own way, not follow their Director's assignment.” (Dr. Carsten Tessmer, Interview, 14 May 2010) For the solution, headquarters office has appointed the new representative who has working experiences in Germany and South East Asia region and deeply understand Asian culture to manage business in Thailand. This can match with agency theory (Tasoluk et al., 2006) because when headquarters closely monitors Thai subsidiary by appointing the new representative to manage Thai subsidiary, the conflict between top management and lower staff members were solved.

Furthermore, Ms. Satrirat has agreed this statement by saying that “Thai staff members gave a positive feedback when headquarters appointed the new director who understands the Thai working tradition and culture. She explained that put the right man in the right job is a key to solve conflict problem. It can increase the collaboration between headquarters and subsidiary, and improve the subsidiary's performance with regard to headquarters’ strategy” (Ms. Satrirat Thiranant, Interview, 24 May 2010). This can reflect the win-win solution as cited in Bazerman and Neal (1984).

5.3 National and local responsiveness strategy in managing the subsidiary

Barlett and Ghoshal (1987) state that the national responsiveness is an important feature to lead MNCs accomplish their goals in the international business. MNCs exercise national responsiveness strategy by adapting product, service, or strategy to fit with local conditions in different national markets. In case of Hansgrohe, we find that the company has adjusted its shower head to fit with the local conditions in China and Thailand. Furthermore, the company also adapts its service in Thailand by extending the service hours for its showroom. In the past, customer service office opened Monday to Friday, 8.30-16.00. But Thai customers complained that they were inconvenience to go to the showroom during this period because it was their working time. Finally Thai subsidiary reported this problem to headquarters and the company decided to extend the service hours to be 7 days per week. As the result, the company has received the good feedback and it gives a lesson regarding Thai culture and lifestyle (Dr. Carsten Tessmer, Interview, 14 May 2010, and Ms. Satrirat Thiranant, Interview, 24 May 2010). This statement implies that Hansgrohe provides the national responsiveness strategy to respond and manage its subsidiary.

Barlett and Ghoshal (1987) also state that the local responsiveness can refer to the headquarters that hires local people to important positions in subsidiary office in order to help company get good performance rather than using the headquarters’ staff members who do not have knowledge and experience in local country. In case of Hansgrohe, the company appoints Ms. Satrirat Thiranant as a new Director of Thai subsidiary. Ms. Satrirat is Thai staff member who understands German working culture and Thai working culture very well. Hiring Ms. Satrirat helps Hansgrohe solves the conflicts within Thai subsidiary and it can rebuild the long-term relationship between the company and its staff. Ms. Satrirat knows
that Thai people appreciate a negative feedback when they are informed in private. It contrasts with German people that prefer to give a negative feedback in front of many people in the meeting room. When Ms. Satrirat needs to give a negative feedback to her subordinates, she will do in private. Her action represents a mutual respect to all Thai staff members. It can create the trust, and long-term relationship within organization. It matches with the Barlett and Ghoshal (1987, p.14) who state that “administrative heritage is the company’s greatest assets which enhance the long-term relationship between the company and its staff.” Therefore, we can conclude the Hansgrohe has provided the local responsiveness to respond and manage its subsidiary as well as having the administrative heritage in managing its subsidiary.

When considering the role of Thai subsidiary, Lin and Hsieh (2010) define an active subsidiary is the subsidiary that is highly integrated with headquarters and strictly follows the strategies and policies from headquarters as well as focusing to respond local demand of local country. The empirical data shows that Thai subsidiary actively responds to the headquarters’ mandatory. For example, strategic plan, marketing plan, corporate culture, and internal rules. Ms. Satrirat also insists this sentence by saying that “Hansgrohe has corporate culture that the decision from headquarters must be respected. When the decision is made, it is final. Subsidiary has to strictly respond and follow it” (Ms. Satrirat Thiranant, Interview, 19 May 2010) Therefore, we can conclude that Hansgrohe Thailand is an active subsidiary.
Chapter 6: Conclusion

In this chapter, we will present the study result summary, implication, and further studies.

6.1 Study Result Summary

With regard to the main research question “What are the formal and informal structures of coordination mechanisms that can be used to manage subsidiaries?” We can answer that Hansgrohe exercises both formal and informal structures of coordination mechanisms in managing its subsidiaries. For the formal structure, the company uses all types that are (1) Departmentalization, (2) Centralization and Decentralization of Decision Making, (3) Formalization and Standardization, (4) Planning, and (5) Output and Behavioral Control. And for the informal structure, the company uses organizational culture to manage their own subsidiaries around the world.

The first is departmentalization. Hansgrohe has seven departments in its headquarters. Besides this, the company has divided its business into three levels that are global, continental and regional level in order to easily control and combine headquarters and subsidiaries to be homogeneity. In case of Thai subsidiary which is in regional level, they also have two departments in their own organization. This can reflect to Hansgrohe has employed the departmentalization within company.

The second is centralization and decentralization of decision making. Hansgrohe uses centralization of decision making to control and manage its subsidiaries, including Thai subsidiary. However, it has a special case in Chinese subsidiary. Hansgrohe needs to decentralize its business in China because doing business in China is very difficult if you have no business experiences in this country. The foreign company who has no experience will face the difficulty such as culture and taxation system. Therefore, Hansgrohe exercises both centralization and decentralization in managing its subsidiaries around the world.

The third is formalization and standardization. In case of Hansgrohe, all standard practices, used at headquarters, are applied with all subsidiaries around the world, including Thai subsidiary.

The forth is planning. Hansgrohe is an outstanding model company that uses planning in its organization. All major business plans, i.e., strategic plan, marketing plan, and financial budget, must come from the global level in the headquarters. And all subsidiaries have to strictly respond and follow it.

The last type in formal structure is output and behavioral control. Hansgrohe exercises output control by implementing key performance indicator (KPI) to measure the employees’ performance. In case of behavioral control, Hansgrohe implements it by allowing all managers observe the subordinates’ behavior. Therefore, we can conclude that Hansgrohe uses output control and behavioral control in managing its subsidiaries.

For informal structure of coordination mechanism, it is a tool for governing people working together in practice. In our study, the informal structure is organizational culture. Hansgrohe has “TEAM WIN” plan as a corporate culture. Thus, we can conclude that Hansgrohe
exercises the informal structure of coordination mechanism by using corporate culture in managing the relationship between headquarters and subsidiaries.

With regard to the first sub-research question that is “How do the headquarters and the subsidiary solve conflicts that occur in business coordination?” It is obvious that Hansgrohe solves the conflict in managing Thai subsidiary by replacing German Director by local people. In the past, the conflict in Thai subsidiary occurred since German Director blamed Thai staff members in front of many people in the meeting room. According to Thai culture, it is impolite behavior that affects the subsidiary’s performance and long-term relationship between headquarters and Thai subsidiary. Hence, Hansgrohe appoints Ms. Satrirat who is Thai staff as a new Director of Thai subsidiary. Ms. Satrirat knows German working culture very well because she graduated from Germany. So she knows how to control and manage Thai staff members and rebuild the trust and long-term relationship between headquarters and Thai subsidiary. As the result, Hansgrohe receives win-win solution because headquarters can repair the relationship with Thai staff members and Thai subsidiary can manage its staff members to work into the same way with headquarters’ strategy.

With regard to the second sub-research question that is “Does the headquarters have a strategy to respond to national and local responsiveness in managing the subsidiary?” We can see that Hansgrohe responds to national responsiveness by adapting its shower head to fit with the local conditions in China and Thailand. Moreover, the company has changed the service hours for its showroom to open 7 days per week in order to respond the demand of local customers. Regarding to local responsiveness, hiring the local people to important positions help company get good performance rather than using the headquarters’ staff members who do not have knowledge and experience in local country. Hiring Ms. Satrirat who is local people can be considered as a local responsiveness strategy that Hansgrohe responds in managing Thai subsidiary.

To sum up, it is clear from this study that Hansgrohe has implemented all types of formal structure and informal structure of coordination mechanisms in managing its subsidiaries. Besides this, the company solves the conflict that occurs in business coordination between headquarters and Thai subsidiary by replacing a German Director with Thai staff members who has a background in German working culture. Finally, the company responds to the national responsiveness and the local responsiveness strategy by adapting its product and service to fit with local condition as well as hiring the local people to management position in local subsidiary.

However, we have to admit that it does not have the coordination mechanisms that can perfectly control and manage relationship between headquarters and subsidiary. It depends on the organizational knowledge and skill in exercising this mechanism to fit with its conditions.
6.2 Implication

Our main purpose of study is to find out the formal and informal structures of coordination mechanisms that headquarters can use in managing its subsidiaries. Thus, the company that wants to expand its business to overseas, especially Thailand, can learn from our study and adapt the result of study to fit with the company’s condition. In addition, this study also provides the ideas regarding how to solve the conflict between headquarters and subsidiary and how to respond to national and local responsiveness strategy.

Due to time limitation, our study focuses only one company and the relationship management between headquarters in Germany and subsidiary in Thailand. So the future research can be studied in broader area by using this thesis as a guide to expand the wider ideas.

6.3 Further Studies

In our study, we focus on how headquarters manages and controls its subsidiary. Therefore, it would be useful if the further studies will focus on how subsidiary responds to the management and control of headquarters. It is also interesting to study how headquarters decentralizes its business in China because this thesis has focused only centralization of decision making.
Chapter 7: Recommendation

According to all mentioned part in this thesis about the Coordination Mechanisms and Management Control in International Business of Hansgrohe is highly successful and interesting but we still find the tiny problem in management level that is the managers in each subsidiary should be rotated to other subsidiaries when they appoint the term of occupy (Maximum 5 years). Some of them take time in adjusting their lifestyle to fit with the local culture. As the result, it can affect their working performance. Hence, we would like to recommend that the company should set up the activities for management level to learn the culture of each area in order to help them know multinational cultures and lifestyles.
References


Appendix

Interview Questions for Headquarters

1) How many departments in Hansgrohe AG?
   a. Does Hansgrohe have a specific center outside Germany? For example; manufacturing plants in low labor cost countries.

2) As Hansgrohe is the Multinational Company. What are the factors that company use to make the decision when it want to expand business to overseas?

3) What is the style of decision making that headquarters use to control subsidiary? For example; centralization or decentralization.
   a. Why does Hansgrohe use this style of decision making to control subsidiary?

4) Does the answer from question no.2 become effective strategy to drive company achieve the goals? Does it stimulate the response when subsidiary receive the policy from headquarters?

5) What are the standard practices and internal rules of company? Is it applied to foreign subsidiaries?
   a. Does Hansgrohe have any instructions or guide book for your staff in daily operation?
   b. Does Hansgrohe have any instructions or guide book for your staff in behavioral role?
   c. Does headquarters set structure for subsidiaries or both create common value and corporation culture?

6) How does Hansgrohe manage and solve the psychic distance, for example, cultural problem in the company and between headquarters and subsidiary?

7) Are there any annual goals or planning for your Subsidiary in Thailand?
   a. If yes, where does it set up? (Does it from headquarters?)
   b. How can you measure the response from subsidiary?

8) Is there any motivation in form of financial, which is tied to performance, (For example; incentive wages, bonuses) or other rewards?

9) In your opinion, is it important to for company to respond the local demand in local market?
   a. Does Hansgrohe need to adjust the strategy, product, or service to fit with the local condition in Thailand? (Please kindly provide the example)
10) Does Hansgrohe have conflict problem in managing relationship with subsidiary in Thailand?
   
a. If yes, please kindly specify.

b. What is your solution to solve this problem? Do you need to hire a middleman as a connector between headquarters and subsidiary?

11) What is the difficulty in managing subsidiary in Thailand?

**Interview Questions for Subsidiary**

1) Please state name of company and department you are working for.
   
a. What is your position and how long have you been in this position?

2) How many departments in Hansgrohe Thailand?

3) Do you have the authority in making decision in daily operation work? Or every decision making must come from headquarters in Germany.
   
a. Were there any limits imposed on the decision making process? If Yes, could you list some examples?

4) Does the answer from question no.3 and 4 help your working performance? Does it stimulate the response for local staff members when they receive policy from headquarters?

5) Do you use information from other departments or other company in Hansgrohe group for your work?

6) How do you get information for your daily operation? (Have you had a training before start working in Hansgrohe)

7) Do you think that any motivation, that headquarters gives to subsidiary such as incentive wages or bonus, will stimulate your performance and maintain relationship between headquarters and subsidiary?

8) How do you respond to headquarters when you feel that the policy, product, or service cannot fit with local condition and demand in Thailand?