Coordination and Control Mechanisms of
Western European MNC towards Southeast Asia Subsidiaries
A Case Study of PZ Cussons

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Abstract

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Title: Coordination and Control Mechanisms of Western European MNC towards Southeast Asia Subsidiaries

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Research Problem:

“How does Western European MNC coordinate and control its subsidiaries in Southeast Asia?”

Purpose: To describe how Western European MNC controls and coordinates with its subsidiaries in Southeast Asia.

Method: The qualitative approach is employed for gathering data and analysis. The primary data is collected by the semi-structure interview. PZ Cussons is selected as a case study in order to study and describe the control and coordination mechanisms between headquarters and subsidiaries.

Conclusion: To achieve effective business operation and respond to increased complexity of international environments, it is important for a large and complex MNC as PZ Cussons to concern the control and coordination mechanisms between headquarters and subsidiaries. Considering different contexts among various subsidiaries, PZ Cussons structured the organization as multi-home-based MNC with partial in heterarchical management and deploys a combination of several control and coordination mechanisms to fit with each subsidiary’s environment. Transnational solution as well as control and coordination mechanisms as differentiated fit and shared value are integrated and implemented by PZ Cussons headquarters in UK to cooperate with Thailand and Indonesia subsidiaries in Southeast Asia.

Keywords: Multinational Company, Organization structure, Coordination mechanisms
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Ratiboon Assawajaruan and Teeranuch Pumthong

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June 3, 2010
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<tr>
<td>MNC</td>
<td>Multinational Company</td>
</tr>
<tr>
<td>R&amp;D</td>
<td>Research and Development</td>
</tr>
<tr>
<td>UK</td>
<td>United Kingdom</td>
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1. INTRODUCTION

In the introductory section, the research background and research question will be presented. This section begins with a background to our research area and research question, followed by our purpose to understand the research topic, target groups who gain benefits from reading the research will be presented.

1.1 Research Background

Nowadays, business world is moving faster and more competitive. In order to compete with rivals, firms need to have proficient strategies and seeks for opportunities in the new markets in order to gain competitive advantages. Global and local strategies are employed in expanding internationally strategies that multinational companies approach to gain competitive advantages from their rivals either to reduce transaction costs or to boost up demands for competing in business field. One of the main factors in succeeding in international market is market selection. Recently, emerging market is one of the most popular options as selected market for the US and Western European MNCs to invest in; even though expanding business into emerging market, the MNC has to face with a great risk in investment. Emerging market is defined as developing markets in developing countries such as China, India, Southeast Asia countries and so on. These markets have robust economic growth with the increasing of GDP (Gross Domestic Product) and revenues. People who live in these countries have the rising of purchasing power in buying products and services. In this circumstance, it provides the opportunities for international firms in penetrating and gaining competitive advantages in terms of a great number of new customer bases from these countries. (Hinton, 2010)

In operating towards subsidiaries in foreign countries, MNCs need to concern to the control and coordination mechanisms in order to manage its subsidiaries in the effective way. The difficulties regarding technology transfer or knowledge learning through the organization may be different depending on their administrative history; therefore, this leads to various optimal patterns of resources and uses of control and coordination mechanisms (Rugman and Verbeke, 1992). Concerning international growth through various subsidiaries, it is concerned by MNCs to build up and optimize the organizational structure along with the effective control mechanisms. However, the different environments among subsidiaries are the crucial factors which MNCs need to focus on and try to manage them effectively. The capability of MNCs to control to different subsidiaries appropriately could bring competitive advantage to the companies and lead them to achieve their corporate mutual goal. Establishing subsidiaries in foreign market, not only the companies gain more
beneficial local resources, but also they can expand market as well as get closer to target customers.

1.2 Research Problem

Base on research background, in order to narrow the scope down to the specific areas, the Western European countries and Southeast Asia countries have been come to the area of attention. The interesting point to choose to study in the area of Western European countries and Southeast Asia comes from our perceptions that most of potential MNCs are belonged to Western European companies and they tend to invest in Southeast Asia countries. There are many potential Western European MNCs operate their organization by cooperating with their subsidiaries in Southeast Asia successfully. Therefore, the coordination and control mechanisms between Western European headquarters and Southeast Asia subsidiaries has been shaded light with curiosity that how headquarters manage subsidiaries located in different contexts effectively. Thus, in order to explore the questioned statement, the research question is developed as below.

“How does Western European MNC coordinate and control its subsidiaries in Southeast Asia?”

1.3 Aim of Thesis

This thesis will present and describe how does Western European MNC control and coordinate with its subsidiaries in Southeast Asia. As many factors concerning to be obstacles for MNCs to establish and operate the business in foreign countries such as the differences in weathers, distances and/or cultures; therefore, understanding coordination as well as control mechanisms which a firm select as a managerial tool to get through these hindrances and became success in those specific regions is the aim of this thesis.

1.4 Target Group

This thesis aims to provide the knowledge in the area of coordination and control mechanisms of Western European MNC towards subsidiaries in Southeast Asia. Hopefully this thesis benefits to academic and general readers who are especially interested in MNCs managerial perspectives in coordinating with their subsidiaries in the emerging market as
Southeast Asia region in this case. This thesis provides readers and/or scholars with academic perspectives to understand the business practices implemented from the practical uses of the international business management.
2. LITERATURE REVIEW

This following section, the following theories regarding organizational structure, coordination and control mechanisms, and transnational solutions will be described respectively. The explanation of the particular theories and the connection between theories will be presented.

Many scholars proposed the common theoretical models in relevant to organizational structures and managerial processes for MNCs in order to deal with the increasing complexity in international environment and to join global integration and national differentiation. Some of models are “the geocentric firm (Perlmutter, 1965), the multifocal firm (Doz, 1986), the diversified multinational corporation, DMNC (Prahalad and Doz, 1987), the transnational firm (Bartlett, 1986; Bartlett and Ghoshal, 1989, 1990), the horizontal firm (White and Poynter, 1990) and the heterarchical MNE (Hedlund, 1986, 1993; Hedlund and Rolander, 1990)” (Sölvell and Zander, 1995, pp.18)

There are the relations and connecting points among the studied fields of organizational structure of MNCs, control and coordination mechanisms, and the transnational solution. The connecting point of chosen theoretical fields are the main reasons of presenting literature review in this section; therefore, the other areas of study which cannot suitably describe and not have relation to each other is not presented and criticized here. The following three theoretical areas of study are selected relates to the research topic ‘the coordination and control mechanisms’.

2.1 Organizational Structure

Concerning that international business environment is expanding and getting more complex; the differences of internal structures and strategies are needed in order for the MNC to manage in such various environments in terms of functional operation, geographical context, and product business lines (Malnight, 2001). Therefore, to maintain international competitive advantage, the MNC has to develop sophisticated organizational structure and effective management system to deal with this situation. The suitable structure and managerial activities are needed to combine the global integration as well as local differentiation together. (Sölvell and Zander, 1995) “Characteristics of these structures include a global dispersion of operations, interdependence and tight coupling of subunits, and an emphasis on cross-unit learning and structural flexibility” (Malnight, 2001, pp. 1187) There are two main streams of perspectives in organizational structures area of MNCs; the home-based and the heterarchical model (Sölvell and Zander, 1995).
2.1.1 The Home Based MNC

The home based MNC can be described as the company established in its home country (a specific geographic area) where it has the core functions of business such as strategic decision-making, core production, research and development department, and engineering and so on. Within home based model, the global firm is seen as an insider in which connected to other firms such as customers, competitors, or suppliers and so on, as well as, closed linkages with local institutions such as local research center, government institution, and so on. Therefore, these bring important knowledge and learning to a home based MNC which can be defined as competitive advantages for the company. This kind of competitive advantage is the significant basis for MNCs to have global efficiency in a global network because when a firm develops a global strategy, it is able to make use of the technology advantages from the home country and get the advantage of the efficiency in production with economic of scales. However, while development of global strategies is important, MNCs should consider local manufacturing at the same time as it helps to decrease the trade barriers, increases sales growth in foreign markets and also creates a good image for the company. (Sölvell and Zander, 1995) This can be assumed that the importance of subsidiaries is increasing over time; thus, managing subsidiaries become the crucial issue for MNCs to deal with. Therefore, from this home based MNC perspective, there are two types of models for MNCs to choose to operate with theirs subsidiaries. Two different models are the simple home-based MNC and the multi-home-based MNC.

2.1.1.1 The Simple Home-Based MNC

The simple home-based model is used as a term for the firm which organizes all of its business within a specific one home-based, a home-country for an example, because they perceive the opportunity and the way to exploit the competitive advantages. The two major components of this organizational model are the corporate headquarters and subsidiaries. The core operation of a company such as strategic decision making, research and development, engineering, and main manufacturing is functioned by the headquarters in a certain geographical area. While subsidiaries located in different international environments perform minor operations and peripheral activities such as local marketing, assembly, product modification and services. (Sölvell and Zander, 1995)

Within this structure, MNCs build their relationships with other actors such as customers, suppliers, competitors, and government institutions and so on. The network relationships bring the competitive advantage centrally to a company, also allow the company to learn, experience, experiment and innovate itself for international efficiency and management (Ibid., pp. 19-23).
According to Hedlund (1986), the simple home based MNCs can be described along with an *ethnocentric* company. In this perspective, the ethnocentric company is managed by home country company. The operation from headquarters to subsidiaries is controlled by the standard practice of the home country company which can be seen as the vertical coordination in divisional labors. The subsidiaries need to employ strategies generated from headquarters. Also, there are a great number of rotations between headquarters and foreign subsidiaries.

### 2.1.1.2 The Multi-Home-Based MNC

The multi-home-based MNC occurs when the firm decides to set up the main operation outside its home country. The process of establishment usually comes from the international acquisitions and strategic partnerships. The business lines are diversified to the selected markets to create multi-home-base structure. The major two elements of this structure are the same as in the single home-based which are the headquarters and subsidiaries. However, the individual subsidiaries have the level of independence from the headquarters higher than the simple home-based model. In each centers or subsidiaries, they are responsible for the main business activities such as strategic decision-making, marketing, research and development, manufacturing and so on within their own specialized field of business. The local environmental advantages could be occurred when different subsidiaries perform excellently in their local business areas. Thus, a company as subsidiary becomes a different specialized business unit and responses to its own market and resources. As a result, the roles of corporate headquarters are decentralized towards its specialized business units which mean that the decision will be moved from the headquarters toward subsidiaries. (Sölvell and Zander, 1995)

The characteristic of multi-home-base MNCs can be defined similarly with a *polycentric* company in Hedlund’s perspective. The polycentric company is founded when business in foreign subsidiaries become more significant than in a home country operated by headquarters. However, in comparison with ethnocentric view, there is less rotation between headquarters and subsidiaries in personal managers. Then, because there is less rotation of managers; therefore, there is increasing of independence in subsidiaries. They are able to make their own strategic decision in the local market operation. (Hedlund, 1986)

### 2.1.2 The Heterarchical MNC
The heterarchical organization idea is proposed by Hedlund (1986) who introduces this kind of model as the hypermodern model for MNCs. The configuration of the heterarchical MNCs is presented by having one or more various centers which each centers perform a center of its own. The purpose of having several centers is to support the ideas of global and local strategies. The pattern of this structure is complex; however, it is challenging for the company because it enables the business to take the advantages from a wide range of opportunities. In the organization of heterarchy, the connection between two elements, the headquarters and subsidiaries, is independent from all of units within the firm. The strategic responsibilities for the units allow every unit to generate new ideas which can be applied to be as strategies or even new products for the whole organization and be implemented worldwide through the network of subsidiaries. As it is difficult to organize such a complex networks like heterarchical structure; therefore, the different management styles are implemented to create the mutual trust and understanding. Moreover, a corporate culture is employed as another approach in order to ensure that information is shared and interpreted by each unit in the similar ways for the whole company. (Sölvell and Zander, 1995)

The fundamental concept of the heterarchical model is in accordance with geocentrism view proposed by Hedlund (1986) as geocentrism MNCs are the MNCs which their subsidiaries are able to play a role in business action for the whole MNC, not only for their owns. This approach allows information regarding knowledge and strategies to be shared and delivered to the whole company in order for members to acknowledge and perform to reach the mutual goal. The prominent pattern in control of heterarchical approach is performed in terms of “management style”, “cultural control”, and “corporate culture”. (Ibid., pp. 24)

### 2.2 Coordination and Control Mechanisms

MNCs apply several approaches of mechanisms to control their foreign subsidiaries such as shared assets with company joint-ventures, participating of board of directors, training and staffing key agents, employment socialization and so on (Jaussaud and Schaaper, 2006). There are different contexts not only between headquarters and subsidiaries, but among subsidiaries themselves such as different environments and resources also; therefore, it is necessary for MNCs to concern the factors result in differences during business operation and focus intensively on the relation between headquarters and subsidiaries in terms of the level of decision making autonomy between headquarters and subsidiaries (Nohria and Ghoshal, 1994). Thus, the demand of control and coordination within MNCs is increasing because MNCs need to remain effective administration within the firms. “Control may be defined as the process by which one entity influence, to varying degrees, the behavior and
output of another entity through the use of power, authority and a wide range of bureaucratic, cultural and informal mechanisms” (Gering and Hebert as cited in Jaussaud and Schaaper, 2006, pp. 24) The coordination can be defined as the process requiring the organizational tools called coordination mechanisms. The successful coordination can be achieved from the organizational operation through many variables such as autonomous level in decision-making, degree of formalization and standardization, extent of informal communication, and degree of personal control and so on (Martinez and Jarillo, 1991). There are several approaches in mechanisms controlling; Nohria and Goshal (1994) propose differentiated fit and shared values which represent two different approached for MNCs in order to manage relationships between headquarters and subsidiaries. MNCs have the better performance if they are able to employ these two ways effectively.

### 2.2.1 Differentiated Fit

As there are differences in environment contexts of each subsidiary and also resources circumstance; thus, the patterns of relation between headquarters toward each subsidiary are presented differently in order to fit these various conditions. ‘Differentiated fit’ is one of the approaches in managing the relation between headquarters and subsidiaries. This approach needs the understanding in this kind of incident and the implementing of proper combination of formal structural tools to manage it. The achieved combination can be in forms of centralization and formalization. (Nohria and Goshal, 1994)

Firstly, centralization is the pattern of decision-making operation through hierarchical authority by the headquarters to different subsidiaries (ibid., pp. 492-493). “Centralization is one of the fundamental dimensions of the design of large organization. It refers to the extent to which HQ makes decision” (Hennart as cited in Ghoshal and Westney, 2005, pp.166). The power in decision-making in centralization is in the level of top management of the organization. Secondly, formalization is the pattern of decision-making operation through formal rules, standards, actions, and job descriptions which creates routine practices. Both centralization and formalization can be categorized as formal control mechanisms (Martinez and Jarillo, 1991). The degree of centralization-formalization as formal structure of each headquarters and its subsidiaries are presented in Figure 1 and briefly described below (Nohria and Ghoshal, 1994).
According to figure 1, it demonstrates that the more complexities in subsidiary's environment increases, the efficiency of centralization and formalization decrease. The reason is that the subsidiary gains more local knowledge from the increasing of environmental complexity; therefore, the more autonomous and flexible capability in decision making are required. Anyhow, as resources of local subsidiary increase, the efficiency of formalization also increases but the efficiency of centralization decreases. This is by the reason that the subsidiary may not satisfy with the hierarchical control but be more likely to accept the impersonal regulations and procedures which strategic planning by headquarters in order to check the potential of subsidiaries. (Nohria and Ghoshal, 1994)

Both centralization and formalization can be categorized as formal control mechanisms which are proposed by Martinez and Jarillo (1991).

### 2.2.2 Shared Values

Besides differentiated fit, 'shared values' proposed by Parsons (as cited in Nohria and Ghoshal, 1994) is one of the alternatives in properly mechanisms of coordination. Its purpose is to reduce the divergent interests among people in the organization so they are able to share and develop the common sense of mutual goals and values. By creating shared values, it provides a chance to subsidiaries to employ their particular local knowledge and resources and then propose to headquarters in order to gain the interest of the whole MNC. However, subsidiaries still need to be under hierarchical governance of headquarters which legitimates rules and values of the organization. In the mechanisms of creating norms and shared values, activities such as choosing, training and managerial rotation...
including open communication are employed. Communication among members is an important tool to create shared values in the MNC as it extends the socialization and builds the trust among managers. (Nohria and Ghoshal, 1994) In the result, the process of socialization develops to corporate culture in which the communication happens in the way of doing things, the style of decision-making, and the purposes and values of the firm. The socialization can be categorized as informal control mechanisms. The socialized process is conducted through training of managers of subsidiaries, and transferring them across different sections. Moreover, evaluating and rewarding system needed to be effective programmed for efficient process of socialization. (Martinez and Jarillo, 1991)

Corporate culture created by shared values here can be perceived in the same point of view in of heterarchical model which stated that corporate culture is another approach to ensure information sharing and interpreting by each unit in similar way for the whole company (Sölvell and Zander, 1995).

2.3 The transnational Solutions

Nowadays, it is difficult for a company to respond effectively to the complexity and dynamic change in international environment by only implementing unidimensional strategic capability which concentrates on specific one of the three traditional strategies; efficiency, responsiveness and learning. Therefore, in order to succeed in international market, Bartlett and Ghoshal (1987) propose transnational theory to respond to the change of international environment. With this new strategic demand, a company has to integrate all three crucial strategies; efficiency, responsiveness, and ability to exploit learning at the same time.

2.3.1 Building and Managing Transnational Capability

Perceiving unidimensional structure causes in strategically limiting once new competitive challenges emerged, Bartlett and Ghoshal (1987) suggest the three managerial categories for building multiple strategic capabilities in complex organization to deal with those challenges. The three managerial categories of building multidimensional company are geographic management, business management and functional management. (Ibid., pp. 43-44)

Geographic management is implemented in multidimensional MNCs in order to achieve national responsiveness; business management is executed in those MNCs with the aim to reach global efficiency and functional management is established in transnational company with the purpose of building and encouraging the worldwide learning (Ibid., pp. 44).
Initially, implementing strong geographic management is important for achieving dispersed responsiveness because it provides worldwide companies to study, investigate, and respond to the needs of different national markets. Secondly, building strong business management with global product responsibilities allows worldwide companies to reach global efficiency and integration through the executing of product standardization and low-cost global sourcing. (Bartlett and Ghoshal, 1987) “Corporate governance is one of the primary mechanisms by which an organization interfaces with its environment. As globalization proceeds, firms must effectively manage corporate governance practices to reap the promised benefits of the new integrated global economy” (Young, et al., 2004, pp. 31) Finally, implementing strong and worldwide functional management empowers a firm to build and transfer its core competencies or a capability crucial to worldwide learning as the connection between functional managers provides the firm with the ability to gather specialized knowledge and skills to execute in global operation. (Bartlett and Ghoshal, 1987)

In order to build multidimensional company, Bartlett and Ghoshal (1998) suggest three challenged practices, as shown in table 1 below, for managers to manage and maintain capabilities and effectiveness in MNCs. First, managers have to create balance among different perspectives and capabilities within organization and make certain that no particular group is more dominant than others. Second, managers have to build a set of flexible coordination processes in order to assign the different groups with appropriate tasks. Last, managers have to build shared visions and personal commitments integrating into each organization level. (Bartlett and Ghoshal, 1998)

<table>
<thead>
<tr>
<th>Strategic Capability</th>
<th>Organizational Characteristics</th>
<th>Management Tasks</th>
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<tr>
<td>Global Competitiveness</td>
<td>Dispersed and interdependence assets and resources</td>
<td>Legitimizing diverse perspectives and capabilities</td>
</tr>
<tr>
<td>Multinational Flexibility</td>
<td>Differentiated and specialized subsidiary roles</td>
<td>Developing multiple and flexible coordination processes</td>
</tr>
<tr>
<td>Worldwide learning</td>
<td>Joint Development and worldwide sharing of knowledge</td>
<td>Building shared vision and individual commitment</td>
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Source: Managing Across Borders: The transnational solution, Bartlett and Ghoshal, 1998, pp. 77
The major challenge of managing in transnational corporation is to cooperate and manage supply chain operations to accomplish global efficiency and competitiveness; whereas, concurrently responding to various consumer needs in each national markets. (Ishida, 1999)

Regarding the table 1, firstly, *global competitiveness* can be defined as capabilities of MNCs to achieve global efficiency (Ghoshal (1987) as cited in Young, et al., 2004). Barrett and Ghoshal (1987 pp. 44) suggest managers of the company that “these managers act as champions of manufacturing rationalization, product standardization, and low-cost global sourcing”. Secondly, *Multinational Flexibility* is defined as the abilities to maximize local responsiveness (Ghoshal (1987) as cited in Young, et al., 2004). Barrett and Ghoshal (1987 pp. 43-44) state that strong local responsiveness or geographic management is important and allow MNCs “to sense, analyze, and respond to the needs of different national markets”.

Lastly, *Worldwide learning* can be defined as the potential for “exploit the knowledge and capabilities of the parent company through worldwide diffusion and adaptation” Barrett and Ghoshal (1995) as cited in Berndt, 2003, pp. 3).

The transnational strategy is needed in the matter of balancing between standardization and local responsiveness (Bartlett and Ghoshal (1989) as cited in Young, et al., 2004).

### 2.3.1.1 Balancing Perspective and Capabilities

Ghoshal (1987) as cited in Young, et al., 2004 perceive that multinational companies deal with the dilemma of balancing the need for standardization for products, resource sharing and low cost global sourcing in opposition to the requirement for local responsiveness to suit with the favors of local requirements.

There is a need to have balancing among diversified aspects and capabilities within the company. In order to gain the global competitiveness when a company operates its internationalized operation, a task for managers is to legitimize the different perspectives and capabilities of people (Bartlett and Ghoshal, 1998). “Their task was to resolve tensions among operating unit divided by distance, time, and managers separated by culture and language” (Ibid., pp. 78)

The transnational company builds a multidimensional organization to maintain the capabilities and effectiveness of each organizational group. The company organizes structure in which the three strategic capabilities which are *global competitiveness, multinational flexibility* and *worldwide learning* are presented with a differing level of influence in organizational structures perspectives. (Bartlett and Ghoshal, 1998)
To raise the view of heterarchical model along with worldwide learning capability, the point of sharing information and knowledge to the whole organization will be criticized. According to Hedlund (1986), information, knowledge and strategies are able to be shared and delivered to people in the organization to understand and perform in order to reach the same goal. This view is in the same line of thought of worldwide learning capability proposed by Bartlett and Goshal (1998) who claim that worldwide learning capability is located in transnational company in order for the company to transfer information and knowledge through the co-activities and co-learning.

2.3.1.2 Developing Flexible Coordination Processes

The transnational company requires a range of coordinating processes that includes *centralization* (strategic decision making by senior management), *formalization* (systems and procedures are developed to guide employees) and *socialization* (creating a context of common purpose, values and perspectives among managers to affect their judgments). The different units of organization are managed differently; some functions require more centralization, whereas the others require formalization and socialization as a primary integrative process. (Bartlett and Ghoshal, 1998) “The Transnational leads to reciprocal interdependence among the firm’s operations, requiring complex coordination and control systems, which has little to do with centralization or decentralization” [Martinez and Jarillo 1989 as cited in Rugman and Verbeke, 1992]. Another aspect is socialization which is the alternative for a company to persuade each unit to internalize to the organizational goals (Rugman and Verbeke, 1992).

Instead of managing and deciding over all roles of different businesses, functions and subsidiaries similarly, most successful multidimensional organizations treat different operating units with different norms and attitudes, including with assigning appropriate works and responsibilities. In addition, they build and arrange interdependence among the different units of business, functional and geographic management groups of the firm. Essentially, integration and collaboration are self-enforced by each group’s willingness to work together to achieve its goals as well as helps other units to achieve their own objectives. (Bartlett and Ghoshal, 1987)

2.3.1.3 Unifying the organization through vision and co-option

To provide a sense of unity at every level of the company, the top management has to acquire the personal commitments from individual in the company to comprehensive corporate agenda. This process is called ‘co-option’ in which defined as one of the most powerful tools of managing multinational company (Bartlett and Ghoshal, 1998). "Co option means the process of uniting the organization with a common understanding of
identification with, and commitment to the corporation’s objectives, priorities, and values” (Bartlett and Ghoshal, 1987, pp. 49-50) In order to develop such a commitment, individual needs to understand and share the firm’s objectives, norms and values, including with accept and internalize its key strategies (Bartlett and Ghoshal, 1998).

The co-option process is in accordance with the concept of corporate culture in heterarchical model proposed by Hedlund (1986) and shared values proposed by Nohria and Goshal (1994). Corporate culture is one of the potential approaches of control in heterarchical model (Hedlund, 1986). Also, regarding to Nohria and Goshal (1994), shared values can be seen in the form of corporate culture as one of the alternatives in coordination mechanisms to reduce the diversified interests among people in the organization.

2.3.2 Sustaining a dynamic balance: Role of “Mind Matrix”

The “Mind Matrix” perception should be created in the mind of managers in transnational company. The mind matrix manager can be described as a manager who has managerial mindset to understand and realize the requirements of multiple strategic capabilities; therefore this manages can perceive problems from both global and local viewpoints as well as can acknowledge the important of flexible approach. (Bartlett and Ghoshal, 1987)

In multidimensional organization, managers use effective tools to create and control the flexible management process as well as use the common tools of formal structure to manage and change roles and responsibilities over time. In addition, they transmit corporate resources and convey information effectively in the way that changes the balance of power. However, most successful companies focus on the individual members as an extra component at the core of their management processes. For example, the use of conference and meeting as opportunities to merge differences, and the use of training as a powerful socialization process to share various experiences and the use of career path management to show a clear policy of rotating managers through various jobs. All these examples show the ways that companies try to create multidimensional perspectives and flexible practices at the level of individual manager. This structure advises managers to abandon a formal global matrix structure that is difficult in practice for managing international environment and proposes the new management approach, multidimensional capabilities, instead. The multidimensional capabilities should be supported by creating matrix in the minds of managers in order to gain sustainable dynamic balance of the organizational operation. (Bartlett and Ghoshal, 1987)
2.4 Literature Review Summary

In order to study and describe coordination and control mechanisms of MNCs, we are going to deploy common and different views in various literatures as mentioned in literature reviews. According to the organizational structures of MNCs, the simple home-based MNC, the multi-home-based MNC and the heterarchical model will be used as a tool to view the structural types of MNCs as well as coordination levels between headquarters and subsidiaries. One approach to managing headquarters-subsidiary is differentiated fit by concerning the differences context in subsidiary. In this approach, the structure of each headquarters-subsidiary relation is definitely differentiated to fit the distinct environmental and resource conditions of the subsidiary. The complementary approach to differentiated fit is shared values which a company creates in order to decrease divergent interests among individuals and increase mutual understanding and interdependence. Both differentiated fit and shared value provide the aspects related to control mechanisms of MNCs which we intend to study. Moreover, to cope with the increasing complexity in the international environment, companies have to overcome restrictions to achieve new strategies for managing their subsidiaries. Therefore, we will apply transnational solution theory to explain how MNCs do in order to build multidimensional capabilities by selecting or creating balance among three managerial categories which are geographic management, business management and functional management to find the solution for the worldwide operations.
3. CONCEPTUAL FRAMEWORK

The following section, the theoretical framework is presented and the connection between particular theories is described.

Figure 2: Coordination MNCs Management (Own model)

According to research question “how does Western European MNC coordinate and control its subsidiaries in Southeast Asia?” many literatures related to MNCs organizational and international business management perspectives are gathered and reviewed in order to create the theoretical platform for an analysis part. Therefore, the conceptual model is developed by choosing and integrating three main perspectives; organizational structure, transnational solutions as well as coordination and control mechanisms in order to present and describe coordination and control mechanisms of MNC towards different subsidiaries.
First, the organizational structure will be used to describe three different types of an organization; the simple home-based MNC, the multi-home-based MNC and the heterarchical model which each has different relationship and coordination levels between headquarters and subsidiaries. Second, transnational solutions will be applied to explain how company does in order to build multidimensional capabilities by selecting or creating balance among three managerial categories which are geographic management, business management and functional management. Last, the coordination and control mechanisms consisting of differentiated fit and shared values is presented. Differentiated fit is employed by headquarters to provide appropriate structure to suit with each division of subsidiaries’ different environments. Shared values develop corporate values in order to dilute the differences among people in the organization.

The proper perspectives in each theory will be selected, integrated, and deployed to suit with the MNC itself. This model perfect describes the connection between three chosen approaches. The type of company related to the way company builds control and coordination mechanisms among operating units as well as indicate to the dimensions of company. On the other hand, the way that MNCs implement coordination and control mechanisms through differentiated fit and shared values differently can also reflect the different type of company structure and managerial category in multidimensional MNCs.
4. RESEARCH METHODOLOGY

This section provides the methodological approaches applied in our thesis in order to reach the research purpose and answer the research question in relation to chosen literature reviews.

4.1 Choice of Topic

As researchers, we concern the importance in choosing topic for not only it captured our interest, but also the accessibility to information. After preliminary investigation through various Western European MNCs, we were attracted by PZ Cussons, Western European MNC, which is one of the leading consumer brands in global market and established many subsidiaries in different countries including in Southeast Asia region in which we are interested to conduct the thesis. In addition, concerning about the accessibility to data collection in both primary and secondary data, PZ Cussons is selected to study because the company provides data on the company’s website and also the public news. This kind of data is easy to get the information. Moreover, as the interviewees who provided the primary data are acquainted with the researcher so we believe that both secondary and primary data are accessible. Therefore, these are the main reasons we chose PZ Cussons. The study will be focused on the cooperation and control mechanisms between the headquarters of PZ Cussons in UK toward Thailand and Indonesia as its subsidiaries in Southeast Asia.

4.2 Searching Resources

Information collecting is started by searching in DIVA database, ELIN@Mälardalen database, and Business Journals for relevant information that matched with our topic. Next, we continued gathering general information of PZ Cussons through the Internet by firstly, using www.google.com as the main search engine. Secondly, to get detailed information about PZ Cussons, the company website has been visited in order to gather information provided directly from the company itself such as company profile, public news, annual report, and so on. The in-depth information is provided by the insider of the company through the e-mail and telephone interviews. Therefore, through accessible information and its credibility, it ensures us to continue with the company we chose.
4.3 Research Strategy

There are two main streams for conducting research; qualitative and quantitative approaches. Both approaches are able to be gathered within the same research. However, the difference in strength and weakness in two methods provides alternatives for researcher to select the suitable ones. (Quinn, 2002)

The qualitative approach is proper to study of issues in depth and detail. There are three types of data collection which are 1) open-ended interviews, 2) direct observations, and 3) written documents. First, open-ended interviews provide direct information from people regarding their opinions, experiences, knowledge and so on. Data is seen as exactly quotation which can be interpreted. Second, direct observations facilitate the detailed descriptions of people’s activities, manners, performances, discussions, interactions between people, organization or community procedures. Data is composed of particularized descriptions which include the context in which the observations are conducted. Last, document material can be collected from organizational records, memos, official publication, and reports including open-ended document in responsible for questionnaires and surveys. (Quinn, 2002)

The quantitative method needs standardized measurement in interpreting and categorized diversified experiences and perspectives of people into numeric patterns. This approach allows researcher to use statistical instruments in measuring the re-actions of a great number of respondents from the set of questions. (Quinn, 2002)

Quantitative and qualitative method can be comparable to survey approach and case study respectively. According to Fisher (2007), survey approach is appropriate for gathering general overview of situation; whereas, case study is suitable for understanding of in-depth specific situation.

4.4 Research Design

The case study is comparable to qualitative analysis composed of a specific way of collecting, organizing, and analyzing data which represents an analysis process (Quinn, 2002). A case study approach has been chosen in facilitating with analysis of particular situation because it helps researcher to high-light on the relationships between all factors such as groups, people, policies and technologies. Yin (as cited in Fisher, 2007) clarifies characteristics of case study as follows; the investigation of contemporary issues in real-life, the single site which includes various variables and the theoretical propositions are developed aiming to guide the data collection (Fisher, 2007).
Regarding our aim of thesis is to present and describe the coordination and control mechanisms between the headquarters of PZ Cussons in UK toward Thailand and Indonesia as its subsidiaries in Southeast Asia; hence, qualitative approach in terms of a case study is employed as it is suitable for collecting in-depth data and detailed information regarding the coordination and control mechanisms of PZ Cussons. The quantitative has not been chosen in this case as the aim of this thesis is not tend to interpret experiences and aspects of people to numeric patterns and also no statistical instrument is used in this thesis.

4.5 Data Collection

According to Fisher (2007) there are five kinds of research methods in order to collect data which are interviews, panels, questionnaire, observation, and documentary. Two of these approaches, interview and documentary, are chosen to carry on the thesis. Interview can be conducted in three different ways which are open interview, pre-coded interview, and semi-structured interview. First, open interview is normally retrieved by informal conversation about particular area of interest with the respondent. Next, pre-coded interview is conducted by prepared scripts and questions in order to control the conversation and keep it in the track as interviewer would like to. Last, semi-structured interview is a mean between open and pre-coded interview. The pattern of semi-structured interview enables the interviewer stays focusing on the point of research; while, it allows the respondents reply without restriction. The other method is documentary research which can be taken in both open and pre-code forms. The researcher uses this approach in order to search common narrative structure shared by many similar documents.

In our thesis, the semi-structured interview method is selected by using the e-mail and telephone interview between interviewers and interviewees to collect primary data. The primary data is collected from the two interviewees working in PZ Cussons Thailand which are Customer Marketing Manager (Interviewee No. 1) and Brand Manager (Interviewee No. 2). Both of them are chosen as interviewees because they have been experienced in coordinating with PZ Cussons UK and Indonesia for a quite long time and are able to provide relevant information to the case related to their direct experiences. Moreover, we are able to get access to these two interviewees easily as they are acquaintance with researchers.

The process in interviewing starts with preparation of scripts and questions relevant to the research topic. For the interview No.1, the e-mail and telephone interview approach are employed. Once of e-mail an interview is sent on May 5, 2010. The e-mail interview was sent by providing the relevant questions in order to gather particular issues and details needed from the respondents. However, we employed once of telephone interview on May
7, 2010 for 2 hours to gather the more information and gave the researchers a chance to ask in the blurred areas of answers and also for more detail of data based on e-mail interview. The conversation in the interview will be conducted following through planned scripts and recorded by voice-recorder and note-taking. For the interviewee No. 2, the video conference is implemented to interview on May 5, 2010 for 3 hours. This can be seen as the combination approaches of telephone and face-to-face interview. The questions were asked related to prepared script. With this way of interview, the respondent has a chance to ask the interviewers to elaborate in the question that is not clear for the respondent. Also, the interviewers have opportunities to ask the interviewee to explain in more detail when the answer is not clear and understandable. Also, the conversation in the interview will be conducted following through planned scripts and recorded by voice-recorder and note-taking as same as the way we do in telephone interview to interviewee No.1.

In addition, documentary research is used for collecting secondary data as this is an appropriate method to collect basic and detailed information for developing knowledge background as well as empirical finding of thesis. The major source of secondary data is gathered from company’s annual reports 2008 and 2009 as well as company’s web site. Also, the published news on the commercial websites is used in order to create more credibility of the secondary data.

4.6 Ethical consideration

The overview information of this thesis is well-provided to the two interviewees before conducting interview based on the consideration of informed consent which Fisher (2007) suggests that the respondents need to have the basic understanding of the use and purpose of research. In addition, as we intend to ask for private files of PZ Cussons, it is necessary to get approval from interviewees before note-taking and recording during interview as well as the confirmation from interviewees before publishing the thesis. As suggested by Fisher (2007), the thesis would be ethical and legal in case of all information using in thesis has been approved from the organization.

4.7 Credibility

“The credibility of qualitative methods, therefore, hinges to a great extent on the skill, competence, and rigor of the person doing fieldwork – as well as things going on in a person’s life that might prove a distraction” (Quinn, 2002, pp. 14) Regarding primary data collected from interview, both interviewees have several experiences in international coordination and global operation as they have been worked in PZ Cussons in managerial
level for many years enough to provide useful and trustworthy information to the case. Moreover, they have been coordinated with both PZ Cussons UK and Indonesia in order to co-develop the global and regional project respectively. This can be considered as credibility of our thesis. Moreover, in cooperation with the secondary data gathering from the company’s websites, public news and other sources are sufficient to produce a trustworthy research.

4.8 Transferability and Generalizability

It is necessary to realize that transferability or generalizability alone is not able to judge the work because they are executed in different ways depending on topics and aims of the research. Transferability is defined as the process recognized by readers of research. It occurs when readers notice that the research situations are similar with their own situations and then they are able to transfer the result of research to their circumstances. Transferability is strongly related to qualitative methods such as case studies. As the research is based on a particular situation, so it is difficult to be generalized the results to other contexts. While transferability is provided by qualitative approach; generalizability is mostly resulted from quantitative approach such as experimental research. Generalization identifies the situation which can be adapted to general matters. It concerns on the particular treatment will bring the same results in different situations. (Coloradostateuniversity.edu, 2010)

The thesis is conducted by using qualitative method in collecting data and present in the pattern of a case study of PZ Cussons. It specifies the particular situation in PZ Cussons; therefore, it could provide transferable results to readers who recognize in similarity of both case study and their own situations. However, we realize the difficulty in generalizing as the specific situation of PZ Cussons is not necessarily always applied to other companies.

4.9 Delimitation

There is limitation in getting access to primary data collection from interviewing of the insider in PZ Cussons Indonesia as it was difficult to contact the interviewee there; therefore, the primary data regarding PZ Cussons Indonesia was gathered from the perspectives of the interviewees in PZ Cussons Thailand who have experiences in dealing business with PZ Cussons Indonesia. Therefore, this can be seen as another of the limitation as the information provided from only Thailand operating unit might be biased.
5. EMPIRICAL FINDING

The empirical data in this section is provided in relation to the proposition of theoretical framework. The findings are the facts regarding PZ Cussons, management structure and its governance system.

5.1 Background of PZ Cussons

5.1.1 History

PZ Cussons was established in 1975 by George Paterson and George Zochonis. P and Z are named from the first letter of the founders' family name. At the beginning, the founders set up their business in form of a trading post in Sierra Leone in 1879 and then, they opened a branch office in Nigeria in 1899. Paterson and Zochonis first jumped into consumer brand business through the acquisition of a soap factory in Nigeria in 1948, followed by the expansion of product lines into the detergent and refrigerator business in 1973. At that time, Paterson and Zochonis operated their businesses only in Africa region. After they succeeded in that region, they expanded business to European market through the acquisition of Cussons Group Ltd and then the name of company was changed into Paterson Zochonis Plc which is incorporated headquarters in UK. The next business lines of PZ Cussons were still focusing on soap business, it set up soap manufacturing in Melbourne, Australia and Kenya in 1976 and 1983 respectively. Then it enlarged market toward Asia region by establishing manufacturing based in Thailand in 1986 and Indonesia in 1988. Afterward, in 2002, Paterson Zochonis Plc was renamed to PZ Cussons Plc, since then it has constantly developed existing goods and new products as well as expanded into new business lines which include evaporated milk and milk powder in Nigeria, hair care business and spa products. (Pzcussons.com: Our History, n.d.)

5.1.2 Asian categories

5.1.2.1 Babycare

PZ Cussons offers a variety of products in babycare industry to Asia region for examples, soaps, lotions and shampoos. These products are developed and distributed under the local brands in order to easily get access to local consumers and respond appropriately to the needs of them. (Pzcussons.com: Our Market, n.d.)
5.1.2.2 Personal care and soap

PZ Cussons provides the wide range of products in this category such as deodorants, soaps, body washes, creams, and gels. These groups of products are managed by mainly focusing on the launching of leading local brands such as Extreme which is served to the massive Asian market. Additionally, PZ Cussons also provided global products in this market, for example, Imperial Leather, global brand bar soap, has generated high profit in Thailand. The success of this soap brings about the development of various ranges of bar soap. (Pzcussons.com: Our Market, n.d.)

5.1.3 Future plan

Nowadays PZ Cussons operates in both mature and emerging markets which it perceives the growth in foreseeable future. Many projects will be executed in order to get stronger position in its operating markets as well as to receive profitable growth. These are the brief details of projects that PZ Cussons intend to do in future. For example, firstly, the new headquarters building will be established with purposefully to offer better work place for the group and to support its expanded international business. Secondly, the establishing of the ‘Personal Wash Centre of Excellence’ in Manchester, UK with the aim to produce the worldwide research and development as well as innovation resource for personal wash sector. (Pzcussons.com: Our Future Plans Across the World, n.d.)

5.2 PZ Cussons’s Strategies

PZ Cussons operates business across many regions embraced in these four core strategies.

The first strategy is operating in ‘selected markets’ that it perceives capability for future growth. Implementing this principle, PZ Cussons operates in both emerging and mature market, for examples, Asia, Europe, and Africa to capture profitable growth in global scale and also responds suitably to local consumer needs. (Pzcussons.com: Our Strategy, n.d.)

The second strategy is developing ‘leading brands’ which the majority of them are sold exclusively in local and regional markets. Even thought PZ Cussons has some global goals, the main focus of this strategy is to develop leading brands to accomplish category leading positions in local markets and to suit the specific needs of local consumers (Pzcussons.com: Our Strategy, n.d.). Corresponding with global strategy, PZ Cussons has globally marketed four brands which are Imperial Leather, Cussons Baby, Carex and Morning Fresh. (Siamturakij.com, 2007)

The third strategy is operating ‘world class supply chain’ networks to distribute its products effectively to local consumers. PZ Cussons divides distribution systems by its
market segments, for examples, using traditional supply chain models for mature markets and employing broad nationwide warehouse networks for emerging markets. In addition, it develops flexible distribution systems which are designed to suit custom-fit particularly for the local market. (Pzcussons.com: Our Strategy, n.d.)

The fourth strategy is recruiting, developing and retaining a ‘great team of people’ who affiliate with its value as well as be able to drive its growth. PZ Cussons attempt to build a high performance by providing career experience and development to all employees. It also uses the true meritocracy approach in which leadership is determined by talent. (Pzcussons.com: Our Strategy, n.d.)

5.3 Corporate Governance in PZ Cussons

The governance structure of PZ Cussons is set up by the board of director. The board of director is committed to achieve the standard of good corporate governance and applies to the corporate standard in its organizational management. (Pzcussons.com: Annual report, 2009)

5.3.1 The board of directors

There are ten members in the board of directors which are composed of the Chairperson, the Chief Executive officer (CEO), four other Executive Directors and four Non-executive Directors. The board is set in small group in order to allow each member to have opened conversation and to provide the contribution from their skills and experiences. (Pzcussons.com: Annual report, 2009)

The Board of Director is in charge of the business strategic development, controlling its business purposes and sustaining a system of potential corporate governance. The documented agenda of issues are prearranged to the Board of Director for its decision (Pzcussons.com: Annual report, 2008 and 2009), “including approval of the Group’s strategy, annual budgets, material agreements and major capital expense and acquisition, the approval of financial arrangements, and the monitoring of performance, health, safety and environmental matters and risk management procedures” (Pzcussons.com: Annual report, 2008, pp. 43)

The four formal meeting of the Board of Director are programmed annually and will meet further chances as essential to consider particular issues rising and to evaluate and improve the company’s corporate strategy. (Pzcussons.com: Annual report, 2008 and 2009)
All Directors routinely communicate with each other and prepared access to members in management team. Senior Executives are asked to attend the Board meetings in order to make presentation on the particular matters or projects. The Board applies formal procedures for directors to take individual professional suggestion and each director has totally permission and follows company rule and regulation provided by the services of the Company Secretary. The formal induction procedure for directors also includes visiting to main sites and conferences with operating management. In addition, directors take additional training in which necessary part of their ongoing development at the expense of the company. (Pzcussons.com: Annual report, 2008 and 2009)

5.3.2 The operational board

The ‘operational board’ offer the senior managers to be capable of advance defining the considerable figures of opportunities existing in present markets. In addition, it was set up to support the board of directors in the operational management of the businesses group and to empower growth opportunities in the future. (Pzcussons.com: Annual report, 2008 and 2009)

The team is composed of “two commercial Area Director Roles and six functional heads, including Human Resource, Finance, Supply Chain, Innovation, Corporate Services and New Business Development” (Pzcussons.com: Preliminary results, 2008, pp.6). The group is created from both inside promotions and outside recruits from a wide range of international companies. (Pzcussons.com: Annual report, 2008 and 2009)

5.3.3 Performance evaluation

A formal review of the board of directors’ performance is implemented annually. The Chairman performance is evaluated by the non-executive directors leading by the senior independence director and consider by the opinions of the executive directors. The performance of non-executive directors is reviewed by the Chairman with the guidance of executive directors. (Pzcussons.com: Annual report, 2008 and 2009)

5.3.4  Internal control

The board of director is accountable for the Group’s system of internal control and for examining its efficiency. Such particular systems are developed in order to achieve business aims and to manage risks. The internal process control consists of five practices
which are (1) having regular communication among the board of directors, the Group Risk Committee and subsidiary management on all crucial business matters, (2) having ordinary visits to operating units by the Board, head office manager and internal auditor, (3) having a structure of financial plan, (4) having a customary review of risk through the Group and risk management practices in place by the board of directors, the Group Risk Committee, and (5) having reaction to any major weaknesses established as part of the evaluation of the efficiency of the internal control system. In addition, the group has moral guidelines and a defined trickery process reporting that is presented the Group Internal Control Manual to all employees within the group. (Pzcussons.com: Annual report, 2008 and 2009)

5.4 Operating Philosophies

In addition to corporate governance which needed to be employed by every operating unit, there are a few more philosophies within PZ Cussons facilitating the operational system to become efficient company. The operating philosophies are well recognized by all of employees in every operation by the line of thoughts of core values called ‘CANDO’ and corporate responsibility. The detail of two themes will be described in the following sections. (Pzcussons.com: Our Values and Corporate responsibility, n.d.)

5.4.1 CANDO values

CANDO identified as core values of PZ Cussons which was targeted to be rooted of the organizational culture and to be the practice for members in long-term development plan. The staff is provided by CANDO framework in order to develop themselves and become succeed. Each letter in CANDO is the initial first letter for the specific words; ‘C’ stands for Courage, ‘A’ stands for Accountability, ‘N’ stands for Networking, ‘D’ stands for Drive, and ‘O’ stands for Oneness. Courage can be seen as the strength, willingness, willpower to think and start doing things. It is needed for employees to challenge themselves in works. Accountability relies in the individual as the responsibility in achieving personal goals. Everyone do the right thing, not what is expected to do and also dare to admit their mistakes and correct it. Networking is the result of working as a team and coordination with other functional and geographical regions through the mutual goal. Drive symbolized as the energy, inspiration and determination to pursue the success. Oneness is the perspective in seeing everyone as PZ Cussons people who achieves a high level of success. There is an equal treatment and opportunity in all of levels of operation. The aim of CANDO is to keep and develop members and help them to complete their career goal. (Pzcussons.com: Our Values, n.d.)

In PZ Cussons UK and in every operation units, CANDO meeting is set up as corporate culture for everyone to join and share their opinion. The meeting is held by managing
director as a chairperson in each unit and continues by presentation of each member about their prepared stories regarding initial letter in CANDO. In order to encourage people to concern this activity, there is a reward called ‘CANDO flag’ which is rewarded by assigned board of committees monthly to individual or group that is able to implement the philosophy of CANDO to the work or project successfully. Then, the success finished project which provides value to the firm will be proposed and shared to other units so as they can observe the good practice and may interest to follow or adapt to suit with their own units. Another importance of CANDO is that it is used in evaluating performance of employees such as salary. The performance evaluation in managerial level related to CANDO is evaluated by Managing Director of each operating units. (Interviewee No. 2, Brand Manager, May 2010)

5.4.2 The PZ Cussons’ employment practice

The other philosophies in operating are the PZ Cussons’ employment practices which lead to the development of staff of the company. PZ Cussons takes the major focus on a good team of people and talent management program in order to achieve the competent growth plans. By recognizing that the success of the company comes from the value, dedication, and performance of employees; accordingly, the intention of the philosophies is emphasized on the development of local employees and improvement of company’s operations in developing countries as there is a great number of operating units presented in those countries. PZ Cussons communicate to its managers with precise policies and direction, also set up the training program and rewarding system to reach the highest values of management practices. The training program is performed in both formal and informal training and ran in manufacturing part to make sure that the manufacturing process meets the international principles in the aspects of quality, safety, health, and environment. The rewarding system is arranged to offer the opportunity to employees in professional and personal development. (Pzcussons.com: Corporate responsibility, n.d.)

5.4.3 Speak Up

The ‘Speak Up’ policy was established and first employed in the UK and Asia in 2008 under the purpose to encourage employees to concern the business issues regarding malpractice (including the criminal activity, deception, and the breaches of local regulations) which might occur during practice and report them through the telephone hotline and online system. This program will keep information and profile of the reporter confidentially and bring such a case to the consideration of the Board promptly. (Pzcussons.com: Corporate responsibility n.d.)
5.5 PZ Cussons in Thailand

Since 1986 that PZ Cussons has internationalized to Thailand market by acquiring the Lervia Soap factory which located in Pathumthani province. Then, in 1989, Cussons Thailand Ltd., was formed by having its own sales team and the distribution system. However, it is not until 2006 which the new soap factory started it manufacturing. At present time, the head office is located in Bangkok, the capital of Thailand having 532 employees. The key activities in Thailand are not only responsible for manufacturing, but also for making marketing advertisement of soap and other products such as toiletries and dishwashing liquids. The categories main brands which Thailand manufacturer is capable of producing are Soap (Imperial Leather, Premier, and Carex brand), baby care (Cussons Baby Naturals brand), and detergents (Morning Fresh brand). (Pzcussons.com: Our Market Thailand, n.d.)

One of the most outstanding features of Thailand is that Thailand plays the proficient role as a group sourcing center in soap manufacturing by providing the bar soap which inquires from PZ Cussons UK and Australia (Interviewee No. 1, Customer Marketing Manager, May 2010). The soap manufacturing in Thailand is the biggest and has the most advanced technology. The sign of success can be seen from the second soap manufacturing plant in Pathumthani province which not only provides soap in domestic, but also export to foreign markets such as Australia, UK, and the Middle East countries (Bangkokbiznews.com, 2007). The specialty of Thailand makes it become sourcing center to provide soap products as inquiries from headquarters in UK. Headquarters coordinates with the international division located in Pathumtani plant to produce and develop bar soap and powder (Interviewee No. 1, Customer Marketing Manager, May 2010). Moreover, there is the extension of domestic distribution channel in up-country in order to reach more to the local market (Bangkokbiznews.com, 2007).

5.6 PZ Cussons in Indonesia

PZ Cussons entered Indonesia market in the name of PT Cussons Indonesia (PTCI) by acquiring the soap company called PT. Jaya Makmur Raya in 1988. The next two year, in 1990, the distribution system of PTCI was taken over by PT Cussons Distributor Indonesia. Anyway, both of them, PTCI and PT Cussons Distributor Indonesia, were merged in 2007. In 2010, PZ Cussons Indonesia operates with 2,061 employees in hands in responsibility of the following main brands; baby care (Cussons Baby brand), Soap (Imperial Leather brand, Asoka, Kids, Sweet Seventeen, detergents (Morning Fresh brand). Managing by head office in Jakarta, business activities occurring in Indonesia are manufacturing and marketing of soaps, baby products, toiletries, powders, lotions and shampoos (Pzcussons.com, n.d.). In 2006, there was the establishment of research and development (R&D) center in Indonesia to do the research and develop products to suit Asian market (Siamturakij.com, 2007).
Indonesia is a hub of PZ Cussons in producing and developing liquid wash to serve UK, Australia and Thailand’s market (Interviewee No. 1, Customer Marketing Manager, May 2010). In 2009, the most dominant success of PZ Cussons in Indonesian market is being the number one in personal care brand ‘Cussons First Year’ premium range since launched this product in 2007. In addition, Imperial Leather, Morning Fresh and Extreme brand is also performed well in market and tend to continue the growth consistently. The Indonesian market growth is supported from the effective distribution system which operates the distribution channel to deliver goods to more over 100,000 stores in Indonesia. Moreover, in 2009, the operation in Indonesia is expanded due to the fact that the operational Group’s sale in Malaysia was shut down; therefore, all products needed to be sold directly from PZ Cussons Indonesia (Pzcussons.com: Our Market Indonesia, n.d.).

5.7 Strategy within subsidiaries

PZ Cussons headquarters allows both Thailand and Indonesia operating unit to create their own business strategy for their own unit. For example, in research and development field, these two subsidiaries are allowed to generate R&D is strategy itself; however, strategy is needed to correspond with guidance of regional managing director. However, the strategic planning in individual unit needs to be guided by four core strategies of the organization (Interviewee No. 1, Customer Marketing Manager, May 2010).

There is an opportunity for Thailand and Indonesia operating units to work together in generating business strategy. Although both of them have their own strategies dealing with their market, some strategies generated from one unit can be shared to another. Thailand operating unit is able to implement the strategy generated by Indonesia operating unit, vice versa. Regarding the core strategies, local markets are very crucial for PZ Cussons. Thailand and Indonesia have to respond appropriately to their markets. Therefore, Thailand operating unit performs its own marketing such as market research. Some products selling in Thailand market have same features as Indonesia, but they are different in marketing strategy and positioning. Also PZ Cussons Indonesia sells some products having same features with Thailand market, but its marketing strategy is different (Interviewee No. 1, Customer Marketing Manager, May 2010). For example, Imperial Leather does not need to be produced from only one operating unit; it depends on resources in each area. It is a global product that needs to be differentiated positioning in different markets (Interviewee No. 2, Brand Manager, May 2010).

In addition, both operating units share some strategies as regional strategies such as marketing strategy, new product development strategy, and some distribution systems. Nevertheless, these regional strategies cannot be implemented by other regions such as
European or Africa because they are in different market environments (Interviewee No. 1, Customer Marketing Manager, May 2010).

5.8 Thailand vs. Indonesia operating unit

5.8.1 Co-development program

Even though Thailand and Indonesia subsidiaries are specialized in different fields, some co-developed projects are required corporation among them and headquarters, for examples, (1) the co-activity in R&D of powder products between Thailand, Indonesia and UK, (2) the co-development of regional project such as the re-launch marketing campaign of Imperial Leather product in order to refresh brand’s image, packaging design and formula, and (3) the co-activity in re-launching all baby product line in baby product project (Interviewee No. 1, Customer Marketing Manager, May 2010). The concept and story board of advertising television campaign and television advertisement of new baby product line is developed together. (Interviewee No. 2, Brand Manager, May 2010) The main reason of these co-activities is to minimize complexity in manufacturing and keeping stock to have same packaging design so it can be able to sell in both markets (Interviewee No. 1, Customer Marketing Manager, May 2010).

5.8.2 Co-learning and training

There are some co-learning projects which normally set up in form of workshop called ‘trade marketing workshop’ for marketing staff to share knowledge. Within PZ Cussons, the training programs are mainly operated through workshop (Interviewee No. 1, Customer Marketing Manager, May 2010). Marketing staffs from Thailand need to go to UK to learn concept of specific products. For example, ‘personal wash workshop’ is held last year, in 2009, in Thailand. This workshop is set up annually; there are sharing knowledge and experiences in workshop in the area of innovation, competitors and new products in each subsidiary’s market from PZ Cussons people around the world (Interviewee No. 2, Brand Manager, May 2010).

Meeting is also perceived as the beneficial source of learning. For example, in customer marketing division there are five meetings per months which two of them are led by customer marketing division; (1) IMEX (In Market Execution)-Operation in market and (2) TRADEX (Trade Discount and Trade Promotion Expense)-Expense in trade channel whether money spends in each channel is worth or not. In addition, to ensure efficiency of performance of each operating unit, external and internal auditing is held annually by chairman from UK in order to select potential employees and to offer the opportunity in transferring to other subsidiaries. (Interviewee No. 1, Customer Marketing Manager, May 2010)
6. ANALYSIS

In this section, the empirical data is analyzed in order to describe the organizational structure as well as the control and coordination mechanisms of PZ Cussons UK toward subsidiaries in Thailand and Indonesia.

6.1 Organizational Structure

PZ Cussons has operated business by having headquarters in UK while expanding business through subsidiaries located in different regions. The company is aiming to achieve both in global and local market. In Global market, PZ Cussons set the global strategy in order to worldwide market the main four brands of products which are Imperial Leather, Cussons Baby, Carex, and Morning Fresh. Also, it has local strategy in order to access to the local market. The local strategy has been developed so as to position products to suit with specific customers’ needs in various local consumers (Pzcussons.com: Our Strategy, n.d.). Both global and local strategy of PZ Cussons is in accordance with Sölvell and Zander (1995) who mention about home based MNCs that once they develop global strategies, they should consider local manufacturing as well because it helps to decrease trade barriers, increase sales growth in foreign markets and also create good image for the company.

As categorizing by Sölvell and Zander (1995), to manage MNCs’ subsidiaries, there are two types of organizational models provided which are simple-home based and multi-home-based MNCs. The definition of simple-home based MNCs is used when the firm organizes all of its business within a particular one home-base or its home country; whereas, the multi-home-based MNCs model is defined the company who set up the main operation of its business outside its home country. From these views, we perceive the organizational structure of PZ Cussons is in the same line of thought as multi-home-based MNCs because the firm decided to start up its operation units in foreign countries such as Thailand, Indonesia, Nigeria, Australia, and so on. PZ Cussons has expanded businesses into international market primary through acquisition, for example, it reached to Thailand and Indonesia market by acquiring local soap company (Pzcussons.com: Our History, n.d.). The way that company established subsidiaries by acquisition and diversified the business lines in those foreign subsidiaries corresponds to the characteristic of multi-home-based MNCs proposed by Sölvell and Zander (1995).

There is a high level of independence of the relationship between headquarters and individual subsidiaries. Each subsidiary is responsible for their own of specialized field of
business in the main business activities such as strategic decision making, marketing, R&D, manufacturing, and so on. Therefore, a company as subsidiary becomes a different specialized business unit and response to its own market and resources (Sölvell and Zander, 1995). The interdependence of PZ Cussons Thailand and Indonesia subsidiaries from PZ Cussons UK is considered when both subsidiaries perform main activities by themselves. Marketing, R&D, Sales & marketing, distribution system are the shared activities which are performed by both Thailand and Indonesia operating unit. However, Thailand operating unit’s specialties are in sourcing and manufacturing. This is because Thailand operating unit is the group sourcing center to provide bar soaps which inquires from headquarters as well as it has advanced technology in manufacturing so as to provide products to domestic and other foreign markets (Interviewee No. 1, Customer Marketing Manager, May 2010). Whereas, Indonesia operating unit has the specialty in R&D which intend to develop products to suit Asian market as well as its effective distribution system serving distribution channels to deliver goods to over 100,000 stores in Indonesia (Pzcussons.com: Our Market Indonesia, n.d.).

Considering PZ Cussons organizational structure as multi-home-based MNC, the company structure model is also partially corresponded to heterarchical MNCs model.

First, as suggested by Hedlund (1986), the heterarchical MNC has several centers by each center performs a role of center its own in order to maintain both global and local strategies. PZ Cussons presents activities in alignment with this perspective through Thailand and Indonesia operating unit. Thailand operating unit is established in the purpose to be as the center of bar soap in the role of sourcing center, production, and R&D in new bar soap products. Also, Indonesia operating unit plays a role as center of in R&D and production of liquid soap (Interviewee No. 1, Customer Marketing Manager, May 2010). Moreover, as a future plan, PZ Cussons is developing the Personal Wash Centre of Excellence in Manchester, UK in order to manufacture the worldwide research and development, and also innovative resources for personal wash section (Pzcussons.com: Our Future Plans Across the World, n.d.).

Second, Sölvell and Zander (1995) and Hedlund (1986) share the point of view that ‘management style’ and ‘corporate culture’ is necessary for heterarchical MNC to organize such a complex network in the organization as both of them facilitate to create mutual trust and understanding. PZ Cussons deploys various management styles to organize with subsidiaries. PZ Cussons headquarters allows both Thailand and Indonesia operating unit to create their own business strategies for their own units and some strategies generated from one unit can be shared by both Thailand and Indonesia operating unit in forms of regional strategies. However, individual strategic planning in every unit needs to be guided by four core strategies of the organization (Interviewee No. 1, Customer Marketing
Manager, May 2010). Additionally, CANDO seen as corporate culture within PZ Cussons is implemented in order to create mutual trust and understanding from every member in PZ Cussons.

The two reasons above provide the characteristics of PZ Cussons in corresponding to heterarchical model; however, it cannot be able to define the whole organizational structure as heterarchical model as there are some points of view which are not incompatible with heterarchical idea. First, the strategies in each operating unit are planned to fit with local markets; therefore, it cannot be implemented to the whole organization. This shows the contrary to heterarchical approach that strategy generated from any unit can be implemented to the whole organization Sölvell and Zander (1995). Second, the independent gap between headquarters and operating units in PZ Cussons shows that operating units in Thailand and Indonesia have interdependence with headquarters in UK as every operating units need to hold the same core strategy, global strategy, which originated from headquarters. This contrasts with heterarchical model which states that the connection between headquarters and subsidiaries is independent from all of units within the organization.

6.2 Coordination and Control Mechanisms

6.2.1 Differentiated Fit

Differentiated fit stated by Nohria and Goshal (1994) is one of control and coordination mechanisms which can be defined as the pattern of relation between headquarters and subsidiaries. It is necessary that this pattern is needed to be fit with subsidiaries’ different environments. The differentiated fit approach illustrates in form of centralization and formalization. The pattern of coordination between PZ Cussons UK toward all operating units can be perceived through corporate governance structure which applied by the PZ Cussons Board which operated in UK (Pzcussons.com: Annual report, 2009).

As suggested by Nohria and Goshal (1994), centralization is the pattern of decision-making operation through hierarchical authority by the headquarters to different subsidiaries. Within PZ Cussons organization, the strategic decision-making, business objectives, and corporate governance system are controlled by the Board. The main strategic decisions are concerning as corporate strategy, annual budgets, major capital expense and acquisition. After the Board’s made decision, these corporate strategies will be executed by whole organization (Pzcussons.com: Annual report, 2008 and 2009). However, the decision making authority regarding R&D and marketing in Thailand and Indonesia are independent from the headquarters as they have their own specialties in operating those activities. This is because both Thailand and Indonesia have market specific knowledge and are able to get
access to local resources in their own region. Therefore, it can be assumed that the power in decision making related to R&D, distribution system, and marketing is moved from PZ Cussons UK to Thailand and Indonesia operating unit.

Another pattern of differentiated fit can be perceived in formalization which defined by Martinez and Jarillo (1991) as the pattern of decision-making operation through formal rules, standards, actions, and job descriptions which creates routine practices. Concerning PZ Cussons organization as a whole, the formal control system which creates routine working can be considered in many activities. First, the four formal meetings of the board are scheduled annually to review and develop company’s corporate strategy. Second, formal rules and regulation are generated for daily operation. Third, there is regular visiting to operating units by the Board, head office management and internal audit. Last, morale guidance and a defined trickery process are provided internal control manual to all employees within the group (Pzcussons.com: Annual report, 2008 and 2009).

### 6.2.2 Shared Values

The aim of deploying of shared value is to minimize diversified interests of members in the company so as they can share and develop the common sense as well as mutual goals and values (Parsons, as cited in Nohria and Ghoshal, 1994). Shared value is presented in PZ Cussons through the system called ‘CANDO’ which is the company’s core value. CANDO with each letter has the meaning by itself is aiming to be as corporate culture and also the practice for everyone to implement (Pzcussons.com: Our Values, n.d.). Therefore, CANDO is implemented by every operating unit including Thailand and Indonesia.

As stated by Martinez and Jarillo (1991), building shared values allows subsidiaries to employ their particular local knowledge and resource to propose to headquarters and receive the interest of the whole organization. PZ Cussons also benefits from the advantages of creating shared values. This can be considered from the CANDO meeting and CANDO flag which are seen as tools to reinforce the importance of PZ Cussons’ core value. Members use their local knowledge in order to create the stories to tell and employ that knowledge to their daily works. Once each or team won CANDO flag, this allows the practice or activity to share with the whole company and gain attention from others as a good example (Interviewee No. 2, Brand Manager, May 2010).

The meanings of letters which affect to the individual works and responsibilities are ‘C’, ‘A’, and ‘D’ as they are initial for courage, accountability and driven respectively. These are perceived as the characteristics which each one should have for their own assets in order to achieve personal goal. However, this can be assumed further that individual achievement is the company’s benefits as well (Pzcussons.com: Our Values, n.d.).
The other two letters called ‘N’ and ‘O’, stand for networking and oneness. Networking in PZ Cussons occurs when people work together as a team and also coordinate and communicate to other regions through mutual goal. Oneness defines to the concept of uniqueness by seeing everyone is people of PZ Cussons (Pzcussons.com: Our Values, n.d.). These two themes can be realized as coordination mechanisms among members. Also, it can be referred to the process of socialization proposed by Martinez and Jarillo (1991) who claim about socialization that is the process to reach corporate culture by having people in organization communicate to each other regarding working style, decision making style and also the targets and values of the firm. This is also supported by Nohria and Ghoshal (1994) who suggest that communication is necessary in creating shared values in the MNC because it helps extend the socialization and develop the trust among managerial levels.

6.3 The Transnational Solutions

As mentioned by Bartlett and Ghoshal (1987), the three managerial categories which are geographic management, business management and functional management are employed in order to build multidimensional capabilities in MNCs. PZ Cussons operates business in both emerging and mature market with aiming to achieve both global and local goals.

First, in local market, PZ Cussons offers a wide variety of products in baby care, personal care and soap industry in Asia region. These products are developed and distributed under the local brands in order to easily get access to local consumers and also respond suitably to the needs of consumers. As presented in its second core strategy, PZ Cussons aims to develop leading local brands to accomplish leading positions in local markets and to suit specific needs of local consumers (Pzcussons.com: Our Strategy, n.d.). For example, executing this strategy, PZ Cussons established research and development (R&D) center in Indonesia to do the research and develop products especially for Asian market (Siamturakij.com, 2007). In addition with the third core strategy, the firm develops flexible distribution systems designed to suit custom-fit particularly for its local market (Pzcussons.com: Our Strategy, n.d.). These PZ Cussons's local strategies show that it employs geographic management in which Bartlett and Ghoshal (1987) suggests that dispersed responsiveness is important for MNCs to achieve strong geographic management because it provides opportunities to understand, investigate, and respond appropriately to the needs of different national markets.

Second, in global market even though PZ Cussons relatively less focuses on this segment, its global strategy is provided in order to globally marketed four brands which are Imperial Leather, Cussons Baby, Carex and Morning Fresh (Siamturakij.com, 2007). To achieve global reach, for examples, PZ Cussons set up a group sourcing center in soap
manufacturing in Thailand aiming to produce and develop Imperial leather product, global brand bar soap, to Asian, Australia, UK and Middle East market (Interviewee No. 1, Customer Marketing Manager, May 2010). In addition, PZ Cussons has established effective distribution systems classified by its market segments by using traditional supply chain systems for mature markets and employing nationwide warehouse networks for emerging markets in order to efficiently deliver product in worldwide scale (Pzcussons.com: Our Strategy, n.d.). PZ Cussons’s global strategies display that it implements business management in which Bartlett and Ghoshal (1987) state that building business management in global products allows worldwide companies to reach global efficiency and integration through the launching of product standardization and low-cost global sourcing.

The third managerial category is functional management in which Bartlett and Ghoshal (1987) suggest that creating powerful and worldwide functional management empowers a firm to build and transfer its core competencies through worldwide learning as well as the connection between functional managers provides a firm with the ability to gather specialized knowledge and skills beneficially to global operation. It can be perceived that PZ Cussons employs worldwide learning as a special tool to develop and maintain its capabilities and effectiveness; therefore, it establishes various projects to support worldwide knowledge sharing. For examples, (1) the establishing of the Personal Wash Centre of Excellence in Manchester, UK with the aim to produce the worldwide research and development as well as innovation resource for personal wash sector (Pzcussons.com: Our Future Plans Across the World, n.d.); (2) the regularly launching training program in both formal and informal form ran into manufacturing section to ensure that the manufacturing process meets the international principles in the areas of quality, safety, health, and environment (Pzcussons.com: Corporate responsibility, n.d.).

In short, through activities which PZ Cussons UK provide to Thailand and Indonesia subsidiaries, we perceive that geographic management is implemented dominantly in Indonesia operating unit as there is R&D center developing for Asian markets and achieved leading position with local brands in local market. However, we consider that business management is deployed prominently in Thailand unit as there is group sourcing center for PZ Cussons’s global products. The other one is functional management which both Thailand and Indonesia operating unit implemented similarly by presented through co-development program and training program.
6.3.1 Building and Managing Transnational Capability

6.3.1.1 Balancing Perspective and Capabilities

As suggested by Bartlett and Ghoshal (1998), the transnational company arranges structure in which the three strategic capabilities which are global competitiveness, multinational flexibility and worldwide learning are implemented with a different level of influence in organizational structures. We perceived PZ Cussons is the transnational company as it tries to generate three strategic capabilities and implement through its worldwide management. Moreover, we presume that PZ Cussons has tried to balance all three strategic capabilities by developing the tools in terms of company’s activities in all three areas all the time.

To accomplish global competitiveness, a company has to create dispersed and interdependent assets and resources (Bartlett and Ghoshal, 1998). Concerning the global division, PZ Cussons headquarters provides both diffused and interdependence among activities to Thailand and Indonesia subsidiaries. Global competitiveness can be defined as capabilities of MNCs to achieve global efficiency by standardized products and low cost global sourcing (Ghoshal (1987) as cited in Young, et al., 2004). For examples, the headquarters offers the inquiry for developing Imperial leather product, global brand bar soap to Thailand subsidiaries as a group sourcing center to serve UK, Australia and Middle East market (Interviewee No. 1, Customer Marketing Manager, May 2010).

To building specialized capability, PZ Cussons established *group sourcing center* and located advanced technology in Thailand plant with the aim to build Thailand subsidiary as a specialized center of producing and developing bar soap. On the other hand, PZ Cussons headquarters located R&D liquid soap center in Indonesia because Indonesia manufacturing base produces both global and wide ranges of local products (Interviewee No. 1, Customer Marketing Manager, May 2010). These products have received well feedback from consumers; its personal care brands have gained the highest share in Indonesian market as well as Imperial Leather, Morning Fresh, the global brand, also performed well and continue the growth consistently (Pzcussons.com: Our Market Indonesia, n.d.). The different activities that PZ Cussons headquarters provides to Thailand and Indonesia subsidiaries are consistent with the strategic capabilities of transnational company that building multidimensional flexibility, a MNC needs to differentiated and specialized subsidiary roles (Bartlett and Ghoshal, 1998). Multinational Flexibility is defined as the abilities to maximize local responsiveness (Ghoshal (1987) as cited in Young, et al., 2004).
Even though these subsidiaries are specialized in different tasks, there are some important projects in which required them to work together. These co-activities are designed to enable share-learning, exchange skills and experiences as well as to reduce costs. For examples, Indonesia and Thailand subsidiaries developed Cussons baby advertisement together with the aim to make one television commercial advertisement that can be applicable to two countries and reduced cost of production. In addition, PZ Cussons headquarter set up training program and workshop regularly both in UK and regional subsidiaries to provide important information, knowledge and necessary practices of company. For example, ‘personal wash workshop’ is set up annually in order for members from PZ Cussons people around the world to share knowledge and experiences in the area of innovation, competitors and new products in each subsidiaries market. The other example for co-activity is called ‘co-learning project’ which is set up by headquarters, UK to renovate baby product line project and re-launch all baby product line. This project is a joint program cooperating by UK, Indonesia and Thailand (Interviewee No. 2, Brand Manager, May 2010). The main reason of these co-activities is to minimize complexity in manufacturing and keeping stock to have same packaging design, for example in case of Imperial Leather, so it can be able to sell in both markets (Interviewee No. 1, Customer Marketing Manager, May 2010).

These PZ Cussons’ co-activities and its supporting learning program are consistent with the strategic capability of transnational company mentioned by Bartlett and Ghoshal (1998) that company achieves worldwide learning capability through joint development and worldwide sharing of knowledge. Worldwide learning can be defined as the potential for “exploit the knowledge and capabilities of the parent company through worldwide diffusion and adaptation” (Barrett and Ghoshal (1995) as cited in Berndt, 2003, pp. 3). Also, we perceive the co-activities creating worldwide sharing knowledge and information in PZ Cussons are performed in the same line of perspective in heterarchical model proposed by Hedlund (1986) that sharing information and knowledge including strategies to people in the organization allows them to understand and perform in order to reach the mutual goal.

In short, we perceive that PZ Cussons attempts to balance the three strategic perspectives and capabilities which are global competitiveness, multinational flexibility and worldwide learning. First, PZ Cussons provide both diffused and interdependent among activities to Thailand and Indonesia subsidiaries in order to achieve global competitiveness. Second, to build multinational flexibility, PZ Cussons builds specialized capabilities towards Thailand and Indonesia subsidiaries as group sourcing center and R&D center respectively. Third, worldwide learning is operated by creating of co-activities, training program, and workshop to enable share-learning, exchange skills and experiences.
6.3.1.2 Developing Flexible Coordination Processes

According to Bartlett and Ghoshal (1998) the important elements of transnational company are centralization, formalization and socialization. Within PZ Cussons, centralization pattern is presented in forms of strategic decision making by the Board in the areas of corporate strategy, annual budgets and major capital expense and acquisition (Pzcussons.com: Annual report, 2008 and 2009). The formalization model is illustrated in form of formal rules, regulations, and morale practices. The centralization and formalization can be considered through corporate governance of PZ Cussons as “Corporate governance is one of the primary mechanisms by which an organization interfaces with its environment. As globalization proceeds, firms must effectively manage corporate governance practices to reap the promised benefits of the new integrated global economy” (Young, et al., 2004, pp. 31) The socialization is performed in PZ Cussons through the system called CANDO. Therefore, based on our findings, we perceive that the three elements are employed by both Thailand and Indonesia similarly.

6.3.1.3 Unifying the organization through vision and co-option

In order to develop the feeling of unity, PZ Cussons creates CANDO as the company core value. The concept of CANDO is delivered to all members in every unit including Thailand and Indonesia subsidiaries, so as they understand the same objectives of the company as well as commit to the company's value. This is consistent with the concept of co-option provided by Bartlett and Ghoshal, 1998 that is the process of creating unity in organization by providing a common understanding of naming with, and bound to the corporation's objectives, priorities, and values. The concept of co-option also is consistent with heterarchical model in the aspect of corporate culture. A corporate culture is employed as another approach in order to ensure that information is shared and interpreted by each unit in the similar ways for the whole company (Sölvell and Zander, 1995).

To sum up, we assume that PZ Cussons as a transnational company through the implementation of geographic management, business management and functional management as well as it has attempted to crate balance among three strategic capabilities which are global competitiveness, multinational flexibility and worldwide learning. In addition, we recognize that the operational and managerial pattern of PZ Cussons shares similar pattern with the heterarchical model presented through the organizational structure; moreover, we prominently perceive heterarchy through the concept of co-option and worldwide learning as presented in the previous section. This is because from Sölvell and Zander (1995) the concept of transnational company and Hypermodern MNCs (Heterarchical model) are proposed with the common theme. The shared theme of these two models is MNCs creates gradually more sophisticate organizational structures as well as management processes in order to deal with more intricate international environment.
and to join global integration and national responsiveness. Thus, we perceive the concept of heterarchical model and transnational solutions are put in the same direction even they are sometime addressed from different viewpoints as presented in PZ Cussons case.

6.3.2 Sustaining a dynamic balance: Role of “Mind Matrix”

As suggested by Bartlett and Ghoshal (1987) most successful companies focus on the individual members as an extra component at the core of their management processes. With the perception that the success of company comes from the performance of employees, PZ Cussons focuses on employee development program for both managerial and operational level. PZ Cussons takes the major focus on a good team of people and talent management program in order to achieve the competent growth plans. The precise policies and direction are provided to its manager (Pzcussons.com: Corporate responsibility, n.d.). In addition, PZ Cussons also set up the training program and rewarding system to reach the highest values of management practices. Within PZ Cussons, the training programs are mainly operated through workshop. Meeting is also perceived as the beneficial source of learning. For example, in customer marketing department, there are five meetings per month. In addition, to ensure efficiency of performance of each operating unit, external and internal auditing is held annually by Chairman from UK in order to select potential employees and to offer the opportunity in transferring to other subsidiaries (Interviewee No. 1, Customer Marketing Manager, May 2010).

Moreover, the ‘Speak Up’ policy was established under the purpose to encourage employees to concern the business issues regarding malpractice. Employees freely report unsuitable issues through the telephone hotline and online system in which the information and profile of the reporter is kept confidentially and a reported case is considered by the Board promptly (Pzcussons.com: Corporate responsibility, n.d.). These development programs show that the company tries to create multidimensional perspectives and flexible practices at the level of individual manager as well as operational employees. As stated by Bartlett and Ghoshal (1987) the new management approach for building multidimensional capabilities should be supported by creating matrix in the minds of managers.
7. CONCLUSION

The conclusion is to describe and answer the research question proposed in research problem section. Moreover, recommendation and implication are presented in order to contribute to the further research.

In case of PZ Cussons, the company also concerns global strategy in order to be achieved in global market while putting more emphasize on local strategy to become at the leading position in local markets in Thailand and Indonesia operating unit.

In this thesis, we aim to answer the research question “How does Western European MNC coordinate and control its subsidiaries in Southeast Asia?” by selecting PZ Cussons as the case study to describe and lead to the answer. After gathering empirical data and analysis, we came to conclusion that PZ Cussons headquarters in UK employs various coordination mechanisms to control and coordinate with both Thailand and Indonesia subsidiaries. The pattern of coordination and control mechanisms implemented within PZ Cussons reflects to the organizational structure as multi-home-based MNC with partial with heterarchy. The multi-home-base structure is presented in form of the power of strategic decision making related to local context is moved from headquarters in UK to Thailand and Indonesia subsidiaries in order to respond to their own market and resources. Also, PZ Cussons shows heterarchical aspect through the corporate culture which is consistent with shared values and co-option perspective of transnational solutions. The corporate culture is executed in PZ Cussons as CANDO.

In aiming to achieve both global and local market goals, PZ Cussons employs transnational solutions which are geographic management, business management, and functional management to build multidimensional capabilities. The geographic management has been more implemented by Indonesia than Thailand operating unit; where as Thailand has deployed business management more than Indonesia operating unit. In terms of functional management, both Thailand and Indonesia operating unit have been provided worldwide learning system from PZ Cussons UK similarly. PZ Cussons has tried to balance and sustain all three strategic capabilities by developing the tools in terms of company’s activities in all three areas which are global competitiveness, multinational flexibility, and worldwide learning. In perspective of transnational company, PZ Cussons implements centralization, formalization, and socialization approach all together to every operating unit including Thailand and Indonesia to develop flexible coordination mechanisms. The concept of centralization and formalization are linked to differentiated fit as formal control mechanisms. In addition, the concept of socialization is linked to shared values as informal control mechanisms.
In summary, PZ Cussons structures the company itself as multi-home base MNCs model with partial heterarchy and applied the coordination of control mechanisms in form of differentiated fit and shared values, also the developing flexible coordination processes of transnational solution are implemented similarly within Indonesia and Thailand operating units. However, the business management is implemented dominantly in Thailand subsidiary, whereas, the geographic management is preformed prominently in Indonesia subsidiary.

8. RECOMMENDATION

After we draw the conclusion, we came to the recommendation for our case study PZ Cussons in the following areas.

First, we believe that to be heterachical MNC is challenge for most of MNCs; therefore, we recommend PZ Cussons to develop its organization structure to be a hypermodern MNC or a heterarchical MNC by encouraging each subsidiary to be able to play a role in business action for the whole MNC, not only for their owns (Hedlund, 1986).

Second, as we perceive Thailand operating unit performs dominantly in business management which focuses on global market. However, the second core strategy of PZ Cussons is to be leading brands in local market; therefore, we recommend PZ Cussons to focus more on Thailand local market.

Third, to ensure the effectiveness of corporate culture, PZ Cussons should assign a person or group committee to be responsible especially for CANDO evaluation

9. IMPLICATION

This thesis is limited by time constraint so that the research focuses on the control and coordination mechanisms of PZ Cussons UK headquarters towards Thailand and Indonesia subsidiaries. However, we perceive that even if these two subsidiaries are located in different countries, control and coordination mechanisms are still mostly the same. Therefore, it should be noted that in the future research area of study should be focused on the comparison between different continents such as Europe and Asia, Africa and Asia, or Africa and Europe and so on in order to get broader perspectives in control and coordination mechanisms.
REFERENCES


APPENDIXES

Appendix A

Asian categorized products of PZ Cussons

Babycare

PZ Cussons offer variety of products in babycare industry to Asia region for examples, soaps, lotions, shampoos, and rubs. These products are developed and distributed under the local brand in order to easily getting access to local consumers and respond appropriately to the needs of them (Pzcussons.com, n.d.)

- The brand: Cussons Baby

Cussons Baby has grown radically to become Indonesia’s leading brand in the intense babycare segment. It is a broad range of products with purposeful to provide baby with gentle care. The accepted baby products include baby utensils such as bottles, bowls (Pzcussons.com, n.d.).

Household and detergents

The wide sort of products such as detergents, manual dish wash and automatic dish wash are offered in this region. Operating this industry, PZ Cussons focuses on brand renovation which is encouraged by the accumulated experiences and increased market knowledge in its local market (Pzcussons.com, n.d.).

- The brand: Radiant and Morning Fresh

Radiant is one of PZ Cussons innovative product. It is a detergent developed in order to reduce water consumption and improve more environmental-friendly product. Morning Fresh is a popular global brand, which is offered diversely across many regions to fit with local consumer needs such as dishwasher tablets for Australia market and dishwashing liquid for Asia and European region (Pzcussons.com, n.d.).

Personal care and soap

PZ Cussons provides the wide range of products in this category such as soaps, deodorants, body washes, gels, and creams. These groups of products are managed by focusing on the launching of leading local brands such as Extreme which is served to the massive Asian market (Pzcussons.com, n.d.).
The brand: Imperial Leather and Extreme

Imperial Leather is a global brand soap which generates high profit in Thailand. The successful of this soap bring about the development of various range of bar soap. Extreme is an outstanding local brand which includes deodorants, colognes, sprays and gels. It has developed to serve male market in Indonesia (Pzcussons.com, n.d.).
Appendix B

Interview Questions

1. Is there any allowance for every PZ Cussons operation unit to create the business strategy for its own unit which also can be implemented for the other PZ Cussons operating units around the world? If yes, please provide the example and describe in detail.

2. Is it possible each PZ Cussons operating unit which has its particular specialty in, for example, research and development, marketing becomes the center of that kind of specific specialty for the whole company? If yes, please describe the specific kind of specialty in specific operation unit.

3. Please describe whether PZ Cussons Thailand need to follow main business operation such as research and development, and core production which is determined by PZ Cussons UK or it is able to perform theses operation independently?

4. Please describe whether PZ Cussons Indonesia need to follow main business operation such as research and development, and core production which is determined by PZ Cussons UK or it is able to perform theses operation independently?

5. Does decision making come from PZ Cussons UK or PZ Cussons Thailand have freedom to make its own decision regarding business action (e.g., product development, marketing promotion, business strategy)? If yes, please provide the example of particular activity.

6. Does decision making come from PZ Cussons UK or PZ Cussons Indonesia have freedom to make its own decision regarding business action (e.g., product development, marketing promotion, business strategy)? If yes, please provide the example of particular activity.

7. Does PZ Cussons has the same standard practice and strategy in operation to cooperate with every operating unit or it creates specifically for each unit? Please describe if it is different among units by giving the example in the aspect of Thailand and Indonesia.

8. Is there any co-activity between PZ Cussons Thailand and Indonesia (e.g., product development, marketing promotion, business strategy)?
a) If yes, please provide the example and description of particular activity.

b) If no, in which activity that PZ Cussons Thailand performs but PZ Cussons Indonesia
does not or vice versa.

9. Is there any core value of PZ Cussons implemented by every operating unit? If yes, please
describe the common practice which leads to that core value.

10. As mentioned in PZ Cussons core strategies, this company operates in both global and
local market to ensure the opportunities for profitable growth. Therefore, please give
some examples of PZ Cussons systems and activities in order to achieve its global and
local efficiency (e.g. distribution system, branding, outsourcing, etc).

11. How PZ Cussons Thailand operating unit do to respond to the local market in the aspects
of, for examples, product features and marketing strategies? Do it follow strategy
provided by PZ Cussons UK, or created by itself.

12. How PZ Cussons Indonesia operating unit do to respond to the local market in the
aspects of, for examples, product features and marketing strategies? Does it follow
strategy provided by PZ Cussons UK, or created by itself.

13. Is there any co-learning activity such as conference and workshop between PZ Cussons
UK, and its operating unit? If yes, please provide example of co-learning activity.

14. Is there any co-learning activity such as conference and workshop between Thailand
and Indonesia operating unit? If yes, please provide example of co-learning activity.

15. Does PZ Cussons UK create interdependence among each different operating unit? For
examples, both Thailand and Indonesia produce Cussons baby powder, do they
exchange information and/or develop new product together?

16. As Indonesia operating unit is the hub of Southeast Asia region, is there any case that
Thailand operating unit has to operate followed by its strategy?

17. How PZ Cussons does in order to develop organization at individual managerial level,
does they focus on training, meeting, and auditing and well-clarifying career path?

18. Does PZ Cussons UK assign someone to cooperate among different units to ensure that
they have the same understanding in the company’s vision?
Appendix C

Summary of interviews

Interviewee No. 1

Position: Customer Marketing Manager

The first interviewee has been working in marketing department as Customer Marketing Manager. She is responsible for managing and creating new strategy for modern trade channels. Also, she has been working with Indonesia operating unit in research and develop new products. She has been participated in the latest marketing strategy of PZ Cussons in re-launching and refreshing the brand in Thailand and Indonesia market especially Imperial Leather bar soap brand. The atmosphere of working environment in PZ Cussons in Thailand and Indonesia operating units are explained as PZ Cussons headquarters allows both Thailand and Indonesia operating unit to create their own business strategy for their own unit. However, the strategic planning in individual unit needs to be guided by four core strategies of the organization. In addition, both operating units share some strategies as regional strategies such as marketing strategy, new product development strategy, and some distribution systems. Nevertheless, these regional strategies cannot be implemented by other regions such as European or Africa because they are in different market environments.

Once we asked her to provide the different aspects between Thailand and Indonesia subsidiaries, she clarified that Thailand operating unit has the specialty in bar soap manufacturing; while Indonesia operating unit has the specialty in producing liquid soap. The specialty of Thailand makes it become sourcing center to provide soap products as inquiries from Headquarters in UK. Headquarters coordinates with the international division located in Pathumtani plant to produce and develop bar soap and powder to serve UK, Australia, and Middle East countries’ markets. On the other hand, Indonesia is a hub of PZ Cussons in producing and developing liquid wash to serve UK, Australia and Thailand’s market. In addition, in research and development field, these two subsidiaries are allowed to generate R&D is strategy itself; however, strategy is needed to correspond with guidance of regional managing director.

She further explained that even though these two subsidiaries are specialized in different fields, some co-developed projects are required corporation among them and headquarters, for examples, (1) the co-activity in R&D of powder products between
Thailand, Indonesia and UK, (2) the co-development of regional project such as the re-launch marketing campaign of Imperial Leather product in order to refresh brand's image, packaging design and formula and (3) the Co-activity in baby product project, re-launch all baby product line both in Thailand and Indonesia. She said that the main reason of these co-activities is to minimize complexity in manufacturing and keeping stock to have same packaging design so it can be able to sell in both markets.

Another area in which Thailand and Indonesia operating units can work together is business strategy. Although both of them have their own strategies dealing with their market, some strategies generated from one unit can be shared to another. Thailand operating unit is able to implement the strategy generated by Indonesia operating unit, vice versa. Regarding the core strategies, local markets are very crucial for PZ Cussons. Thailand and Indonesia have to respond appropriately to their markets. Therefore, Thailand operating unit performs its own marketing such as market research (purchase statistical figure from Neilson). Some products selling in Thai market have same features as Indonesia, but they are different in marketing strategy and positioning. Also PZ Cussons Indonesia sells some products having same features with Thai market, but its marketing strategy is different.

Besides the co-activities in developing new products, there are some co-learning projects which she explained that it is normally set up in form of workshop called ‘trade marketing workshop’ for marketing staff to share knowledge. Within PZ Cussons, the training programs are mainly operated through workshop. Meeting is also perceived as the beneficial source of learning. Through her position and responsibilities, she usually attends 5 meetings per month; 2 of them lead by trade marketing department. Here are the details of her attended meeting: (1) IMEX (In Market Execution)-Operation in market and (2) TRADEX (Trade Discount and Trade Promotion Expense)-Expense in trade channel whether money spends in each channel is worth or not. In addition, to ensure efficiency of performance of each operating unit, external and internal auditing is held annually by Chairman from UK in order to select potential employees and to offer the opportunity in transferring to other subsidiaries.
**Interviewee No. 2**

Position: Brand Manager

The second interviewee has been working in marketing department as Brand Manager. He is responsible for taking care of brand of PZ Cussons products in Thailand especially soap products line and launch marketing campaign. He explained that some marketing activities had been done by cooperating between PZ Cussons Thailand and Indonesia such as co-development in marketing advertisement on television so the both teams need to have conference from time to time either in Thailand or Indonesia.

After joining the company, he has been trained regarding his job responsibilities by training programs. Also, he attends to CANDO meeting every time himself. The meeting is held by managing director as a chairperson in each unit and continues by presentation of each member about their prepared stories regarding initial letter in CANDO. Additionally, he stressed on the reward called 'CANDO flag' which is given to the succeeded project.

He further explained the importance of CANDO that CANDO is one perspective using in evaluate performance of employees such as raising salary and promotion. The performance evaluation of managerial level related to CANDO is evaluated by Managing Director of each operating units.

Moreover, he explained about PZ Cussons’s market strategy in Thailand and Indonesia that in Thailand the distribution channels and marketing are more focused on modern trade; however, in Indonesia market the markets are more focused on traditional trade. For PZ Cussons, the traditional trade is operated through agent; whereas, the modern trade is managed by PZ Cussons itself. In addition, he provided further information that Thailand operating unit is a hub for producing and developing bar soap. On the other hand, Indonesia operating unit is hub of producing liquid soap so that Thailand unit has to import liquid wash from Indonesia and do market in Thailand itself.

As noted that PZ Cussons has marketed globally four brands including Imperial Leather, Cussons Baby, Carex, and Morning Fresh, he gave example of one product, Imperial Leather that this product doesn't need to be produced from only one operating unit; it depends on resources in each area. Imperial Leather is a global product but it needs to be in different positioning in different markets.

Working as a brand manager, he told us about his international working experiences that he has participated in the co-development program in generating concept and story board of advertising television campaign and TVC (television commercial). However, business strategy is generated from both Thailand and Indonesia separately. Furthermore, he and other Marketing staffs from Thailand need to go to UK to learn concept of specific products.
For example, ‘personal wash workshop’ is held last year in Thailand. This workshop is set up annually; there are sharing knowledge and experiences in workshop in the area of innovation, competitor and new product in each subsidiaries market from PZ Cussons people around the world. Also he had joined the co-learning project set up by headquarters, UK to renovate baby product line project and re-launch all baby product line. This project is a joint program cooperating by UK, Indonesia and Thailand.