INTERACTIVITY–
Control Mechanism or Management Tool?

An enquiry of control systems in headquarters - subsidiary relationships

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INTRODUCTION

Throughout the last decades increasing globalisation led to an ever-growing need for organisations to compete on a global scale. As more and more companies operate in an international environment and grow in scope, a greater necessity for control between geographically dispersed parts of companies becomes apparent. Organisations need to manage not only the 'simple' relationship between superiors and employees, but are faced with the need for an efficient management of relations between different interorganisational units and employees with diverse cultural backgrounds. To remain competitive organisations need to continuously innovate and gather new insights and technologies in their field of expertise. This continuous need for organisations to innovate and compete, at the same time leads to an extensive need of control not to waste the organisation's capital and assets. However, the realisation that there is an extensive need for control within organisations, does not automatically lead to an efficient use thereof. Many scholars deal with the problem of matching the right kind of control to different organisations and strategies and point out various kinds of control mechanisms that

are present in organisations (Hofstede, 1967; Ouchi & McGuire, 1975; Edström & Galbraith, 1977; Mintzberg, 1979; Baliga & Jaeger, 1984; Chang & Taylor, 1999; Andersson, Björkman & Forsgren, 2005). The studies come to diverging conclusions, about which kind of control to use in what kind of situation. This clearly shows that the subject of control, even though widely discussed, still leaves questions unanswered.

Especially within large, multinational organisations, there is an increased need for structured control mechanisms, because contrary to small and medium-sized enterprises there are, little or no direct relationships between top management and employees. What follows is that the use of control mechanisms is extremely important, as it "reduces uncertainty, increases predictability and ensures that behaviours originating in separate parts of the organisation are compatible and support common organisational goals" (Egelhoff, 1984, p.73). Therefore, control between units of a multinational corporation (MNC) is on the one hand extremely important, but on the other hand very hard to obtain. In the

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following, the approach taken in this study is described in order to get a better understanding of the motivations underlying this study.

1.1. Problem motivation and statement

As the concept of control plays a major role in the steering of multinational organisations, there is an extensive amount of literature concerned with organisational structures and the resulting forms of management relations (e.g. Trienekens & Beulens, 2001; Chang & Taylor, 1999; Roth & O'Donnell, 1996; Nohria & Goshal, 1994; Gupta & Govindarajan, 1991). The study at hand intends to investigate control mechanisms in headquarters – subsidiary relationships. The processes between the different units are investigated through the use of agency theory, which explores the problems and means between agents (in this case the subsidiary) and principles (in this case headquarters). The underlying assumption within agency theory is that one part, the principle, delegates work to another, the agent, to perform the work (Eisenhardt, 1989). This relationship however is not as simple as it might seem and therefore agency problems arise. For many years, multinational organisations have used subsidiaries as low cost production facilities and suppliers of parts, which made them extremely dependent on headquarters with little negotiation power. In recent years the position of subsidiaries in MNCs have been changing from being suppliers or subcontractors to becoming increasingly important in building a competitive advantage for the company (Roth & Nigh, 1992). This puts the subsidiaries in a better position for negotiation, which indicates that there is a possible shift in the

control mechanisms established between headquarters and subsidiaries. As the shift in subsidiaries position build a new constellation of relationships, the rethinking of control mechanisms seems appropriate. This changing nature of relations and the associated shift in control systems, leads to a need for reconsidering the use and type of control within multinational organisations. As the power between headquarters and subsidiaries changes, their power relationship changes as well and might lead to an increased need for a different kind of control within these organisations. In order to examine these developments and investigate possible changes in the control mechanisms of multinational organisations, the applicability of Simons' framework within the changing relations of multinational co-operations, will be inspected. This line of thought leads to the following research questions, which build the underlying basis for the study at hand.

1.1.1. General Research Question

On the one hand, the subject of control is especially important in multinational organisations, but on the other hand it is very hard to gain and employ it in the 'right' way. Additionally, the nature of the relationships between multinational units is changing, leading to a shift in power. Taking these two aspects into consideration, the general research question can be defined as follows:

> What kind of control mechanisms are used within headquarters - subsidiary relationships, taking the changing positions of subsidiaries into consideration?

The study at hand therefore discusses whether the nature of the control elements might be changing, due to the changing nature of headquarters - subsidiary relations. Taking an agency perspective and investigating Simons' levers of control framework in detail, the empirical study is undertaken. As the research question is rather broad, it is divided into smaller parts, which are described in the following section.

1.1.2. Specific Research Question

The segregation into more detailed questions allow for the empirical investigation of the object of study. As this study is concerned with the unique relationship between headquarters and subsidiaries, it first of all needs to be considered,

> Research Question 1:
> What has been researched about the relationships between headquarters und subsidiaries until now?

Gaining an understanding of the subject of relationship between the different units of a multinational corporation is essential for furthering the research in this field. As the study at hand is concerned with the use of control within these organisations, there is a need for understanding the terms and definitions of management control. This is investigated in the second research question, which states:

> Research Question 2:
> What is management control?

After the basic frameworks have been discussed, there is a need to understand the consequences of the shift of power of headquarters – subsidiary relationships.

Considering Simons' framework of control, the use of the interactive lever of control seems questionable. Therefore the subsequent research question is concerned with the effect of this fourth lever of control and is stated as follows.

> Research Question 3:
> What is the consequence of interactivity between headquarters and subsidiaries?

Based on the above research questions a new model is developed. This model incorporates Simons' levers of control framework and trust to build a future model of control. To give credibility to the study at hand, the model needs to be tested empirically and therefore the last research question is concerned with the empirical implications. The fourth research question can be read like this.

> Research Question 4:
> What are the empirical implications of the theory described?

Combining the four specific research questions makes the answering of the general research question possible, as it takes all aspects into account. As the aim of the study has been discussed above, the following section describes the delimitations of this study.

1.2. Delimitations

While the study at hand investigates the use of control mechanisms within MNCs some issues are left aside. When considering the multiple theories that describe the relationship between headquarters and subsidiaries, the study at hand only discusses three of the numerous existing theories. While

several theories and perspectives, such as transaction costs economics, resource dependency theory, or supply chain management might have been included here, as all of them are concerned with inter-enterprise relationships; only three theories, namely: contingency-, network- and agency theory are mentioned and only one will be discussed and taken as a basis for the subsequent study, due to space and time restrictions.

The same applies to the theoretical background of management control. The theories describing mechanisms and uses of control within multinational organisation are plentiful. With regard to control, contingency theory and agency theory can again be considered. Additionally, many scholars came up with frameworks and models for understanding and using control mechanisms (Rotch, 1992; Otley, 1980; Dalton & Lawrence, 1971). In this context, however, only one model, namely Simons' lever of control framework will be used. Employing this framework makes sense, as it integrates many of the previously developed models and is furthermore empirically applicable.

Thus, it needs to be taken into consideration that there are a vast number of models and frameworks in the literature on the headquarters – subsidiary relationships and management control.

To investigate the object of study in depth, agency theory and Simons' control framework will be discussed in more detail, while other existing theories will not be investigated any further to avoid possible confusion. To counteract any possibility of confusion, the following section introduces the structure of this paper.

1.3. Structure

First of all, a general theory introduction to headquarters – subsidiary relationships is presented. Mainly these relationships take place within MNCs and are to a great extent the outcome of an increasing effectiveness of the central control of operations. In recent years the relationship between headquarters and subsidiaries has been changing. These changes are taken into consideration and the source and consequences of these shifts are discussed. Furthermore a summary of the various theories describing the relationship between headquarters and subsidiaries is given, including contingency theory, the network perspective and agency theory. Agency theory is then examined in more detail as it portrays the relationship and the control mechanisms between headquarters and subsidiaries. Additionally, the theory incorporates the subject of trust and is therefore used as the underlying basis of the study.

In the subsequent section, management control in general and its changing nature throughout the decades is discussed. Here the theory of management control is linked to the former introduced agency theory. As agency theory is a metatheory, which is harder to apply empirically, a new framework of control mechanisms is introduced, namely Simons' levers of control. These levers are discussed in detail in section 3.1 and build the framework of the newly developed model that comes forth from the empirical findings.

In chapter four, the two previously discussed theories are integrated to form the basis of the empirical investigation. In this case, Simons' levers of control, namely

belief-, boundary-, diagnostic-, and interactive control systems, are combined with output-, behaviour-, and cultural control. Additionally the subject of trust is considered and several assumptions are put forth that are considered during the collection and interpretation of the data. Furthermore, chapter four includes the presentation of the research strategy of the study at hand. In order to test the applicability of Simons' framework and the issue of trust, coming forth from the formerly developed assumptions, a single case study is conducted. In section 4.3, the data collection, interpretation and analysis are discussed in detail. Additionally, the coding categories are defined, which are belief-, boundary-, diagnostic, and interactive control, as well as trust.

To see the empirical implications of the conceptualisation, the chapter is followed by the case study that was conducted in Continental AG, a German tire and automobile part company. The company under investigation is a truly global player and therefore defined as an MNC. The industry, as well as the company is described in detail to get an understanding of the subject of investigation. Hereafter, the analysis is described and the codings for the empirical findings are categorised. In chapter six, the findings are presented and discussed. Here the levers of control of Simons are recognised and the issue of trust is taken into detailed investigation. Some of the findings suggest that trust and personal relationships are the main mechanisms of control in multinational corporations. On the other hand, the findings imply that interactivity and personal communication is used to build trust. Furthermore, it comes forth from the empirical data, that all oth-

er levers are partly or completely futile, if trust and personal relations are not present within organisations. From the findings, a new model is developed, which takes Simons' framework as a basis, but integrates trust into the equation. This model is introduced in chapter six.

Finally, the conclusion builds the last part of the study. In this section the underlying theories and according findings are summarised again. It concludes then with providing answers to the research questions. Furthermore the implications and the future outlook of the study at hand are described and finally the limitations of the study are introduced.

But first of all, the theoretical part starts out with the introduction to headquarters – subsidiary relationships. These relations are investigated in the following.

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HEADQUARTERS - SUBSIDIARY RELATIONS

Headquarter – subsidiary relationships are in general the connection between two units, where the one is financially and legally depend on the other. Corporate headquarters is usually the part of an organisation where decisions are made and the strategy of the organisation is to a great deal decided. The subsidiary is the reporting unit, which is controlled by its parent. Even though the subsidiary is dependent on headquarters, it is a separate, distinct legal entity for the purpose of regulation and taxation, in contrast to for example a division of a company. In many cases, headquarters – subsidiary relationships take place within multinational corporations. The geographical dispersal and cultural differences between the units make the adequate control and integration even harder, as headquarters is confronted with diverse social, economical and regulatory demands (Kostova & Zaheer, 1999).

However, for the relationship between headquarters and subsidiary a straightforward assumption can be proposed, namely that the simple existence of MNCs and the increasing size of these forms of organisations, has to mean that centrally controlled operations are an advantage over individually controlled operations. To get an understanding of the concept of a MNC, there is a clear need for a definition. Dunning (1992) defines a multinational corporation as "an enterprise that engages in foreign direct investment (FDI) and owns or controls value-adding activities in more than one country" (cited in Grimwade, 2000, p. 117). Thus, the concept of a MNC includes closer ties such as in mergers or acquisitions, as well as looser relations like joint ventures or arm-length relationships. These ties have been subject to extensive research over the last decades, as they make up a great amount of the world's economy. The study at hand focuses on the special relationship between headquarters and subsidiary from an agency theory perspective that challenges the levers of control proposed by Simons. However, as several economic theories need to be taken into consideration when trying to fully understand this complex relationship, a brief overview of the academic theories directly related to the object of study will be discussed later on.

2.1. Definition and nature of relationships

The rise of MNCs is based on decreasing costs that are due to an integration of operations. In this context, the existence of subsidiaries is explained by operating "as an alternative to the market, for which the purpose is the execution of transactions" (Roth & Nigh, 1992, p.279). Thus, there is a need for operations between headquarters and subsidiary to run more efficiently then when executed separately.

Caves (1982) notes that:

"the multinational corporation is by definition, comprised of subsidiaries that are located in different nation-states. The existence of international operations suggests that a transactional advantage must exist for the central control of such operations, as compared with each operation being controlled by separate management" (cited in Roth & Nigh, 1992, p.279).

This indicates that more and more companies grow in scope and international reach, and need to adapt their management and control systems accordingly. The problem occurring within these large types of corporations, is concerned with the issue of coordination and control. As the geographic and cultural dispersion increases and the relations between employees and employer become more and more impersonal, chances are high that the goals and desires between two units are divergent. Especially the headquarters – subsidiary relationship can be modelled "as a mixed – motive dyad in which members have both interdependent and independent interests" (Goshal & Nohria, 1989, p.324). Because both units act partly independently, there is an increased need for trying to align the

interests of the two, to effectively manage the relationship.

As globalisation progresses, more and more organisations become internationally involved and geographically dispersed. Multinational corporations are comprised of organisational units in different countries. This international dispersion leads to the question of an effective amount of integration between business processes. One form of integration would be to buy a subsidiary. This normally includes the purchase of at least 51% of the shares of another company, thereby obtaining total right of control. As mentioned earlier, subsidiaries are separate entities for taxation and regulation issues, thereby distinguishing themselves from departments within an organisation. Even though the unit is independent in terms of taxes and laws, the parent company still needs to find efficient ways of "how to structure and manage the relationship between the headquarters and its foreign subsidiaries" (Birkinshaw, Holm, Thilenius & Arvidsson, 2000, p.321). The difficulty posed by an integration of (foreign) subsidiaries, is easily understood, however it is not easily managed. In this context, there seems to be a logical causality about the efficiency of multinational corporations. As the size of MNCs increases, it is assumed that centrally managed operations are more efficient than controlling each unit separately. However, as stated above, there also seem to be problems related to control in large organisations. What follows is that MNCs are faced with a balancing act between integration and independence.

The following part will describe the proposed difficulties in more detail and give an

overview of recent developments in head-quarters – subsidiary relationships.

2.2. Changing nature of relations

For many years, organisations were seen as a machine-like entity and closed-systems, e.g. Weber's (1947, 1968) bureaucracy, Taylor's (1911) scientific management, Fayol's (1949) analysis of management tasks. These frameworks assume a relatively simple handling of control, as it is possible for headquarters to lead and control the subsidiary by simple bureaucratic mechanisms, such as formal rules and procedures and direct intervention. As the business environment changes and as more and more researchers have explored the relationship between headquarters and subsidiary, new factors need to be taken into consideration (Roth & Nigh, 1992). Three aspects of change have been identified in the shift of the headquarters – subsidiary relationship. Firstly, the industries of MNCs have become increasingly globalised, thereby increasing the need for linkages between headquarters and subsidiary to stay competitive in an international setting. Secondly, subsidiaries have grown in size and capabilities and have become increasingly powerful in relation to their headquarters. Subsidiaries are no longer used as mere production sites or suppliers of parts needed in the end production, but rather take on roles of strategic responsibility. The different units nowadays also play a part in research and development and have their own marketing and strategy departments. Because of this strategic progress, subsidiaries are becoming increasingly important for an international competitive advantage, therefore making a healthy headquarters – subsidiary

relation unshirkable. A third aspect is the increasing scrutiny host governments show towards subsidiaries. Because of the contribution to the national development goals of the host countries by foreign–owned subsidiaries, host governments become more interested in the nature of these transnational links. To sustain legitimacy in their host countries, the MNCs need to develop and maintain effective headquarters - subsidiary relationships.

These shifts in the nature of relations in multinational corporations reveal a need for the effective management of activities between subsidiary and headquarters. However, for managers of MNCs, the problem is not to understand *that* there is a need for the integration of activities of all subsidiaries under a common strategy, but rather *how* to implement this strategy (Martinez & Jarillo, 1989; Birkinshaw, Holm, Thilenius & Arvidsson, 2000). In MNCs this integration of a common strategy becomes particularly apparent, as they operate in geographically and culturally dispersed locations, thereby making them more difficult to control.

It has to be noted that only the main theories concerning the subject of control between headquarters and subsidiaries that have come forth from prior research will be discussed in the following. There are certainly other academic theories concerning the investigation of relationships between headquarters and subsidiary, yet they did not appear to be of greater interest for the study at hand and are therefore not included. This overview of theories should merely give a picture about the issues that need to be considered when investigating the control relationships between organisa-

tional units.

2.3. Theory overview

Martinez and Jarillo (1989) provide an overview of mechanisms of coordination, which they define as an "administrative tool for achieving integration among different units within an organisation" (p.490). They define two main strands of mechanisms: 1. the structural and formal mechanisms, such as the grouping of activities, centralisation and decentralisation, formalisation and standardisation, planning and output, and behavioural control; and 2. the 'less formal and more subtle' mechanisms, comprised of lateral relations, informal communication and organisational culture.

Many authors have been concerned with the formal level of these mechanisms, especially the issue of centralisation and decentralisation (Picard, 1977; Hedlund, 1981; Doz & Prahalad, 1981; Garnier, 1982; Van den Bulcke, 1984; Gates & Egelhoff, 1986), and how these structures influence the effectiveness (Boseman & Jones, 1974; Roth & Nigh, 1992) and adaptiveness (Blau & Schoenherr, 1971) of organisations. Authors discussing the subject of centralisation versus decentralisation often take a contingency approach, concluding that there needs to be a 'fit' between the degree of centralisation and such variables as size, environment (Nohria & Goshal, 1994) and resources between headquarters and subsidiary.

Contingency theory assumes that various aspects of the environment of the organisation influence management style and organisational structures. As stated by Besanko, Dranove, Shanley and Schaefer (2004), "the optimal organisational structure for a firm depends on the circumstances it faces" (p.550). Several factors, such as size of the organisation, span of control, degree of centralisation or formalisation of rules and procedures influences the choices top management makes. Several scholars (Pugh, Hickson, Hinings & Turner, 1969; Blau & Schoenherr, 1971; Child, 1973; Boseman & Jones, 1974; Gates & Egelhoff, 1986) have empirically investigated the different factors and came to very different results. Thus, the contingency approach takes the environmental factors the organisation faces into account and assumes that the behaviour and positioning of the company is a result of these contingencies.

In the contingency approach a strong link between structure and action is assumed, so that the relationship between headquarters and subsidiary is determined by the individual variables of the organisation as a whole. As discussed above, the dependence of subsidiaries on their headquarters is decreasing thereby making it more difficult for headquarters to implement top-down decision-making (Doz & Prahalad, 1981). However, concerning the issue of centralisation and its contingency factors there have been contradictory studies (as summarised by Gates and Egelhoff, 1986). Therefore there is no consensus about the factors influencing the centralisation or decentralisation in a headquarters – subsidiary relation. However, as this study is not concerned with the factors influencing strategy formation, this discussion will not be extended. It merely shows that the complexity of headquarters – subsidiary relations and the theory underlying these relations is of enormous magnitude.

Another formal mechanism within the headquarters – subsidiary relation is the use of control mechanisms, such as output or behaviour control. These devices stem from one of the major theories in microeconomics, the agency theory. Both of these formal mechanisms will be discussed in section 2.4. Seeing the literature in this area of research it becomes apparent that many studies have been concerned with the formal mechanisms in headquarters – subsidiary relations. Due to the growing independence of subsidiaries however, it is vitally important to further examine the informal mechanisms of coordination and control that are becoming increasingly central.

One theory that focuses more on informal control mechanisms in organisations is the network perspective. In network theory, the organisation is seen as a node in a network of organisations. It emphasises the use of trust and personal relationships between the actors of a network and stresses that "people and things are given meaning through their relationships, not by or in the objects themselves" (Christiansen & Varnes, 2007, p.286). Uzzi (1997) sees trust as the primary source of power in governance structures. When investigating e.g. headquarters-subsidiary relationships through a network perspective lens, this leads to the assumption that the use of diagnostic controls is secondary and the main reason for control and interaction between the two entities is trust and personal relationships. This clearly shows that an efficient management of relationships is central to managing a MNC. To this end, the interaction of employees throughout the organisation as a whole is seen as an integrative device to assure the built-up of trust and

understanding between the different parts. This form of integration can be achieved through frequent visits, transfer of managers or the instalment of expatriates, aimed at building an extensive network.

In this study, agency theory is employed as the underlying economic theory for understanding headquarters – subsidiary relationships, as it describes the relationship between headquarters and subsidiary very clearly, and is additionally concerned with the problems occurring within these relationships effecting the behaviour of the individual units. Agency theory is highly useful for describing these relationships, as "the heart of agency theory is the goal conflict when individuals with differing preferences engage in cooperative effort…" (Eisenhardt, 1989, p.63). Additionally it includes the assumptions underlying contingency theory, as it assumes bounded rationality and asymmetric information distribution of organisational control. Moreover, it includes the use of outcome and behaviour control, and of transaction costs economics (Williamson, 1975), as it includes the assumption of self-interest, bounded rationality and contract solutions. In order to further clarify the underlying theory, the main assumptions of agency theory will be explored in the following. Furthermore, the subject of trust will be examined from an agency theory perspective in more detail below.

2.4. Agency theory

Agency theory is one of the earliest and most important theories in microeconomics (Ekanayake, 2004). It is used primarily in the fields of accounting (e.g. Demski & Feltham, 1978), finance (e.g. Fama, 1980)

and management (Eisenhardt, 1985, 1988; Kosnik, 1987), thereby covering a large part of organisational and economic studies.

The main strands of agency theory can be divided into two lines: 1. the positivist and 2. the principle-agent perspective (Jensen, 1983). Both views share the underlying concern for an efficient contract between two parties. However, the two perspectives differ in their mathematical rigidity as well as in their style. Positivist agency theory is mainly concerned with "describing the governance mechanisms that solve the agency problem" (Eisenhardt, 1989, p.59), while the principle-agent view, describes a general principle-agent relationship, with a broader focus and an interest in more general theoretical implications (Eisenhardt, 1989).

In this context, a principle–agent view of agency theory will be employed, as it is concerned with the relationship between headquarters and subsidiaries. Here, agency theory attempts to describe the relationship between two parties, where one, the "principle" delegates work or decisions to another, the "agent". This appears to be a rather simplistic matter of discussion, which becomes however more complex when considering the difficulties that occur between the different parties. The two main problems between principles and agents that make the relationship more difficult and costly to realise, can be described as follows: first of all there is the 'agency problem', which arises when a) the goals and desires of the two parties are not congruent, and b) verification of the actions of the agent is hard to obtain. This lack of knowledge regarding the agent's actions is cited in two aspects of the literature. Firstly, it is assigned to 'moral hazard', which refers to the lack of effort on the part of the agent. And secondly, it is explained by 'adverse selection', which describes the "misinterpretation of ability by the agent" (Eisenhardt, 1989, p.61).

The problem is that the principle can only verify that the actions of the agent were ap-
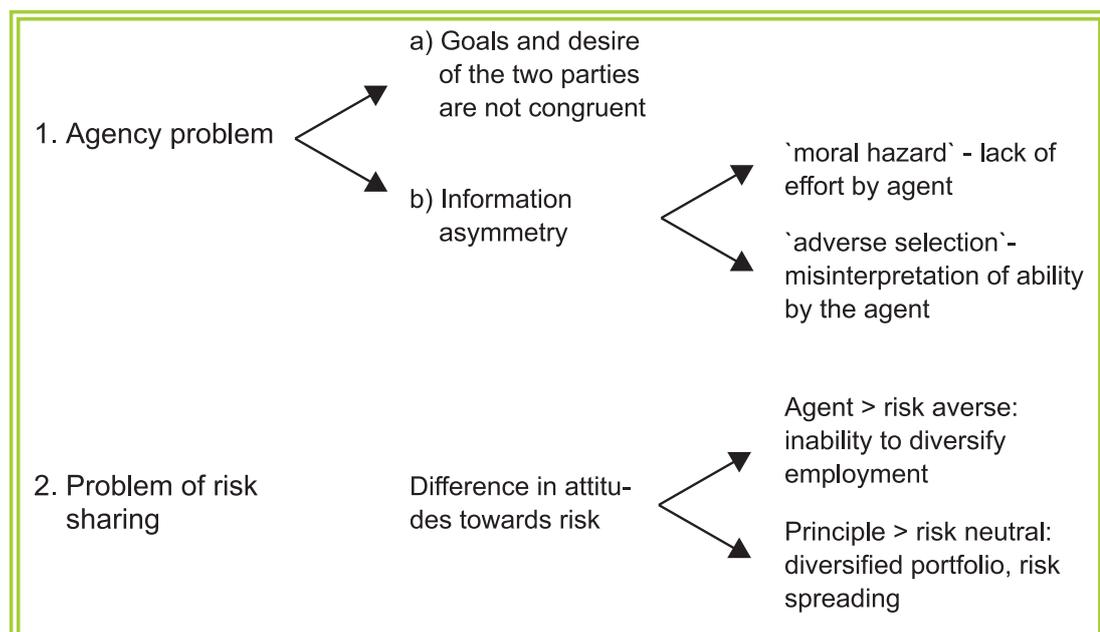
Figure 1: Summary of Agency Theory

propriate at great costs and through the use of information and monitoring systems. The second problem that might occur in an agency relationship is the problem of risk sharing that arises when the attitude towards risk differs between principles and agents. The problem arises because the difference in attitude toward risk might lead to a difference in preferred actions taken (Eisenhardt, 1989). Eisenhardt (1989) assumes that individuals are risk aversive and self-interested, whereas organisations are risk neutral (Shapiro, 2005). Companies are usually in possession of a diversified portfolio, which decreases the risk associated with a single project. In contrast to this, individuals and smaller organisations, "put all their eggs in one basket", which makes them risk aversive, as they are unable to diversify their employment (Eisenhardt, 1989). These problems that occur within the agency relationship are summarised in figure 1.

In agency theory the aim is to find the most efficient contract between principle and agent and to decrease the contract costs occurring between the two. Because of the differences in attitudes towards risks and goals, agency costs occur that cannot be avoided by simple contracts.

Additionally the relationship is marked by information asymmetry. This asymmetry occurs, because the principle does not have full information about the expertise, competence or effort invested by the agent for the delegated tasks (Eisenhardt, 1989; Chang & Taylor, 1999). To overcome this lack of information, the principle installs monitoring and information systems. Following this theory, the greater the convergence in congruity between agent and prin-

ciple, the greater the agency problem becomes. This is then linked to a greater need for effective monitoring and contracting mechanisms (Johnson & Mecof, 2007). The information asymmetry discussed above, is not only present from the principle to the agent, as the principle is not able to measure the competence of the agent beforehand, but can also be seen to apply from agent to principle. As Eisenhardt (1989) notes, "when boards provide richer information, top executives are more likely to engage in behaviours that are consistent with stockholders' interest" (p.65). This can be transferred to the relationship between subsidiary and headquarters, where increased information sharing between headquarters and subsidiaries leads to a convergence of goals, as the managers of the subsidiary are more likely to understand the bigger picture, and are therefore more likely to take appropriate actions.

2.4.1. Agency theory and multinational corporations

Agency theory may be used to investigate control in multinational corporations, because the underlying aim is to align the goals of principle and agent through various means (O'Donnell, 2000; Chang & Taylor, 1999; Roth & O'Donnell, 1996; Hennart, 1991, 1993). The headquarters – subsidiary relationship within MNCs can be seen as a principle-agent relationship, where headquarters try to align the behaviour of the subsidiary with their own goals (Andersson, Björkman & Forsgren, 2005). The relationship between the two is closely linked to agency theory, as headquarters (the principle) do not poses all the information of the subsidiary and therefore needs to rely on them for effective

decision-making (Nohria & Goshal, 1994). However, it can not relinquish all decision rights to the subsidiary (the agent), as the goals and desires may not be fully aligned, so that the agent might not be able or willing to act in the best interest of the MNC as a whole (Nohria & Goshal, 1994). Thus, agency theory reveals the classic problem of control within large organisations and the difficulty of managing and controlling subsidiaries (Eisenhardt, 1989).

2.4.2. Agency theory and control

Within an agency relationship the principle has two options to reduce agency costs. The first one being incentives, where an effort is made to align the interests of agent and principle. The second, being the monitoring of the agent's actions, which reduces information asymmetry.

In the literature on agency theory, two basic kinds of control are distinguished, output and behaviour control. Behaviour control, is direct and describes the mechanisms that monitor the ongoing business and the behaviour of employees, while output control is indirect and concerned with the measurement of "desired quality and/or quantity of output" (Chang and Taylor, 1999, p.544). Output control entails the evaluation of the agent's performance, through the use of, e.g. financial performance, market share and productivity measures.

Additionally, Ouchi (1979) introduces clan or cultural control. According to Chang and Taylor (1999), cultural control "involves the indoctrination of agents into principles' values and interests" (p.544). In this process of indoctrination goal congruence between the two parties is achieved,

which also means a reduced need for monitoring outcome and behaviour (Eisenhardt, 1989). For management to achieve sufficient control, the three mechanisms described above, can be used in combination. As stated by Chang and Taylor (1999),

"the three types of control, behavior, output, and cultural, are different ways in which principles attempt to influence the actions of their agents and tend to be more appropriate for use under particular situational conditions" (p.545).

As the reduction of agency costs is the underlying goal of all agency relationships, it needs to be taken into consideration that this reduction can be achieved by aligning the interests of the two parties. Ouchi (1980) affirms, "common values and beliefs provide the harmony of interests that erase the possibility of opportunistic behaviour" (p.138). Thus, returning to the subject of agency theory, this means that the more aligned the values and beliefs of e.g. headquarters and subsidiary, the more likely it is that the agency problem decreases, thereby making control mechanisms less necessary.

2.4.3. Agency theory and trust

Another issue to examine with regard to the need and cost of control mechanisms is trust. Throughout the last twenty years monitoring and appraisal capabilities within multinationals have become increasingly ineffective (Kim and Mauborgne, 1993). The decline in the effectiveness in 'traditional' control tools stems from the shrinking gap between headquarters and subsidiaries resources and capabilities (Goshal & Bartlett, 1988). This in turn makes organisational commitment and trust become a

significantly valuable tool in the management process (Kim & Mauborgne, 1993). This need for trust is also noted by Roth and Nigh (1992) as they suggest, "the use of personal integrating mechanisms […] establishes a collaborative relationship between headquarters and subsidiary, leading subsidiary management to view their relationship as effective" (p.284). This indicates that the trust and personal relationships between the individuals of the divergent units become increasingly important.

An aspect leading to the need of trust is the requirement of aligning the values and interest between headquarters and subsidiaries to decrease agency costs. When trust and personal relationships are breaded between the parties, monitoring becomes less necessary. Ouchi (1979) proposes that in order to engage in cooperative enterprise, people either have to trust or closely monitor each other. Moreover he argues that industrialisation and geographical mobility challenge the goal congruence, which in turn leads to the need for trust. This makes the subject of control and trust between headquarters and subsidiaries even more interesting, as an increased need for control is present but very hard to obtain. There is a need for a "balance of socialization and measurement which most efficiently permits a particular organisation to achieve cooperation among its members" (Ouchi, 1979, p.846). Thus, finding this balance between 'traditional' monitoring tools and personal relations is key to guiding headquarters – subsidiary relations and hence staying competitive in the global market.

Trust has been studied in multiple contexts within various sciences, such as psychology (Rotter, 1971), sociology (Zucker,

1986) and economics (Dasgupta, 1988). This enormous variety of studies has led to "conglomerate of ideas and definitions without a solid framework" (Beccerra & Gupta, 1999, p.181). However, most authors come to the conclusion that some level of trust between individuals and with groups is necessary to have an adequately functioning society.

2.5. Preliminary Conclusion

To conclude the preceding section, the main issues concerning headquarters – subsidiary relationships and the underlying agency theory are summarised in the following. Within this preliminary conclusion the attempt is made to answer the first research question that was stated in section 1.2.2. Prior research about the headquarters – subsidiary relationship has mainly been concerned with the adequate description of coordination and control between the two entities. Because of a gradually advancing globalisation and an increase in size and capabilities of subsidiaries, a shift in the relationship between headquarters and subsidiaries is recognisable. Several theories, such as contingency theory or the network perspective are discussed in broad, however, as agency theory combines several of the characteristics of the other theories and is concentrated on the relationship between headquarters and subsidiaries, it seemed sensible to employ. Furthermore, agency theory is mainly concerned with the alignment of interests and goals to decrease agency cost. In general, agency costs arise through three types of control, which give the principle, the possibility to steer the agent in the desired direction. It has to be acknowledged that agency theory mainly examines processes from the prin-

ciple's point of view. For the most parts, monitoring and information systems for an efficient surveillance of the agent are discussed.

Agency theory makes two major contribution to organisational literature, namely the recognition of information as a commodity, and secondly the implications of risks. The underlying assumption agency theory presents is that organisations can, by investing in information systems, control agent opportunism (Eisenhardt, 1989). Eisenhardt (1989) further notes that an outcome uncertainty coupled with differences in risk perception and acceptance is implied and should influence the contracts between principle and agent. As noted above, the problem of asymmetric information and the difference in risk perception, affect the type of contract between the two parties. Because of the advancing shift in relation between headquarters and subsidiaries, the sharing of information and use of personal relationships and trust become increasingly likely.

Thus in general it can be summarised that a shift in the relationship between headquarters and subsidiaries took place within the last decade, leading to an increasing need for more informal control processes, such as personal relationships and trust.

3

MANAGEMENT CONTROL

Managers of all types of organisations all over the world are concerned with the issue of how to control their organisations and employees. To this end managers need a way of understanding how decisions are incorporated into departmental activities and how goals are achieved at lower levels within the organisation. These processes are carried out through the use of control. To further investigate what control actually means, how it is applied and effects the organisation, the concept of control first of all needs to be defined.

Neergard (1998) reckons that even different managers within the same organisation may understand the meaning of control differently, "just as the same managers at different times might vary in their perception of control" (p.114). On the one hand, this clearly shows that the imminent subject is highly complex and at times confusing. On the other hand it is clear that control is a very important aspect in organisational theory. This point is also stressed by Egelhoff (1984) who concludes that "control reduces uncertainty, increases predictability and ensures that behaviours originating in separate parts of the organisation are

compatible and support common organisational goals" (p.73). Taking the formally discussed agency theory into consideration, it becomes clear that control is immensely important for the efficient coordination between different units. Through the use of control mechanisms, the interests and lines of actions of the different parts of an organisation are aligned. This alignment can take place between top management and middle management, between managers and employees, but also between headquarters and subsidiaries. It can, however, only be achieved if control mechanisms are in place, as otherwise, the parties are not likely to act in the interest of the organisation as a whole, but rather see their individual gain as most important (Eisenhardt, 1989).

The definitions and descriptions of control are numerous, as it was the 'central idea' of scientific management (Taylor, 1911), dating back to the origins of organisational theory. At the same time however, the concept has for a long time been considered "to be one of the most neglected and least understood areas in management activity" (Dauten, Gammill & Robinson, 1958,

p.41). Because of the increasing amount of literature on the subject of control, which is nevertheless not very consistent, control is an issue of concern to many academics still today. Additionally, organisations are in need of control to align the divergent interest of their different units. According to Rathe (1960) it is "one of the thorniest problems of management today" (Rathe in Malcom & Rowe, 1960, p.30).

One of the earliest definitions of control in the organisational context was given by Child (1973), who assumes that control is concerned with the regulation of activities in an organisation, thereby aligning them with the expectations established in plans, policies and targets. Child focuses on the regulating activity of organisational management and grounds this on a system control view (Watson, 2006), where human beings and their social environment are seen as clearly manageable. This view can be linked back to Taylor's (1911) scientific management, where employees are seen as resources used in the process of converting inputs into outputs. Baliga and Jaeger (1984) propose another definition, where the part individuals play in the use of control is acknowledged. They describe control as a process where a person (or group of persons, or organisation of persons) is determining or intentionally affecting what another person, group, or organisation is going to do. This definition gives an overview of the process of control in general. However, as this study is concerned with organisational control in particular, it is helpful to look at one of the earliest definitions of management control given by Anthony (1965), who states that

"management control is the process by which

managers assure that resources are obtained and used efficiently and effectively in the accomplishment of the organisation's objectives" (cited in Nelson and Machin, 1976, p.276).

Both definitions, the one of control as well as the one of management control clearly show that there is a human element involved in the process of interaction between organisational elements.

In the following the use of control in headquarters - subsidiary relationships will be discussed to get a better understanding of the processes that take place between organisational units. Based on the agency theory, which is discussed in chapter 2.4, management control can be examined from two angles. Following Giglioni and Bedeian (1974), one is associated with the use of observation and direct guidance of employees, whereas the other is concerned with the evaluation of desired outcomes of activities. These types of control are termed 'behaviour' and 'output' control. These two patterns of control have first been defined by Ouchi (1977) who comes to the conclusion that the form of control that is ultimately exercised depends on the accuracy with which each can be measured. By using behavioural and outcome evaluations, the management is able to assure that resources are used to accomplish organisational goals. In other words, this process ensures that activities are producing the desired results (Giglioni & Bedeian, 1974). This becomes especially important for the relationships and control between headquarters and subsidiary, as the goals of these two units might differ. To implement management control, management control systems (MCS) are needed to assess the incorporation of top-level deci-

sions into departmental activities and to examine whether organisational performance is influenced by strategy (Christensen, Andrews, Bower, Hamermesh & Porter, 1982). These systems can take the form of planning-, budgeting-, project monitoring-, career planning-, cost accounting- or human resource systems. The idea of using control to reach organisational objectives and goals is a common shared concept in the field of organisational theory (e.g. Daft & Mactinosh, 1984). How this control is implemented however, is discussed controversially and built upon extremely divergent points of view. Organisational management processes are influenced by many factors. Almost all scholars of organisational control mechanisms look at the concept from a contingency approach, which implies that there is the need for a 'fit' between organisational circumstances and particular organisational arrangements (Watson, 2006). Scholars have identified multiple factors, such as size, culture, environment, technology, interdependence and strategy that influence the choice of control structures (Thompson, 1967; Khandwalla, 1972; Child, 1973; Ouchi, 1977; Merchant, 1981; Govindarajan, 1983; Daft & Macintosh, 1978, 1984; Egelhoff, 1984; Stonkute & Zukauskas, 2003). Thus, it has to be noticed that within a contingency approach to organisational theory, there is a clear link between the control mechanisms a company applies and its strategy. This is also noticed by Ouchi and Johnson (1978), as they come to the conclusion that different types of organisations are in need of different amounts of behavioural or output control, depending on size and centralisation of the organisation. Stonkute and Zukauskas (2003) are concerned with the environmental dynamics of an organisation leading

to change, arguing that change should be managed through adequate control mechanisms. This implies, as suggested by several other scholars (Snow & Hrebiniak, 1980; Hambrick, 1981; Govindarajan & Gupta, 1985; Anthony & Govindarajan, 2007) that organisational control mechanisms are dependent on the strategy of the organisation. In contrast to scholars suggesting that the type of control systems is influenced by internal and external factors, other studies suggest that strategy and structure are influenced by the choice of control system (Argyris & Schön, 1978; Marginson, 2002). This discussion however, is as circular as the debate about the egg and the chicken and the question about which came first. As there is currently no clear consensus and as it is not the main concern of this study, this relation will not be discussed in detail. However, the apparently critical relation between structure, strategy and the implemented control mechanisms within MNCs should be kept in mind.

In order to take a better look at the influence of control mechanisms between headquarters and subsidiaries in multinational organisations, there is a need for a clear framework of control. Management control mechanisms vary immensely in their practical application, as some are concerned with the use of output and others with the use of behavioural control. Simons (1994) clusters these systems into different levers of control, in accordance with the way managers employ these MCS's, and the external environment, and strategy of the organisation. He proposes four different kinds of control systems, which he defines as: diagnostic control-, belief-, boundary- and the interactive control system. The framework includes the tension between

control and creativity, which need to be considered by top management for the implementation of strategy. The different forces are proposed to "achieve a dynamic tension that allows the effective control of strategy" (Simons, 1994, p.8). As Simons' (1994) framework clearly describes the different systems of management controls that are used in an organisation, it is especially useful to practitioners and for application in empirical research. The following part will describe the different systems of management control as divided by Simons in more detail.

3.1. Levers of Control

Over the last decades major changes have been taking place in the organisational arena. Formerly, organisations were seen as controllable by managers and character-

ised by top-down strategies, a new line of argument blossomed, which takes a new market and organisational culture into account. As stated by Simons (1994), "command-and-control techniques no longer suffice in competitive environments where creativity and employee initiative are critical to business success" (p.3). This statement indicates that control structures are in need of change to stay flexible and effective, especially in an increasingly international environment. Many organisations, especially in creative industries, are faced with the problem of controlling their employees without constraining their creativity. This also leads to a change in strategy creation and implementation, where for many years, strategy has been seen as formulated by top management and then implemented through the levels of hierarchy, today, many organisations take account of
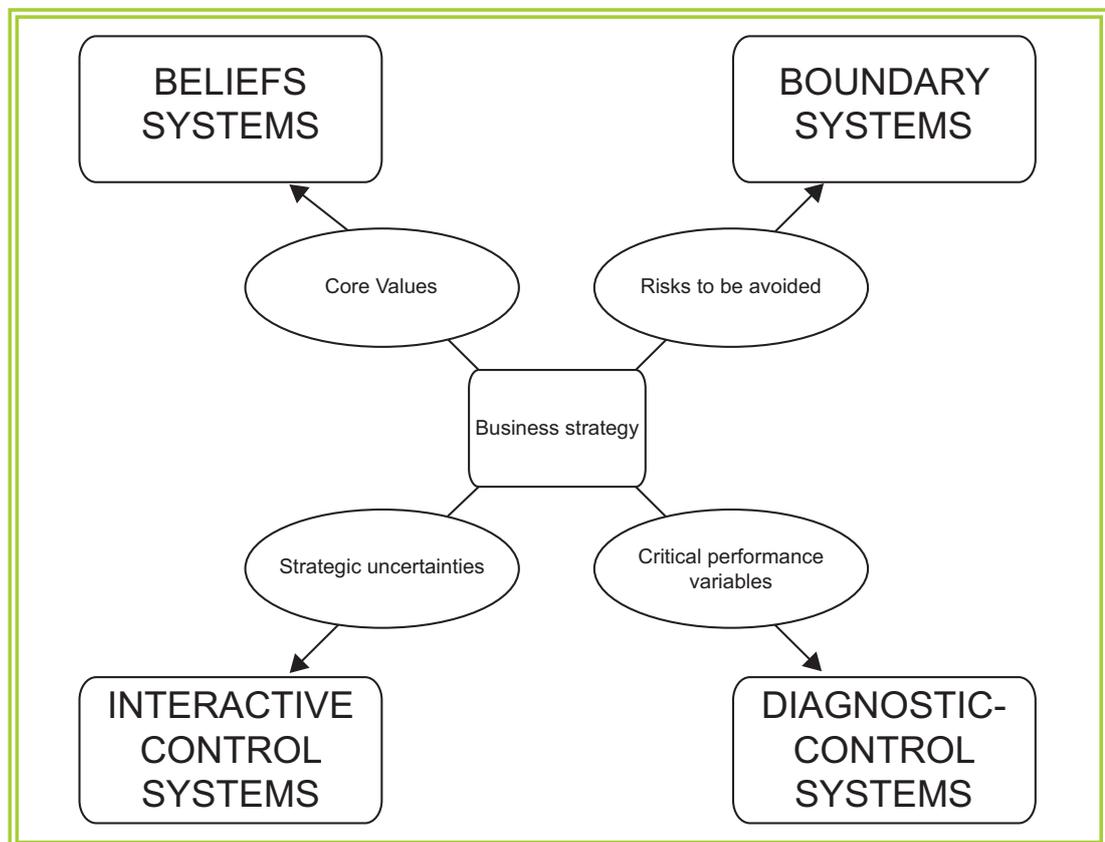
Figure 2: Levers of Control (Simons, 1994)

additional emergent strategies, which surface along the formally implemented one. To incorporate these different views of organisations and strategy building, Simons came up with a framework that is divided into four levers of control. These levers of control are thought to assure that "…tensions between freedom and constraint, between empowerment and accountability, between top-down direction and bottom-up creativity, between experimentation and efficiency" (Simons, 1994, p.4) are taken into account and controlled. The four levers of belief-, boundary-, diagnostic control- and interactive control systems, are included as Simons argues that an "effective theory of control must admit multiple and simultaneous conceptions of organisational functioning" (Simons, 1994, p.13) and therefore needs to take multiple perspectives and concepts of control into consideration, as visualised in Simons' framework in figure 2.

As Simons (1995) notes that for managers who attempt the balance between creativity and control, each of the four control levers has an individual purpose. Thus, to effectively implement a strategy in an organisation, there is a need for management to take different issues into account. These different issues lead to the need for the different levers of control. In the following, the four levers and their purpose in the organisation are described in detail.

3.1.1. Belief systems

Through the belief system, managers attempt to communicate formal values and general directions of the organisation. Within the whole system of controls, this system motivates employees to search for

new opportunities. As stated by Simons (1994), "the primary purpose of a belief system is to inspire and guide organizational search and discovery" (p.36). The belief system is formally expressed through mission statements, credos and statements of purpose of organisational goals and values. The more complex organisations become, the more important intact belief systems turn out to be. Because of mergers and strategic changes, a clear direction might not be visible to all employees in multinational companies at all times, therefore managers need to make sure, that core values and a basic direction are communicated throughout the whole company to ensure a united force. Additionally, these systems must be broad enough to make sure that all organisational participants are able to commit to them in their own way. Because of the need for organisational unity, belief systems play a very important part in ensuring organisational control.

3.1.2. Boundary Systems

Boundary systems are the opposite pole of belief systems. By giving employees the opportunity to express their own ideas and creativity, boundary systems establish the outer frame in which it is allowed to search, thereby constraining creativity and innovation. Boundary systems can be divided into two parts, namely business conduct- and strategic boundaries. The former enforce the codes of business conduct and have three sources. According to Gatewood and Carroll (1991) these are: (1) society's law, (2) the organisation's beliefs systems, and (3) codes of behaviour promulgated by industry and professional associations. Because the benefits of business conduct boundaries are hard to assess, as they are

costs avoided, many managers do not pay much attention to them. This however can lead to high losses of assets or reputation. Therefore many companies only establish business conduct boundaries, once a crisis or incident that led to high losses has occurred. The establishment of business conduct boundaries can additionally have a positive effect on employees, even though they might limit the freedom of action. As Simons (1994) notices, "many participants actually want to have codes of conduct in place and enforceable" (p.47), to defend themselves against inappropriate pressures from superiors.

Thus while business conduct boundaries mean enforcing the codes of business conduct, strategic boundaries, "focus on opportunity – seeking behaviour to support explicit organizational strategies" (Simons, 1994, p.47). Opportunity – seeking is needed and can be very beneficial for an organisation, it can however, if done unfocused also lead to high financial costs and can distract management attention. Therefore, a boundary system is needed to guide and limit the search to efficiency. These boundaries show organisational members "what search activities are not acceptable and should not be pursued" (Simons, 1994, p.48). Boundary systems can take the form of sanctions or rewards. Because boundaries show the outer limit of the space in which organisational participants are supposed to move, rewarding those that are within these limits would mean that the majority of participants would be entitled to these rewards. Therefore, sanctions are more common when enforcing boundaries.

In general, boundary systems present the

creative space for innovation, thus do not tell organisational participants 'what to do', but rather express the limits, thereby setting guidelines about 'what not to do'.

3.1.3. Diagnostic Control Systems

To obtain data and measure organisational outcomes managers can use a diagnostic control system. Most studies on management control systems refer to diagnostic control systems (Child, 1973; Ouchi, 1977; Mintzberg, 1979). Diagnostic control mechanisms are the formal systems of organisations for monitoring the performance of organisational participants. Ouchi (1977) and Mintzberg (1979), for example, label these kinds of mechanisms 'output control' and 'performance control'. This indicates that they are measurable and comparable to certain standards. And, as stated by Anthony (1988), "effectiveness and efficiency are the prime criteria for the selection of measures used in diagnostic control systems" (p.34). With these tools, managers measure the profitability and goal achievement of the organisation and thereby monitor employees. In this case, employees are not pressured into achieving their goal in a certain way, but rather pressured into achieving a certain outcome, which is measured against fixed standards and budgets. Therefore, managers are not in a constant need of monitoring, as performance targets and the adherent rewards are set, employees can be left to their own devices to achieve them.

The monitoring of outcomes on the one hand leads to a minimum of constant management oversight and therefore to minimum of costs, but on the other hand it can lead to control failures. Because employees

are held accountable for certain outcomes, but are "left to their own devices when to achieve them" (Simons, 1995, p.81), unforeseen errors can occur. When faced with the situation of not being able to achieve the targeted goal, managers might turn to corrective action, thereby hiding a possible negative situation or point of crisis from top management. This changing of evidence would mean a loss of control for top management, as "diagnostic control systems operate effectively only if reported data is accurate and complete" (Simons, 1994, p.84).

Additionally, for diagnostic control systems to be effective it needs to be possible to develop standards and goals, outputs have to be measurable and deviations from standards must be correctable (Simons, 1994). Thus, even though diagnostic control systems are one of the major sources of control in most organisations and are easily employed and carried out at low cost, they have certain attributes that need to be fulfilled in order for them to be effective. It is for example very hard to use diagnostic control systems properly, when there is a great amount of novelty in the work processes, because it is impossible for management to set clear targets and goals. So, diagnostic control systems have many benefits, but also certain pitfalls.

According to Kaplan and Norton (1992), diagnostic control measures can be sorted into four categories: 1. customer-, 2. internal business-, 3. financial- and 4. innovation and learning measures. They argue that in order to guide the organisations towards desired goals, managers employ these four measures. In their study Kaplan and Norton develop the balanced scorecard system

that provides a systematic way of analysing critical performance variables, or in other words the measurement of diagnostic control systems.

The last of the four levers of control that are proposed by Simons will be discussed below. It offers an opposite effect to the diagnostic control systems, as it stimulates new responses to perceived opportunities.

3.1.4. Interactive control systems

Simons (1995) compares interactive control systems with the National Weather Service, similar to weather stations all over the country that continuously monitor cloud cover, wind direction and temperature they are used to identify patterns of change. Whereas diagnostic control systems are rather top-down processes, as top management decides on targets and goals, that need to be achieved by the employees, interactive control systems are rather concerned with the bottom-up process of strategy making. Simons (1994) notes that "in the emergent model, individuals throughout the organization act on their own initiative to seize unexpected opportunities and deal with problems" (p.98). Therefore, these systems, as opposed to diagnostic control systems, are increasingly aimed at finding new ways of adapting to new situations and seeking new opportunities.

Because not only the errors that occur are corrected, but also the underlying assumptions for solutions are questioned, interactive control systems result in double loop learning. In contrast to this, diagnostic control systems merely lead to single loop learning. This term was first shaped by Agyris and Schön (1978), who describe

double loop learning as not only connecting the detection of error to "strategies and assumptions for effective performance but to the very norms which define effective performance" (p.22).

Interactive control systems do not need to be a special type of system, but rather can be any control system that is used interactively in the respective organisation. Usually only one system is used interactively. This means that if the organisation has n control systems, (n-1) are used diagnostically and only one will be used interactively (Simons, 1994). Simons (1990) notes that only a limited amount of management control systems can have the personal attention of senior management, which indicates that only a few or mainly one system can be used interactively, as this form of control is very costly and time consuming (Simons, 1994). Using a certain system interactively gives a signal from top management about what is most important to them and shows their preference about the field where search and opportunity–seeking should occur. These systems are used by managers to be personally and regularly involved in the decision activities of employees.

Interactive control systems have four distinctive characteristics that set them apart from all other kinds of control systems. First of all, the information generated by the system is important enough to demand regular attention from top management. Second of all, the focus is put on potentially changing information, which is viewed as strategic by top management. Thirdly, all generated data is best interpreted in face-to-face meetings. And fourth, it is a catalyst for debate about assumptions, action plans, and underlying data. This indicates that the

processes that are controlled interactively are very important to top management and therefore to the survival of the organisation. These systems are mainly focused on the uncertainties that are seen as strategic by top management. These kinds of uncertainties are the contingencies that could threaten the current strategy of an organisation and are therefore seen as strategic. By having these control systems in place, senior management is able to foresee if changes in the strategy are necessary, which helps them to stay up to date with critical variables in the organisation.

3.2. Critical enquiry

Even though the framework of Simons (1994) gives a good overview on which forces and mechanisms act within an organisation, it also gives rise to a few questions. The division into four levers of control needs to be looked at in more detail. As Simons states, that any of the three levers (belief, boundary or diagnostic control system) can be used interactively, it is questionable why he declares the interactive control a fourth lever. Furthermore, it seems debateable if it should rather be put into a framework of three levers of control and an additional tool of control?

Simons (1990, 1991, 1994, 1995) does not investigate the influence the use of interactive control systems has on the perception of organisational units. He sees interactive control systems as a useful tool to focus management attention on a certain aspect of organisational life. Simons does not take the issue of personal relationships or trust into account. Viewing today's organisational and economic arena, however, this seems very inattentive. Within multi-

national organisations and their increasingly international environments, personal relationships become more and more important, as direct control is not possible anymore. Therefore it is very questionable why such an important issue as personal relationships and trust is not integrated into the control framework of Simons.

Additionally, Gray (1990) criticises the way Simons takes the acceptance of middle and lower management to strategic initiatives for granted. He "seems oblivious to the need for political maneuvering to induce strategic change" (Gray, 1990, p.147). This means, Simons still assumes that headquarters have the power to implement strategy as they please, without taking subsidiaries into consideration. This however, accounting for the shift in power between headquarters and subsidiaries stated in Chapter two of this study, seems heedless.

Thus, even though the framework of Simons has certain advantages and is very well empirically applicable, it needs to be taken with a pinch of salt. Within the remainder of the study, these issues will further investigated and critically considered.

3.3. Preliminary Conclusion

To conclude the preceding question, the main concerns of the subject of management control and Simons' control framework are summarised. The subject of control within organisations appears to be one of the most discussed, but also one of the least understood subjects in organisational theory. Because the meaning of control can be very different to various people, even within one organisation, it is hard to find an overarching definition for it. It can

however be noticed that there is a clear change in the control literature from seeing the organisation as a manageable entity, thus from a system-control view (Watson, 2006), to seeing the organisation as social entity, thus from a process-relational view. Henceforth, management control can be defined as being the process of interaction between human individuals to efficiently and effectively reach the overall organisational goals. These processes are guided by the use of management control systems to assure efficiency and effectiveness.

One of the frameworks that discuss these management control systems in more detail is Simons' model of the levers of control. In his concept, the controls that are acting in an organisation are split into four parts to get a better understanding of the different forces within organisations. He divides control into belief-, boundary-, diagnostic control- and interactive control systems. These four levers then make up the entire control framework of an organisation.

However, as also discussed above, there are some pitfalls to the model introduced by Simons. One of the major dubieties in his work is the description of the interactive lever as being a fourth lever of control, even though it is basically one part of the other three levers being used in an interactive way. Additionally, the framework given by Simons takes a top-down approach and sees the world from top management point of view, which faces a given environment. It assumes that strategy is put forth by top management, and is implemented through the use of the different levers of control. Taking the shifting relations between headquarters and subsidiaries into account, it is questionable if this is the case these days.

As it is criticised that the levers are too clear-cut and are not taking politicking and different perceptions into account, there is a need for the integration of a 'social element'. Simons' ideas are hardly concerned with the issues of personal relationships and trust within an organisation. However, these seem to be two of the main issues when investigating the control systems in organisations. This is due to the fact that organisations are made up of the people working within them, and the relationships these people built between each other. In order to remedy this, the following section examines agency theory in combination with Simons' framework. This step is regarded as essential for building a model that can be applied empirically for studying the shifting relations between headquarters and subsidiaries. As the creation of an integrative model requires further theory development it will be discussed in the following chapter.

4

THEORY DEVELOPMENT

Regarding the theory development in the area of control within MNCs, it is striking that almost all literature on control and control mechanisms in organisations stems from the 1960's to the 1990's, whereas most literature on headquarters – subsidiary relationships issue from the 1990's until recent. This might actually give us an idea of where the focus lies in today's organisations. This observation reveals a shift in the processes and priorities within organisations. Apparently, the relation between international dispersed entities becomes more important, whereas the 'traditional' control measures diminish. The need for an integration of new, interpersonal types of controls will be examined further in the following sections.

4.1. Integration of two theories

As pointed out previously, the study takes both agency theory and Simons' levers of control as a basis for investigation. Agency theory is a metatheory employed in various sciences, ranging from sociology (e.g. Eccles, 1985; White, 1985), to political science (e.g. Mitnick, 1986), and economics (e.g.

Spence & Zeckhauser, 1971). However, the advantage of being diversely functional turns into a disadvantage when considering the empirical applicability of the theory. Even though the theory is universally valid (Ross, 1973), it has hardly been tested empirically (Perrow, 1986). Another problem stemming from the agency theory is the narrow focus on an economical view of organisations and a single view of human nature, namely that humans are self-interested. Thus, even though agency theory might be applicable, it misses the complex context of a real life situation. Organisational literature is strengthened by the use of multiple theories and perspectives to obtain a more realistic view of organisations (Hirsch, Michaels & Friedman, 1987). Thus, using several theories or perspectives in a field of organisational concern, deems appropriate. Eisenhardt (1989) suggests that agency theory should be used with complementary theories, as it only reveals a partial view of the world and thereby "ignores a good bit of the complexity of organisations" (p.71). Therefore agency theory builds the overarching umbrella of the study at hand, whereas the empirical investigation is mainly based on Simons'

framework (1990, 1994, 1995).

Considering Simons' model, it needs to be contemplated that it looks at control and innovation from a micro perspective and therefore does not reach far enough to be applicable in wider contexts. His model is based on the investigation within a single organisation. Furthermore, it is focused on the balance between freedom for innovation and efficient use of resources. As the current study investigates the use of control mechanisms in multinational organisations, thus organisations with geographically dispersed units, the framework of Simons alone would have a too narrow scope to be applied. Therefore, the study at hand integrates the two theories into a framework that can easily be employed empirically and still offers a broad enough background to be applicable across a wider field of organisational relations (see table 1).

As agency theory can be used to investigate control within MNCs, it is helpful in the development of a new theory. Even though it is not empirically applicable as such, it integrates the headquarters – subsidiary component into Simons' framework. As both theories are concerned with the control of employees or units they can be easily combined. These common characteristics are described below and visualised in table 2, to get a better overview of the integration of the two theories.

Based on Simons' control framework the different levers are combined with the three control mechanisms suggested in agency theory. Regarding the belief system, it can be seen that they are closely related to the cultural control described by Ouchi (1979). Cultural control is concerned with the alignment of values and interests, as surveillance can be decreased, once the agent tries to achieve the 'right' objectives. The same mechanism holds true for the belief systems in Simons' framework. Here the top management communicate and reinforce the basic values, and directions of the organisation through a set of organisational definitions. Thus, what agency theory names cultural control, can be ascribed to the beliefs systems of Simons' control framework.

Simons' levers of control	Agency theory
Belief systems	Cultural control: alignment of values and interests through core values and basic direction.
Boundary systems	Cultural control: indoctrination of goal congruence.
Diagnostic control systems	Output control: monitoring and measurement of organisational outcomes.
Interactive control systems	Behaviour control: direct, personal surveillance; direct information sharing. Managements personal and regular involvement.

Table 1: Integration of Agency Theory and Simons' framework

Boundary systems are the second type of mechanism that can be assigned to cultural control. Through the indoctrination of values and culture, organisations provide a framework of acceptable behaviour. Within a certain culture or clan, particular behaviour is appropriate, which is agreed upon in advance. Thus, this clearly indicates that the characteristics of cultural control are recurring in the boundary systems of Simons.

The third lever of control of Simons, namely diagnostic control systems, can be equated with output control. As diagnostic controls are the mechanisms for monitoring organisational outcomes and correcting deviations from desired goals, they undoubtedly correspond to the formal control of agency theory. Diagnostic control systems focus on the measurement of outputs, need predetermined standards to measure these outputs and need the ability to correct deviations from standards. All of these characteristics are also present in the output control described in agency theory. Additionally, both mechanisms face the same problem of moral hazard and the disability of use, if the outcome is not measurable.

Finally, the fourth lever of control, namely interactive control systems is quite hard to efficiently integrate with one of the other controls. As described in section 3.1.4., interactive control does not have to be a single kind of control, but rather can be any type of control used interactively by senior management. However, it comes closest to behaviour control described in agency theory, as here a continuous monitoring and personal involvement of senior management is described. Thus, the main

argument of the interactive control system, namely the continuous personal involvement of top management is granted in both perspectives.

Considering the multiple classifications of the controls described in agency theory shows the overarching use of this theory. Whereas, the focused use of the mechanisms of control of Simons, demonstrate the narrow and particular scope of these levers. Thus, as described above the integration of the two models deems appropriate, as considerable parts overlap, although the difference between metatheory and microperspetive can still be observed. Having portrayed the integration of the two models coming forth from the theoretical background of this study, the factors that have not been considered need to be investigated. Especially the arguments coming forth from the critique on Simons, namely the lack of the issue of trust in the control framework, is considered in the following assumptions, which build a basis for the empirical part of this study.

4.2. Assumptions

Even though Simons gives an extensive overview of control mechanisms that are present within an organisation and in need of management, he does not incorporate the subject of trust into his framework. Due to increasingly globalised markets and thus changing organisational structures, and the shift in power relations between headquarters and subsidiaries described in section 2.2, it can be assumed that new forms of control need to be investigated to build sufficient networks and relationships between the different units of an organisation. As investigated by Kim and

Mauborgne (1993), the application of trust and personal commitment, becomes increasingly important in the management process, due to the shrinking gap between headquarters and subsidiaries resources and capabilities.

Therefore the first assumption is portrayed as follows:

1. Because of an increasing shift in power relations in headquarters – subsidiary relationships, trust between parties becomes increasingly important.

Furthermore, this increasing need for trust leads to an increasing need for personal relationship between the units of a multinational corporation. First of all it needs to be noticed that "trust must be perceived as a property of collective units […], not of isolated individuals" (Lewis & Weigert, 1985, p.968). Thus the need for interaction between headquarters and employees becomes apparent in the search for trust. Leaning on the argumentation of Lewicki, Tomlinson and Gillespie (2006), it can be assumed that repeated interaction enhances the understanding of the other party. Moreover, interaction strengthens the knowledge and predictability of the other, thereby building a basis for trust. Through repeated interaction between different parties, the trustworthiness of each party is discovered and tested (Mayer, Davis & Schoorman, 1995), which in turn leads to the emergence of trust.

This argument leads to the following second assumption:

2. Repeated personal relationships and communication between the units of

the multinational corporation leads to an increase in trust between the two.

Finally, these two lines of argument lead to the final assumption of this study, which relates to a critique of Simons' framework of the levers of control. As mentioned earlier, Simons makes interesting contributions to the academic literature of control mechanisms in organisations. He widens the rather narrow scope of control mechanisms literature to include such values as beliefs and boundaries within the organisational context. Most importantly though, he integrates the interactive control lever, which he proposes leads to 'double-loop' learning. Within the scope of this study, Simons' framework is challenged, and it is argues that his framework entirely lacks the issue of trust. As has been shown in the preceding assumptions, trust plays a major role in the management of multinational organisations. Furthermore, the interactions between the different units of the organisation leads to the development of trust, or distrust for this matter.

Thus, regarding Simons' framework, the third assumption underlying this study can be stated as follows:

3. The interactive control mechanism in Simons' framework of control, does not only lead to double-loop learning, but rather leads to trust-building.

Simons misses this part of organisational control completely, thereby making it hard to fully except his framework as a comprehensive model for studying control mechanisms in organisations. The study at hand, tries to alter this, as the framework seems in general a beneficial model for conduct-

ing empirical research as well as a good tool for the management of MNCs.

Concerning the issue of trust, one additional note has to be considered. Interactions between individuals lead to the possibility of trust. Even though in the formerly described assumptions it is supposed that personal relationships lead to trust, it needs to be mentioned that interaction can also lead to distrust. Thus, the interaction of entities does not automatically lead to trust, but rather provides the possibility for building trust. As the subject of trust is another vast field of study, it will not be considered further here, as it would draw off the focus of the intended research. Thus, the study at hand uses the subject of trust in a positive manner, coming forth from personal relationships, even though it recognises that it is not the only possible definition.

Within the empirical section of this study, the framework is contemplated and the assumptions are considered. The following section describes the employed research strategy to investigate the assumption empirically.

4.3. Research strategy

In order to test the applicability of Simons' framework a single case study is conducted in a multinational organisation with headquarters in Germany and subsidiaries in the Czech Republic and Slovakia. As Ghauri (2004) explains, case studies are "particularly well suited to international business research, where data is collected from cross-border and cross-cultural settings" (p.111). Thus the research setting is in a MNC, investigating the relationship between headquarters and multiple geo-

graphically dispersed subsidiaries. For this reason, following Ghauri (2004), the case study method is regarded as the most useful for investigating the object of study. Yin (1994) points out that case studies are especially well suited when 'how' and 'why' questions are to be answered (Yin, 1994). A single case was to be investigated in-depth, as it is critical to fully understand the relationship between headquarters and subsidiaries. Single case studies are particularly well suited if established theory is to be explained or questioned (Ghauri, 2004).) The study at hand aims at questioning an established theory and building a new framework, so that the use of a single case seems to be the most advisable strategy.

In order to understand the specific organisation and its internal relationships in more detail, in-depth interviews with the headquarters' management and the management of the subsidiary were conducted. Following Ghauri (2004), in-depth interviews are especially suitable for understanding the behaviour of decision-makers in different cultures, which makes them highly useful in a context where the different entities are geographically dispersed. In the following section the data collection is discussed in more detail. Furthermore the case description in chapter five, gives an overview of the different interview partners and their relations to each other.

4.3.1. Data collection

The Continental AG was chosen as an object of study as the company is acting on a global scale and therefore fulfils the criterion of being a multinational company, hence is comprised of headquarters and subsidiaries. The sample of the data col-

lection is further investigated in the subsequent section.

The sample

All interviewees, except for one, were found through snowball sampling. This means that the contact with the interviewees led to suggestion of possible additional interview partners. In order to understand 'both sides of the story' interview partners from both headquarters and the subsidiaries were recruited.

As the aim of this study is gaining an insight of the relationship between headquarters and subsidiaries and enhancing and enriching rather than testing existing theories a small sample size was deemed sufficient. The response rate was 100%, as all managers that were asked, agreed to take time for the interview. Each interview was scheduled for about one hour, which gave enough time to investigate the subject of interest in-depth and made it possible for the interviewee to extensively describe his (all participants were male) opinion of the matter. The data was obtained by personal as well as telephone interviews. The management of headquarters in Hanover was interviewed personally, whereas telephone interviews were conducted with the managers in Slovakia and the Czech Republic due to time and financial constraints.

All interviews were conducted in English, as it seemed sensible to have the same conditions throughout. As the business language in Continental AG is English, it was assumed that all managers have an adequate level of the language. For reasons of data quality however, the German managers were additionally asked if they would like to conduct the interview in their native language. This was not possible for the Slovakian and Czech managers as the researcher is not proficient in these two languages.

Instrument design

Data were collected using semi-structured interviews aimed at getting in-depth knowledge about the impressions and opinions of experts from their point of view. These interviews were employed to overcome two related problems (Lillis, 1999). On the one hand, interviews being too structured can easily lead to very limited information, as interviewees do not have the possibility to answer extensively. Semi-structured interviews offer the possibility of obtaining insights that are more far reaching than can be foreseen when developing the interview questions. On the other hand, a totally unstructured interview, without any guidelines to the subjects or course of the interview, makes it very hard to compare the different answers afterwards, as possibly all interviews take a totally different direction. Because of the use of main categories an overall framework can be developed, which makes it possible to compare and understand information gained from the interview.

Three different interview guides were developed (see appendix), depending on the role of the manager within the company's hierarchy and the sequence of the interview conduction. To get an even deeper understanding of the subjects of interest in the organisation as a whole, it seemed advisable to develop new interview guides, after the first and the second round of interviews respectively, because a greater insight was gained during prior interviews. The categories used in the interview guides were similar for all three versions, and consisted of personal information, headquar-

ters – subsidiary relationship, technology and R&D, control and enactment even though the themes differed slightly in the individual guides. The interview guidelines were developed to overcome the "tendency to resort to unplanned, non-neutral probes whilst in the field" (Lillis, 1999, p.87). Additionally, the guide assures completeness in the subjects to be covered during the interview. The guide was used extremely flexibly, thus not all questions had to be asked while additional questions that seemed appropriate at the time were added. Moreover, the questions were not asked in a particular order but were asked in a way that would not obstruct but rather follow the natural flow of the conversation. The interview guides can be found in the appendix for further inspection.

Technical issues

All interviews were recorded so as to have a better recollection of the information obtained during the interview. Additionally, field notes were taken, right after each interview, as the discussion sometimes continued in the native language after the recording stopped. The taping of the interview leads to a possibly more objective interpretation of the data, as it can be listened to afterwards as often as needed. By simple recollection of the information gained during the interview, without being able to listen to the answers again, might lead to a subjectivity of the researcher, as not all information can be recalled.

With regards to the data collection some issues, such as data interpretation need to be considered in more detail due to the difference in nationality of researcher and some of the interviewees. The following section, describes the issues of data interpretation

to get an overview of the difficulties that need to be contemplated. Furthermore, this chapter is concerned with the coding of the collected data.

4.3.2. Data interpretation

It has to be taken into account that the researcher in the study at hand had the same nationality as the interviewees in the headquarters. Even though all interviews were conducted in English, being a second language to all participants, the common German background of the researcher and the interviewees of the headquarters might have an influence on the data interpretation. As pointed out by Chapman, Gajewska-De Mattos & Antoniou (2004), "our research opportunities, and even what we are able to discover, are language determined" (p.298).

However, as all participants, managers of headquarters as well as the subsidiaries were very proficient in the English language, no difficulties or reluctances due to lack of language skills could be made out. It could not be observed that interviewees felt uncomfortable with using a second language to answer the questions. As English is the primary language of the organisation, the communication flows did not seem to be influenced greatly by the use of the common language.

Furthermore, the use of English as a common language of all participants might have an influence on the interpretation of the data as well, as "we think differently depending on the language we are using, since we tend to accommodate the cultural values of the particular language" (Marschan-Piekkari & Reis, 2004, p.234-235). Thus,

using a different language from our mother tongue can lead to a different understanding of certain aspects. However, as all participants, as well as the interviewer are accustomed to using English as a common language, the likelihood of a completely different interpretation or meaning of the collected data is unlikely.

4.3.3. Coding

Content analysis is used as a method to investigate the empirical data. From the vast amount of data the desired information is extracted and thereby made more easily available and manageable. This extraction is done through a "systematic classification process of coding and identifying themes and patterns" (Hsieh & Shannon, 2005, p.1278). As the aim of this study is the validation and extension of existing control theory, the use of *directed content analysis* is appropriate. Within this approach, existing literature and background material, can

provide predictions about the variables that are of interest. Thus, the codes and categories that are used to analyse the data, initially come forth from existing theories and frameworks.

In the study at hand, the coding of the collected data is based on the integration model of section 4.1 and the assumptions in section 4.2. Based on Simons' framework (1994), the different controls of agency theory are allocated to the various levers. Simons' control framework is used to empirically investigate and ultimately answer the research questions. To do so, the model is extended with the codes used in the data analysis, which are exemplified in table 2.

Coding is used in the content analysis to extract desired information from a vast amount of empirical data and transform this raw data into a standardised form (Babbie, 2001). Because of the continuous filtering and sorting through the empirical

Simons' levers of control	Agency theory	Examples
Belief systems	Cultural control: alignment of values and interests through core values and basic direction.	We believe in protecting the environment…
Boundary systems	Cultural control: indoctrination of goal congruence	There are some dos and don'ts…
Diagnostic control systems	Output control: monitoring and measurement of organisational outcomes	Profit plans and budgets need to be adhered to; the balanced scorecard is used as a mechanism for monitoring…
Interactive control systems	Behaviour control: direct, personal surveillance; direct information sharing. Managements personal and regular involvement	…regular calls and personal visits of management take place…
	Trust	I can trust him, because…

Table 2: Coding table

data, while maintaining the meaning and relations of the parts, coding constitutes an analysis by itself (Miles & Huberman, 1994). As a directed content analysis is applied in the study at hand, the categories come forth from the former described theory. Once the initial coding schemes have been identified, the method leaves room for finding additional observations by going through the data.

In the case at hand, the codes were guided by Simons' framework and then categorised by the definitions coming forth from the existing theory. Additionally the subject of trust was included in the table of coding. Based on the underlying theory of the study, as well as the proposed assumptions in section 4.2, trust is assumed to become increasingly important, making it one of the categories to be analysed.

To get an understanding of the underlying meaning of the collected data, the latent content was coded. This indicates that, especially in the categorisation of the levers of control, the meaning of the collected data was scanned, rather than the actual appearance of the word 'belief, boundary, diagnostic or interactive'. As it can be assumed that a number of managers are not acquainted with Simons' (1994) framework of control, it seemed sensible to create categories according to the meaning of these four variables. Therefore the codes were defined by the meaning given to the different levers in Simons' (1994) framework. Examples of these codes are stated in table 3. The antecedents for trust were the actual mentioning of the word, like "I do trust him, because…" or "trust means for me…". Additionally, the consequences and relations in connection to trust were con-

sidered during the coding of the interview data. After the coding of the categories has been described, the actual framework of data analysis is discussed in section 4.3.4. below.

4.3.4. Data analysis

The data obtained from the interviews was transcribed and additional field notes were brought into a readable form (see CD-Rom). As the method of research is qualitative, a main issue of concern is the validity of the obtained data. One of the major difficulties with empirical field data is not the collection or access to it, but rather the reliable and trustworthy analysis of the same (Brownell, 1995). Because the qualitative analysis of the data relies on the interpretation and classification by the researcher, the analysis can be subject to significant bias (Lillis, 1999). To overcome this possibility of bias, the use of a structured analysis is inevitable.

Qualitative content analysis is used for the execution of the interpretation of the collected data. As the goal of the mentioned method is the understanding and gaining of knowledge of the studied phenomenon, content analysis seems sensible to use (Downe-Wamboldt, 1992). As the goal of the research is the validation and extension of the theoretical framework (Hsieh & Shannon, 2005), directed content analysis is employed. The coding framework can be examined in section 4.3.3. Furthermore the coding scheme was extended by observed categories from the interview data. These categories were determined by using Owen's (1984) criteria for thematic analysis. He introduced the three criteria that need to be considered when identifying a new

theme. The three criteria are a) recurrence, b) repetition, and c) forcefulness. Recurrence describes the occurrence of a thread of meaning that is reported at least two times, even if the wording is slightly different, as long as the meaning is identical, the threads can be categorised as recurring. Secondly, repetition is identified when the exact wording is repeated throughout the data. In contrast to the first criteria, where the recurrence of meaning is sufficient, the second criteria is only valid if at least two times a repetition of wording occurs. Finally, the criterion of forcefulness needs to be considered. This criterion is exemplified by for example significant changes in volume, or the positioning of the words. Additionally, forcefulness can also be seen, when the interviewee uses introductory or follow-up phrases that indicate the importance of the segment, such as "What I really think…" or "…and I think this is right…". Taking the three criteria of Owen (1984) into consideration, a framework of Zorn and Ruccio (1998) was used to conduct the thematic analysis. In this framework, the established data is read through several times, before considering the research question of the study. Then the prior established coding table is considered. To each code a different colour is assigned to visualise the distinction between the various categories. Then the transcripts are repeatedly reviewed according to the described categories. According to Hsieh and Shannon (2005), newly identified categories can refine and enrich existing theory. Therefore additional observations are noted and special cases are described in detail.

The data was analysed by the traditional 'pen and paper method', as the use of a computerised system is not worth the exertion for the small number of data. When using an electronic system for categorising the variables, the researcher first needs to appoint the conditions for these categories. Taking the small number of data into consideration, the pen-and-paper method is the most reasonable to use. In this method the transcribed interviews are viewed according to the coding framework.

Through the use of a directed content analysis, the existing theory can be extended and enriched. The use of partially prior established categories, parted with the possibility of category extension, gives the researcher the ability to analyse the existing data in a structured, but still flexible manner. Before the findings of the data analysis are discussed, the case study that was used as the object of study is presented in chapter five.

5

CASE STUDY

The research at hand is based on a single case study, conducted in a German manufacturing company. To get a thorough understanding about the background of the investigated company, the following chapter introduces the company and its field of action.

5.1. Industry analysis

Continental AG is one of the biggest European automobile part manufacturers, with a special expertise in the tire and rubber industry. The academic database "Business and Company Research Centre", integrates the Continental AG into two codes, namely 'Tire and Inner Tubes' and 'All Other Motor Vehicle Parts Manufacturing'. Both of these categories are discussed in detail below to get an overview of the sector that the empirically investigated company operates in.

5.1.1. Tire and Inner Tubes Industry

The tire and rubber market is highly concentrated, because of years of extensive price wars, layoffs and consolidation. In 2004, three companies, namely Bridgestone, Goodyear and Michelin owned two third of the global market.

Because of the type of production, it is very hard for smaller companies to achieve economies of scale, thereby making it impossible to build a sustainable organisation. Therefore many small companies did not survive the intensive price wars in the mid-2000s and were acquired by on of the bigger players. Continental AG is ranked fourth in 2005, 2006 and 2007, when comparing the tire manufacturing worldwide (see table 3).

The tire and tube industry is closely linked to the automobile industry, as the companies are dependent on the automobile manufacturers to use their tires as the original tires. Competition between tire manufacturers is fierce in the fight for being the original tire producer, since the replacement tires being purchased tend to be of the same brand as the originals.

At current the tire industry is marked by increasing variability and flexibility, which decreases the immense pressure of price

	2007	2006	**2005**
1	Bridgestone Corp., $21.8	Bridgestone Corp., $19.7	Comp. Gen. d. Etabl. Michelin, $17.6
2	Comp. Gen. d. Etabl. Michelin, $21.7	Comp. Gen. d. Etabl. Michelin, $ 19	Bridgestone Corp., $17.3
3	Goodyear Tire & Rubber Co., $18.3	Goodyear Tire & Rubber Co., $17.8	Goodyear Tire & Rubber Co., $17.3
4	Continental AG, $8.6	Continental AG, $7.5	Continental AG, $6.8
5	Pirelli & C. SpA, $5.8	Pirelli & C. SpA, $5	Pirelli & C. SpA, $ 4.4
6	Sumitomo Rubber Ind. Ltd., $3.6	Sumitomo Rubber Ind. Ltd., $3.5	Sumitomo Rubber Ind. Ltd., $3.5
7	Hankook Tire Co., $3.5	Yokohama Rubber Co., Ltd., $3	Yokohama Rubber Co., Ltd., $2.8
8	Yokohama Rubber Co., Ltd., $3.2	Hankook Tire Co., $3	Cooper Tire & Rubber Co., $2.2
9	Cooper Tire & Rubber Co., $2.9	Cooper Tire & Rubber Co., $2.4	Hankook Tire Co., $2.1
10	Kumho Tire Co., $2.2	Kumho Tire Co., $1.8	Kumho Tire Co., $2

Table 3: World's largest tire manufacturers (New tires sales in billion US $)[1]

wars. However, as the demand for new and innovative product increases, the industry becomes increasingly characterised by product diversification and technological innovation. Great segments of Continental AG are concerned with the innovation and production of automobile parts other than tires.

5.1.2. Motor Vehicle Parts Manufacturing

Motor vehicle parts manufacturers generally work in close cooperation with automobile manufacturers. The main products that are being supplied to the car industry are amongst others brake systems, wheels, frames, transmissions, bearings, springs, bumpers, fuel injectors and tires. The industry can be divided into two parts, namely original equipment suppliers (OE) and aftermarket suppliers. OE suppliers provide parts for the production of new vehicles, whereas aftermarket suppliers are mainly producing and selling replacement parts for used vehicles. To this end, these two classifications differ in their sensitivity towards recessions. As people will most likely put their intention of buying a car off during periods of low purchasing power, they will most likely not put off the purchase of maintenance and replacement parts to increase the lifespan of their current car. Continental AG is present in both markets, which gives the company a competitive advantage.

In the end of the 1980s and the beginning of the 1990s, the market was interrupted by the impact of Japanese automakers and

[1]Source: Business and Company Resource Center. Farmington Hills, Mich.: Gale Group, June 2002.

major changes in technological advances. The use of more complex and improved components in the automobile industry presented new opportunities for higher profits to part suppliers. Additionally, the increased focus on emission regulations, led to an increase in complexity of engines and emission systems, thereby increasing the maintenance and replacement sales of aftermarket suppliers. However, the increasing pressure on Western automobile producers were felt by automobile part suppliers as well, as they were forced to cut costs and work as efficient as possible to decrease the costs of the automobile overall.

Because of an increasing cooperation and coordination between part suppliers and automobile manufacturers, the rising sales of Japanese cars brought a shift for the motor vehicle part manufacturers in the 1990s. Still, manufacturers of parts are, in contrast to automobile suppliers in general, able to adapt to these changing conditions by cooperating with Asian car manufacturers. This possibility of shift creates a new market for the western automobile part suppliers.

In the reflection of the European motor vehicle part manufacturers, Continental AG descended between 2006 and 2007 from position six to position seven in being

	2007	2006
1.	Siemens AG (Germany), $120.40	Siemens AG (Germany), $96.61
2.	Cie. De Saint Gobain SA (France), $57.35	Cie. De Saint Gobain SA (France), $44.96
3.	CRH plc (Ireland), $25.84	Lafarge SA (France), $20.45
4.	Lafarge SA (France), $23.31	Compagnie Generale des Etablissements Michelin (France), $19.96
5.	Compagnie Generale des Etablissements Michelin (France), $22.59	CRH plc (Ireland), $18.50
6.	Cementia Holding AG (Switzerland), $22.0	Continental AG (Germany), $17.72
7.	Continental AG (Germany), $20.53	Stora Enso AB (Sweden), $16.89
8.	Stora Enso AB (Sweden), $20.12	Holcim Ltd. (Switzerland), $15.25
9.	Holcim Ltd. (Switzerland), $20.11	Cementia Holding AG (Switzerland), $13.19
10.	Svenska Cellulosa AB (Sweden), $15,094,123	CNH Italia SpA (Italy), $12,543,778

Table 4: Largest Industrial Manufacturing Companies in Europe (Sales in billions of $)[2]

[2] Source: Business and Company Resource Center. Farmington Hills, Mich.: Gale Group, June 2002.

the largest manufacturing company, as can be seen above, in table 4. It has to be noted however that the margin between the different organisations is rather small therefore a minimal shift in the table does not show a trend in the position of the company. As the automobile supplier industry has been discussed above, the object of the empirical study will be discussed in detail below.

5.2. Company

Continental AG is one of the world's leading suppliers of the automotive industry, focusing on the production and development of tires and brake technologies.

5.2.1. History

Continental AG started out in 1871 as a joint stock company of Continental AG – Caoutchouc and Gutta-Percha Compagnie in Hanover, mainly manufacturing rubber products, rubberised fabrics and solid tires for carriages and bicycles. Continental AG was also one of the first companies to produce tires for automobiles, working in close cooperation with Daimler. In 1938 the foundation stone is laid for the tire plant in Stöcken, Germany, which is nowadays the headquarters of the Continental AG. In 1943, the first tubeless tires are invented and integrated in 1955 into the production. The largest hoseproduction in Europe is introduced in Korbach, which includes the total transference of all hose manufacturing activities from Hanover to Korbach. ContiTech is established as an umbrella brand in 1991, to include all industrial products operations. In the same year a so-called ContiEcoContact tire is launched, thereby being the first environ-

mentally friendly passenger tire manufacturer. In 2001, Continental AG extends its activities in the growing market for automotive electronics. One year later, a cooperation with Bridgestone is established to persuade the development of run-flat tires. Furthermore, Continental AG joins development with the ZF Friedrichshafen to market hybrid vehicle technology. In 2007, the company obtains Siemens VDO automotive AG and becomes one of the top five suppliers of the automotive industry worldwide. It has to be noted that the competition in the market is still very fierce, which can also be seen by the current attempt of hostile takeover by the Schaeffler Group. At current, the Schaeffler Group, which is a privately owned manufacturer of parts for the automotive, aerospace and industrial industry, is in discussion with the Continental AG about the possibility of a takeover. Thus, it remains to be seen how the situation will turn out.

Throughout its history Continental AG acquired several fields of specialty of different technologies, increasing its scope as an automotive parts supplier. Additionally, it expanded globally, which will be discussed below in more detail.

5.2.2. Internationalisation

In 1964 the company starts to internationalise, by building a tire plant in France, along the introduction of several new plants within Germany. In 1979, Continental AG takes over the entire tire production of Uniroyal, Inc. an American company; this gives the company a wider European base. Additionally, it takes over the Austrian company Semperit in 1985 and makes on of its biggest acquisitions by buying the

North American tire manufacturers General Tire, Inc.. In 1989/1990 a joint venture is set up between Continental AG and the Portuguese company Marbor, which is taken over completely in 1993. Furthermore, the company takes on a passenger and commercial vehicle tire plant in Otrokovice, Czech Republic; because of a majority holding in the Czech company Barum. In 1994, a joint venture results between the Slovakian company Vegum and Continental AG including the production of rubber extrusions and mould manufacturing.

Throughout the following years, Continental AG adds sites in numerous countries, such as Slovakia, Argentina, Mexico, Chile, South Africa, Brazil and Hungary. In 2001, Continental AG breaches out to the Asian market and purchases two holdings in Japan. Furthermore a majority stake is also achieved in a Chinese market, assuring the integration of the Asian market into the German business. In 2003 building a joint venture with the Malaysian conglomerate Sime Darby Berhard conquers the Australian market. In 2007, Continental AG attains a majority share in the Slovak company Continental Matador rubber s.r.o., thereby extending its reach in the Eastern European market.

The scope and international reach of Continental AG grew steadily over the years, so that the company currently owns 200 plants in more than 35 countries in the world. From the above stated immense amount of different locations of operations, it can be seen that Continental AG can be seen as a global player and is for sure a multinational corporation.

5.2.3. Company structure

Continental's overall focus lies on the value creation of the company, especially by focusing on stakeholder value, profitable growth, concentrating on strength and core businesses, long-term investments and benefiting the employees. The company is divided into six different divisions, which include ContiTech, Chassis and Safety, Powertrain, Interior, Passenger and Light Truck Tires and Commercial Vehicle Tires. Continental AG is lead by Mr. Wennemer, who is the CEO of the company, and is then guided by the heads of each division. To investigate the relationship between headquarters and subsidiaries in detail, the focus of the case at hand lies on the commercial vehicle tires division, which is lead by Dr. Nikolin. As the structure of the Continental AG is discussed above, the following section describes the two divisions of focus.

5.3. Domain

The empirical part of this study was conducted in mainly two divisions of the former described company, Continental AG. Overall, the two divisions were passenger and light truck tires, as well as commercial vehicle tires, which can be seen in the organisational chart (appendix). The Technology Tire division is then split up into Mold Management Tires and Conti Machinery (CM). Both of these divisions will be discussed in detail, as these are the ones that lay the focus for the empirical investigation.

Mold Management Tires is mainly concerned with the manufacturing of the mould for the final tire. To produce rub-

ber tires a mould is needed, where the tire curing can take place. The raw tire, the so-called 'green tire' is put into the mould, where the vulcanisation takes place and the tire gets its final properties. So every time a new type of tire is needed or a new pattern is used, a new mould needs to be produced to manufacture the final tire. Part of the moulds are manufactured in-house, which takes place in the plant in the Czech Republic, and part of the moulds are being bought on the open market from all over the world. This indicates that the section of Continental AG that produces in-house still has an external competitor and therefore is in need of effectiveness and efficiency just as any other external supplier would be as well. The mould shop in Otrokovice, Czech Republic, gets its direction from headquarters in Hanover and depends on the fulfilment of these directions. The management of the mould shop in Otrokovice are fully aware that if these directions and expectations are not fulfilled, they are no longer being part of the Continental AG, as it does not make sense for the organisation to retain this part in-house, if external suppliers can fulfil their needs more sufficiently. However, maintaining part of the mould production in-house, gives the company independence, as they are not fully reliant on the market.

Furthermore it has to be noticed that the mould shop of Continental AG closely works together with the external suppliers to share know-how and expertise. As the production and maintenance of moulds is a very specialised field of manufacturing, this knowledge sharing between competitors is necessary for all participating parties to introduce new technologies and innovate in a globally competitive market.

The second division under investigation in this study is Conti Machinery (CM). Conti Machinery is concerned with the manufacturing and maintaining of tire building- and rubber machinery in general. This division is split into two parts, which are situated in Hanover and Puchov, Slovakia, respectively. Approximately 60% of their products are sold to Continental AG and 40% are being sold to external customers all over the world. The part of Conti Machinery in Puchov was only purchased in November 2007 from the Matador Group. Thus, it has to be noticed that an integration process between the two companies is still taking place. As the Matador Group has formerly operated in a similar market section as Continental AG, certain overlap between the two units has been present from the beginning of the cooperation. At the time, the integration of service functions, such as human resources, controlling and accounting takes place. In this respect the Conti Machinery in Hanover leads the integration as the formal consolidation takes place through them. Because CM Hanover and Conti Machinery Puchov are the only parts of Continental AG responsible for the production of building machinery, there is a possibility for CM Puchov to integrate their own ideas and plans into the new common unit. In contrast to other divisions, where several units operate under the same strategy, the 'high integration' taking place between CM Hanover and CM Puchov is partly initialised from both sides. Formally however, CM Puchov is responsible to CM Hanover and therefore in need of fulfilling the requirements given by CM Hanover in the end.

As both divisions under investigation have been discussed, the following part is con-

cerned with the analysis of the data obtained from the in-depth interviews that were conducted at Continental AG. As mentioned before, managers of headquarters in Hanover were interviewed, as well as management in the respective subsidiaries. The analysis of the data and the according findings in relation to the above-described theory will be discussed in the following two sections.

6

FINDINGS

The findings of the data that were collected in the in-depth interviews are presented according to the previously categorised codes. Along the mechanisms identified by Simons, trust and personal relationships were seen as the most important aspect of control between headquarters and subsidiaries. As the identity and individual position of the interviewees are of little concern to the outcome of the findings, the individuals are cited as X_1, X_2, X_3, X_4, Y_1 and Y_2. The distinction between X's and Y's is made to highlight the difference between management from headquarters and management from the subsidiaries. X's refer to interviewees from headquarters, whereas Y's refer to managers from Puchov or Otrokovice. For a list of the full names of the individual employees, see appendix. Following this additional remark, the outcomes of the empirical investigations are presented.

6.1. Categorised findings

The data from the interviews presented here are analysed to investigate if the previously made assumption can be confirmed or vitiated. It first of all has to be noted that all four levers of control, as proposed

by Simons, can be retrieved in the empirical data. Therefore, the four levers and their empirical background are introduced in the following. However, it also has to be noted that the various levers of control occur with different frequency. This shows that the organisation is most likely to use some mechanisms more than others.

Finally, the issue of trust is introduced, as it became apparent from the empirical data that this issue is clearly a commonly used control mechanism within the Continental AG.

6.1.1. Belief systems

Belief systems as a system of control are the core values and beliefs that are introduced within an organisation to get a consensus of opinions and interests. Recalling from section 3.1.1, Simons (1994) describes these as management's attempt to communicate formal values and general directions of the organisation. These are certainly installed in Continental AG, as one of the top managers of the headquarters points out:

"…we have the basics, this was called the 'bills of Continental', …, everybody has to be aware of that as well. All employees of Continental are trained on this, are informed about that…" (X₁, p.6)

The above statement illustrates that belief systems, as defined by Simons, are present in the investigated organisation and employees are aware of them. However, it has to be noticed here that the headquarters' management made this statement. This indicates that a totally different picture might be obtained when investigating the subsidiaries' view. This stance will be looked at later on in more detail.

When looking at the headquarters' opinion of this control mechanism, it becomes apparent that they consider it quite important and valuable to the organisation as a whole. Especially when integration between new and old units are needed, belief systems play a major role, as the comment below shows:

"So really to run an integration this is really a job, which needs much more than only the technical issues." (X₂, p.4)

The interviewee further explains:

"… there are some principles issues which are totally different and therefore we have to apply our mindset and our philosophy." (X₂, p.4)

These remarks clarify the issue of values and beliefs as a control within an organisation. One of the interviewees also notes that integration is not possible if the mindsets and philosophies of the two units are not aligned, because all other controls are based on the alignment of the basic values.

When talking about the integration process between German headquarters and a subsidiary, one of the managers mentions the problems that can occur when the belief system mechanism is not in place. He notes that:

"You can explain why, but they will not understand that. Because you have different targets in mind, you have different mindsets, you have a different culture…."(X₂, p.10)

In this statement it becomes apparent that the difference in mindsets and culture also has a great influence on the behaviour of employees within the organisation. Here the link between Ouchi's cultural control and Simons' belief systems becomes visible, as the difference in culture also has an influence on the values and beliefs the other party holds, thereby complicating the working relationship. If the basic values and beliefs are the same throughout the organisation, it is possible to clarify the remaining targets or technical issues that need to be considered.

Achieving a common belief system and common values within the different units of the organisation is especially problematic within the scope of a multinational corporation. In this case, the difference in culture has an extreme influence on the understanding of certain values. Furthermore, these core values are harder to transfer, as the unit of focus is usually geographically out of reach. Thus, it is complicated for headquarters to directly implement their belief systems into the new subsidiary. In Continental AG, this implementation is mainly done through the use of exchanges between employees of the subsidiary and headquarters. Through these trans-

fers, the employees of the subsidiary gain knowledge of the values and interests of headquarters, as is described by one of the headquarters' manager as follows:

"When they are coming here …they are ==*becoming part of the family.*== *We hope always, we hope that they [are] become part of the family."(X₁, p.14)*

Through the involvement of the subsidiary employees in headquarters, the individuals are supposed to learn and take on the core values and take them back home. Another interviewee from the headquarters stresses this point by saying:

"they are coming here, they are ==*learning the mindset and thinking and philosophy and basic values*== *in the central organisation and then they are going back kind of brainwashed." (X₂, p.11)*

This shows the use of the belief systems as a control mechanism explicitly well. Single employees from the subsidiary are being used as an organ for implementing the belief systems in another unit. In this case, the control mechanism is clearly used interactively. Top management invites employees from other units not only to understand the beliefs of Continental AG, but also to internalise them. Thus, as mentioned in the theory part of this study, there is apparent evidence that the interactive control lever is not a lever in itself, but rather the other three levers are used interactively. In the study at hand, it appeared that the belief systems is to a certain extend used interactively, as it becomes very clear to the employees of the subsidiary what the matters of greatest important to top management are. With the inclusion into the central operations and the 'brainwashing' of the employees of the subsidiary, the instalment of

belief systems is certainly done in an interactive manner.

However, these illustrations of the systems for installing belief systems in a subsidiary only show the ideal path of implementation. The view of the subsidiaries need to be taken into consideration as well and partly shows a different notion. One of the managers in the subsidiary greatly describes the difference in intention and perception of the core values of the organisation. He says that:

"…I am smiling a bit when I receive an official document of the basics, which is an official document of the Conti about how we are building our company, how we are friends and how we bla, bla, bla ==*and in reality it is completely out.*== *… Two faces for me,* ==*one face official*== *and these people which are responsible for the advertising of the Conti, they try to display to us, how we have a good family, how we are happy inside and what we have to do for the Conti and so. And the second face, the people which I met* ==*in the real life are completely different.*== *" (Y₁, p.8)*

This paragraph shows extremely well that there is a clear difference in the intentions formulated by headquarters and the perception of these issues by the subsidiaries. Thus it can be noted from this that even though the belief systems are installed and headquarters is aware of the need of these systems for the control and alignment of interests of the subsidiary, the actual intentions are not fulfilled. It furthermore needs to be considered that this difference in perception and intention is also depending on the values and beliefs that are given and on the actual behaviour of headquarters towards the employees. If the difference between description and actual behavior is

immese, headquarters becomes non-credible. When this statement was made however, the integration of the subsidiary was still taking place and the unit has only been with Continental AG for half a year. The same manager also notes that:

"This is what was really hard acceptable for me, but now I am half a year in Conti and what to do. I have to follow this game." (Y₁, p.8)

This shows that even though the manager might not totally be happy with the situation, he still knows that he has to get used to it and needs to adapt to it. To summarise, it has to be noted that belief systems are to a great extent installed in the Continental AG and also can be seen like Simons describes. Headquarters considers them as very important and useful in obtaining a work environment with foreign subsidiaries and have an obvious concept of how these belief systems should be transferred to the employees of the subsidiary. By inviting people to the central organisation and having them 'brainwashed', the core values and general direction of the organisation should become apparent. This however, does not always seem to work, as the official statements deviates from actual behaviour, so employees grow confused about what to believe. This is on the other hand counteracted by the time of participation. Employees that have been working for the organisation for a longer time get used to this deviation and on the way still become aware of the general values and direction of the organisation.

After the belief mechanisms within the investigated company are inspected, the opposite pole of the mechanisms, namely the boundary system is being scrutinised in the following.

6.1.2. Boundary systems

Concerning the findings of the boundary systems it first of all has to be noted that these findings were much less numerous than the ones about the former system. Belief systems seem to be a subject of greater debate than boundary systems. These appear quite clear to all employees within the organisation, irrespective of the years of corporation. Headquarters describes the mechanism of boundaries in the subsidiaries as responsibility and possibility. When talking about the management of the subsidiary, a manager of headquarters states that

"He knows his responsibility, he knows on the other side his possibilities as well. It must be clear that he is capable to bear this responsibility, as well as the possibilities he has." (X₁, p.8)

This comment clearly shows that the employees in the organisation are given boundaries within which they are able to act as they like. This freedom gives them the possibilities for creating their own best way of managing and working within their special environment. Even though subsidiaries are given a high degree of freedom, there are some main rules, which can not be extravagated. This is pointed out by one of the managers of headquarters, talking about his experience with a subsidiary in India. On a visit to the Indian subsidiary, which wanted to build semi-autonomous groups, he noticed a wooden stick in the production hall and after a long debate was told that it was used to motivate people. He noted

"…I can tell you there are some don'ts and if you don't accept these, then you will never get semi-autonomous groups or autonomous groups…" (X₂, p.20)

So even though a lot of freedom is given to the management of the subsidiary, there are some standard rules, which need to be accepted and embraced. These boundaries are also very clear to the management of the subsidiary, as one of the managers remarks,

"…I must follow all the regulations and instructions that are generally valid for everybody throughout the corporate platform…." (Y2, p.3)

Thus, the responsible people in the subsidiary know their boundaries and know that they are not being treated any differently than other units in the organisation. They are every aware of their possibilities, thus that they have a lot of freedom of action, but also of their responsibilities. As mentioned by the same manager of the subsidiary,

"… I have a high level of freedom for my management, I must admit. But if everything goes well, so […]. Otherwise I am not here for longer." (laughing) (Y₂, p.2)

Even though he laughs about his own words, he is very aware of he fact that if he steps out of line, he will be fired. Simons (1994) mentions that sanctions are the principle way of enforcing strategic boundaries. This is shown very clearly in the former comment. Here the manager is exceedingly conscious of the sanctions he would acquire if he would not behave according to rules and regulations. This shows that boundaries are a control mech-

anism that is greatly used in the examined organisation. Within this lever of control there seems to be conformity between the idea of headquarters and the opinion the subsidiaries hold. Both parties are aware of the rules and regulations that need to be complied to, to work together effectively. In the following section the third lever of control is discussed to get an overview of the formal control mechanisms that are installed in Continental AG.

6.1.3. Diagnostic control systems

First of all it has to be noted that the diagnostic control systems are the main control mechanism used in the Continental AG. At least this lever is the most obvious and well-known mechanisms within the organisation. This might stem from the fact that most management control literature discusses diagnostic control systems, as described in the theory part of this study. Therefore many people within the organisation see this lever as the only one that is truly used as a control system. The diagnostic control system is used, in the investigated cases in two different ways. One of the managers uses the balances scorecard approach for measurement, whereas the other one uses an 'old fashion' style, which relies on 'normal' facts and figures. Both systems though are built on the possibility of measurement. This system of measurement is also the only control system that is implemented immediately once a new subsidiary is taken over. As one manager of headquarters notes,

"Because the facts and figures are standard. We have a standard process and in this case we are quite rigid all over the world." (X₁, p.5)

He further mentions that,

"…when we take over a company then they are immediately implemented our financial systems. Period. End of story. Because, and I think this is correct, there are always made comparisons and if you want to make comparisons you have to compare apples with apples and pears with pears, otherwise you are lost." (X₁, p.5)

Here the need for measurement within such a large organisation becomes apparent. So, as described in section 3.1.3, for diagnostic control systems to be effective, it needs to be possible to develop standards. The comment above clearly shows that this is one of the most important aspects of diagnostic controls and that this is recognised by top management as well. Another aspect that needs to be taken into consideration is the standardisation of output. Through the use of a standard reporting system, a certain quality control is given. The need for these standards can be recognised in the following,

"…reporting of figures, it's a rule, and we have to make sure that products produced in any plant of Continental will follow the same rules and will show the same performance." (X₂, p.21)

Thus through the use of a diagnostic control systems, quality control is achieved, which can be closely linked to the output control of agency theory. Therefore a link becomes visible between the diagnostic control of Simons and the output control of agency theory. In this case again, the use of sanctions can be seen, as the management of headquarters notes,

"…we are saying, 'as long as they are better in terms of quality, delivery time, and price, as the suppliers

on the market, we want all their capacity'. If they are more expensive than the external suppliers, we don't want them at all. So this is a clear target." (X₃, p.6)

Thus output and therefore diagnostic controls seems to be one of the main control systems within the organisation. This is also lucid to the management of the subsidiary. They are aware of the need for producing profitable output, as shows the following comment,

"…if we have black numbers – we have a future. If we have the red numbers – no time to discuss why…" (Y₁, p.11)

Being able to present beneficial numbers at the end of the reporting period is the main concern to both parties of the headquarters-subsidiary relationship. Concerning the two subsidiaries of investigation, it needs to be mentioned that a system of comparison is quite hard to achieve. Both subsidiaries are in a unique situation, as they are the only ones in Continental AG in their field of expertise. Therefore a comparison between different units within Continental AG is impossible, making it hard for headquarters' management to judge the efficiency of the subsidiary unit, as noted in the following,

"Here I have nothing to compare it with. To a certain extent I try to do it with external suppliers. At least you get an idea of how many moulds. That's just some rough figures whatever, but otherwise I just have to rely on what I see and get." (X₃, p.13)

This comment leads to another issue of concern, namely the possibility for failure of diagnostic control systems. Even if re-

ports are written monthly and presentations are held to show the numbers of the various units, there is still a possibility for a failure in controls. Simons (1994) also notes that diagnostic control systems are difficult to use if there is a great deal of novelty in the process to be controlled. When using a diagnostic control system it is assumed that managers know what outputs are desired. However, as seen from the above quote, management is not always familiar with these outputs and the quantities to be measured. In this case the diagnostic control system needs to be supported by other measures of control. In this case, the managers describes it as relying "on what I see get", which indicates the need for trust.

Another aspect that needs to be taken into consideration is the possibility for the 'gaming of the system'. Numbers can be cheated and manipulated to fit certain expectations. This failure is then at least for a while hard to detect and avert. As mentioned in the following,

"…you can hide things, you can … whatever you do of network, of different key figures, whatever – you can hide. And this is basically what I am not able to see at all." (X3, p.11)

The same manager also notes though,

"Figures are important: you can see trends. You can compare part of them at least with what you get from external." (X3, p.11)

Thus, even though a need for diagnostic control is apparent, there is still awareness that these systems are not failure proven. One of the main observations that have been made during the empirical investigation is the fact that even though the com-

pany is extremely focused on the reporting of data and obtaining the 'right' numbers, they all agree on the fact that personal relationships are the most important tool of control. This need for personal relationship can be seen in the following comment,

"First of all, it is some kind of personal relationship and trust. I think if this is not there, you can create any kind of key figures: you would never have full control of what you would like to see. But as long as the personal relationship is ok, trust is there in both directions, ja, then I rely on what I see. (X$_3$, p.11)

To overcome this possibility of cheating, all managers of headquarters agreed on trust and personal relationships as being the solution to this problem. Thus obtaining figures and facts about the subsidiary appears to be one of the main concerns of headquarters. Therefore, within the organisation the diagnostic control system is extensively used interactively. A lot of the diagnostic data is not only reported in written form, but in monthly presentations or meetings. This interactivity becomes apparent in the following comment,

"…one time per month we have the business unit meeting, one time per month we meet with these people, responsible people from Puchov, responsible people from Hanover and we are discussing about the high integration process, we are discussing about economic results…" (Y$_1$, p.3)

So even though a monthly written report about economic results is given, these results are additionally discussed in personal meetings. These meetings show the importance of these data to top management. The economic data is being discussed as well as the key performance indicators of

the balance scorecard. Regarding the information channels within the organisation, one of the managers in Hanover notes,

"…we have a lot of information channels, the most important is, I guess to visit each other personally in a regular way…" (X_4,p.4)

Coming forth from the above statements is the apparent need for interactive communication to guide the diagnostic control system. As discussed further above, diagnostic control system of written facts and figures can be used to hide important facts. Therefore the need for obtaining these data in an interactive manner becomes apparent. Thus, in the study at hand, it emerges that the diagnostic control system can certainly be used in an interactive manner.

Within the following section the apparent use of interactive control systems is discussed. It becomes apparent that the system is not self-standing, but rather leans on the other three levers of control, introduced by Simons.

6.1.4. Interactive control systems

Interactive control systems are, according to Simons, the main focus of top management attention. If a lever of control is used interactively, it demands regular attention, it focuses on strategic information, the information is generated in face-to-face meetings and it is a catalyst for debate about assumptions, action plans and underlying data. Simons (1994) furthermore assumes that one of the other three levers of control, namely belief, boundary or diagnostic control, is used interactively. Therefore the study at hand discusses whether the integration of the fourth lever of control into

Simons' model is justified. As discussed in the former chapters, there is evidence to assume that the diagnostic control system is used interactively at Continental AG. It furthermore was shown that part of the belief system is also used interactively, namely the build-up of personal relationships to employees in the subsidiaries to modify their mindset to the values and beliefs of Continental AG. Considering the observation of the study at hand, it appears that the levers of control that are used interactively are used to build up personal relationships. Both, belief systems and diagnostic control are used interactively to build up relationships. This can also be seen in the following:

"…you can't run a company only by control systems based on facts and figures via computers. People have to meet; they have to know each other. Because if there is somebody anonymous on the phone, you never met, you can't trust him. You can't build up a personal relationship; that is impossible. You have to meet, you have to have, depends on his religion, you have to have a glass of beer, wine or simply fruit juice with him, to understand what is going on." (x_1, p.11)

Thus, the overall conclusion that can be drawn from this statement is that personal relationships and trust appear to be the most important issue of management. Through the use of personal relationships, trust between the individuals is bread, which leads to effective communication and information sharing. The following section describes the use of trust and trust building and its connection to control systems within an organisation.

6.1.5. Trust and trust-building

Trust, even though not mentioned in the framework of Simons, does play a role in agency theory. As discussed in section 2.4.3., trust becomes increasingly important, as traditional tools of control undergo a shrinking effectiveness. Ouchi (1979) comes to the conclusion that there is either a need for trust or a need for monitoring within cooperative enterprises. As can be noticed from the findings of this study, the use of monitoring tools can become increasingly difficult, because valuable information can be withheld. When talking about the failure of a manager in the subsidiary, central mentions:

"…if you have a trustful relationship then things like that should not happen. So, sometimes you have a person there that you cannot rely on and he can hide things. You cannot have everything under control from here." (X₃, p.12)

Therefore the use of trust as a control system becomes ever clearer, especially in geographically dispersed organisations. As discussed in the theory part of this study, an increasing need for control is present, which is however accompanied by an increasing difficulty of obtaining this control. The excellent use of trust as a control mechanism is also recognised by one manager of central:

"…I think this kind of management tool is normally quite successful, because then even if you don't look at the business each day, you have trust in that guy or in that woman, so that's not a problem. If you are out for a week or two, you know you can trust them, I can rely on them and that's it." (X₁, p.10)

Thus, making other control systems partly obsolete, trust needs to be considered. Because of the increasing globalisation and the discussed shift in position of subsidiaries in MNCs, trust becomes the focus of attention in the management of controls. Because of the geographical dispersion of multinational organisations it is very hard to build up the trust needed for it to function as an adequate control system. By using the other levers of control interactively personal relationships are built. These relationships and activities between the individuals ultimately lead to the desired trust. One of the managers of headquarters describes his activities for building trust in the following:

"… we are doing a hiking tour every autumn, just two days, whatever. Just to get to know each other, not to talk only about business, but also about private and whatever, but just to do something together. I think that is important, just to build up relationships." (X₃, p.14)

Henceforth, trust as a lever of control is implemented interactively. Through the build up of relationships, trust is bread and this in turn leads to control. It should be noted that an increase in trust leads to a decreasing need for other controls. Opposing this, the lack of trust would lead to an increase in the need for control. This discrepancy between the two poles and some additional observations, such as the power relations and the unique situation of the two subsidiaries are taken into consideration in the following.

6.2. Additional observations

During the collection of the empirical data, some additional observations were made.

These include information asymmetry and power relations between headquarters and subsidiary, as well as the difference in perception of decision-making in the two units. Furthermore, the unique situation of the subsidiaries in Slovakia as well as the one in the Czech Republic has to be remarked. These observations are mainly based on the interviewers interpretation of the given data, as well as on additional field notes made during or after the interview. Section 6.2 is concluded with a special case of trust building and the role that culture plays in this.

6.2.1. Power relations

Concerning the power relations between headquarter and subsidiary some issues have to be noted. Even though a general shift in the position of the subsidiary is recognisable, as they are no longer only the suppliers or manufacturers of parts, there is still a clear difference in position that the headquarters hold. Both subsidiaries, the one in Slovakia as well as the one in the Czech Republic are comprised of manufacturing as well as researching units. The counterparts in Hanover are counting on a good coordination in relation to knowledge sharing and research and development in the subsidiaries, thereby making them partly dependent on the explicit input of the subsidiaries. To get a better coordination between the two units, headquarters tries to involve the subsidiary in the decisions that are made about the strategy for the upcoming years. This can be seen from a comment of one of the managers from Hanover, who notes,

"I try to build up some team spirit, therefore I am inviting for annual strategy meeting, I want

to involve all [...]. So and everybody has the possibility to contribute to what we want to do and at the end of the meeting it is not my decision, it is our decision and I get the commitments of everybody."(X₃, p.13)

This comment shows that there is a need for headquarters to consider the interests of the subsidiary to work together efficiently.

However, the further investigation shows that a clear power distinction is present between headquarters and subsidiary. Both parties are very aware of their position in the company. The management of headquarters knows that they are in the position to make the ultimate decisions, if something does not go according to plan. This is shown in a statement of a manager from Hanover talking about the contact with the Czech subsidiary,

"…if they don't do what we want, then we don't need them anymore, we will try to find something else." (X₃, p.4)

Here it is very clear that the headquarters in Hanover know their position in the hierarchy of the organisation and use it as well. This difference in position on the hierarchical ladder is clearly shown to the subsidiary, thereby making it impossible for the management of the subsidiary to oversee this. The awareness of this point by the subsidiary can be seen in a comment from the manager of the Slovakian subsidiary, where he notes that

"…it was explained very clearly to me that if we have good results, we will have a future. If we have no results, if we have a loss, we have no future." (Y₁, p.10)

The two statements above mutually show that both parties in this headquarters – subsidiary relationship are very aware of their position in the hierarchy and act accordingly. This fact should be considered when looking at the findings of the empirical data, as it is likely that the awareness of the position influences the choice of words of the interviewees. Especially the answers of the management of the subsidiaries need to be considered under the premise that they are conscious of the possibility of being fired.

However, taking all this into consideration, it has to be noted that the interviewer did not have the impression that this awareness had a vast influence on the answers that were given. Only in a single case, the impression of withholding of information was given. Comments like

"it's a very sensitive question, because h, I must admit that … ach… äh… it can be said officially like this, I am convinced that this is really a sensitive question…" (Y$_2$, p.6)

,when asked about his idea about being trusted by his bosses, leads to the conclusion that the interviewee is not totally at ease with answering the asked questions.

Thus, in general the difference in position between the managers in the headquarters and the managers in the subsidiary has to be noted, as both parties are conscious of this difference. Even though a shift in the position of the subsidiary in multinational organisations is recognisable, as the unit in the Czech Republic, as well as the one in Slovakia are both autonomous, the hierarchical structure is still present. Hence, this difference in political power within the

MNC needs to be taken into consideration.

6.2.2. Asymmetric information

Taking an agency theory perspective when investigating the relationship between headquarters and subsidiaries, asymmetric information leads to the agency problem. As mentioned earlier, asymmetric information occurs when the principle does not have full information about the expertise, competence or effort invested by the agent (Eisenhardt, 1989). However, information asymmetry can also arise from the opposite perspective. Here the agent does not have full information of the agent's intentions and interests, leading to confusion of the agent. This confusion could be investigated in the study at hand, where the manager of the subsidiary notes,

"…sometimes you feel that they could do more or could have done more for us. But I don't have information enough and sometimes it's not available for me to get information from them." (Y$_2$, p.8)

Here it becomes apparent that the agent is not able to understand the 'greater goal' of the organisation and therefore not able to comprehend the actions taken by headquarters. Therefore here an alignment of interests is difficult to achieve, because the agent is not able to see why certain actions are taken. Furthermore, this lack of information leads to the necessity for trust, as he comments,

"…information is not available to my level. […] That's the reason that I must trust my bosses, that they do their best and the company to support the best solution for the company. (Y$_2$, p.8)

Henceforth, the lack of information leaves the management of the subsidiary with no other choice then to trust headquarters and the decisions they make. However, they seem quite reluctant to fully rely on their judgement. An alignment of interests would be more likely if the subsidiaries were notified about the intentions and the possible reasons for their actions. An increase in information asymmetry leads, according to agency theory to a higher need for monitoring tools. This is shown in the preceding example as well, because the management of the subsidiary does not act because of the belief in an organisational good, but rather because they are dependent on headquarters. This misalignment of interests leads to a greater need of control mechanisms, as the subsidiary is not happy with the situation at present and therefore more likely to bypass headquarters' decisions if a possibility is given. Even though an information asymmetry is given in the case stated above, a rather satisfactory environment is given in which the two subsidiaries act. Both units are in a quite unique situation, which will be described in the following section.

6.2.3. Unique situation

Taken the current research into consideration, it needs to be noticed that the objects of investigation are rather unique in their position within the corporation. The mould shop in Otrokovice, as well as the Conti Machinery Puchov, are the only units in their field of expertise within the Continental AG. Even though both are in the division of tire production, none is concerned with the actual production itself. The mould shop in Otrokovice produces the moulds for the 'green tires' as explained in section

5.3., it works closely together with the unit in Hanover, but does not have any other organisational section for comparison. This is also stated by the responsible manager in Hanover, who notes:

"…this is different for my organisation and for tire manufacturing, because they have 15 to 16 plants and then it's easy to compare. Here I have nothing to compare with." (X$_3$, p.13)

This shows that the uniqueness of the situation can lead to problems. Two main problems are realised, one, namely the problem of comparison is mainly concerning headquarters, whereas the other, namely the lack of information –sharing is primarily a problem for the subsidiary. The above statement describes the problem of comparison. Because of a lack of adequate units for the measuring of 'normal' output and profit, headquarters is hardly able to evaluate the performance of the subsidiary. One of the solutions to this problem is found in the integration of external mould suppliers. Central mentions,

"To a certain extent I try to do it with external suppliers. At least you get an idea of how many people for how many moulds. That's just some rough figures…". (X$_3$, p.13)

Thus a possible solution is found to be able to at least partly judge the performance of the subsidiary. Now that the problem of headquarters has been considered, it needs to be acknowledged that this situation is also not ideal for the subsidiary. On the one hand, the subsidiary is in a position to modify the organisational surrounding for a great deal to their liking. Because the unit is in a unique position, there is no need to completely fulfil certain standards. The

subsidiary is rather able to contemplate an ideal situation with headquarters. On the other hand, however, the subsidiary is not able to share knowledge and expertise with similar entities. This is acknowledged by the manager of the subsidiary in the following,

"…it's up to us, how to improve processes, how to improve technology […] because we are I would say in a unique, rather unique position…" (Y₂, p.4)

This unique position makes the subsidiary solely responsible for the generation of new knowledge and technologies. In this case, again external suppliers are used for knowledge sharing and keeping up to date with the newest technologies. This, however, is to some degree problematic, as the external suppliers still have to be seen as competitors, making it unlikely that all knowledge is shared. Furthermore, the subsidiary is cooperating with universities and other labs to further their R&D efforts, thereby making it possible for the subsidiary to stay up-to-date even though no counterpart is internalised within the organisation.

The problems coming forth from the position of the subsidiaries show that it is not always desirable to be in unique situation. This also has to be recognised when considering the empirical investigations that were made.

6.2.4. Special case and the issue of culture

After discussing the some of the additional observation a last point has to be made, that was noted during the field research. As this study investigates the control mecha-

nisms within MNCs some additional observations need to be taken into consideration. Because of the multinational nature of the organisational entities the culture of the different units influence organisational behaviour. As discussed in Ouchi's (1979) cultural control, groups and units share the same values, the same behaviour and the same interests. This control needs to be achieved by multinational organisations. However, taking a difference in national culture into account, the process of building cultural control becomes more challenging. In the following the attempt of control is shown by sending employees from Hanover to the Slovakian subsidiary to further the integration process. The responsible manager in Hanover describes the situation in the following:

"… we thought about sending an expert to Slovakia to have a deeper look inside their business and to learn much more about them and so on and to steer a little the business over there, let me say more of less indirect." (X₄, p.7)

This clearly shows the use of control. When seen from an agency perspective, this statement shows the use of behaviour control, as people from headquarters are supposed to cooperate and control processes in the subsidiary. Taking the difference in national culture into consideration however, it was inappropriate to act this way, as the manager further notes:

"But our trainer said, 'if you do this, your integration process will be stopped immediately'. Because then they loose their independency…." (X₄, p.7)

Thus, by installing direct control systems, through the use of expatriates, the trust

between the two units would be corroded. So the only possible way of working effectively with the subsidiaries is to put trust in their abilities. As an efficient relationship and integration of processes between headquarters and subsidiaries is inevitable, the need for trust between the two units becomes apparent. By leaving them to their own devices and giving them just some target to achieve, headquarter shows that they have trust in the abilities of the subsidiary. This is also recognised by the management of Slovakia, where one manager mentions:

"…we have no German here, we are only Slovak people, Slovak managers, Slovak workers, Slovak designers. It means that it is also the fact – we mean something. That they believe our activities, they believe our responsibilities, they believe us and it is very important for us that somebody that has the right to set some Germans here, is somebody that believes our activities, our responsibilities." (Y$_1$, p.11)

This demonstrates that the implementation of trust decreases the need for controls. The management of the subsidiary is clearly aware of their extraordinary position in the relationship, therefore giving them the intention of fulfilling their targets. As the managers notes further,

"…this is something that is the result of the believing. Result that our headquarters believes us and of course we try to do our best for the same situation in the future." (Y$_1$, p.12)

Thus, by giving the headquarters the freedom and trust in acting in the best interest of the corporation, the interests of the two parties are aligned. The subsidiary most likely wants to stay independent and try not to lose the trust of headquarters.

Whereas headquarters needs less control mechanisms installed, which decreases costs immensely. So the interests of both parties are aligned. Hence, the usability of trust as a substitute for control is shown in the special case presented above.

Taking the different findings into consideration a new model of control can be constructed. As the framework of Simons was taken as the basis for the categorised findings and some additional observations have been made, a new and different perspective on control mechanisms is described in the following section.

6.3. Interactive model of control

Considering the findings coming forth from the empirical investigation the former view of the features of an efficient control system need to be reassessed. Therefore, a new model of efficient control mechanisms in MNCs is introduced in this section. The model is based on the theoretical framework of chapter two and three and additionally takes the theory parts in chapter four into consideration. Furthermore, the findings are scanned to understand the actual mechanisms taking place in the organisation. Because the empirical investigation explores the opinion of the management of both sides the outcomes are considered when developing a new model of control.

Taking Simons' control framework as he basis, the four mechanisms, namely belief-, boundary-, diagnostic-, and interactive control systems, need to be considered. However, as criticised in chapter three Simons describes the fourth lever as not being a special type of system, but rather as one of

the other levers being used in an interactive manner. Therefore, it is questionable if this lever should be accounted for in the model as a complete element of control.

The new model proposes that the remaining three levers make up the building blocks of the model, which can then be used interactively. As the model is seen from the headquarters point of view, the three mechanisms of control come forth from the developed strategy. By direct communication and personal contact belief-, boundary- and diagnostic control systems are used in an interactive manner. This is visualised in figure 3.

quent. Through this interaction between superiors (in this case headquarters) and subordinates (here subsidiaries) a personal bond is created, which has the possibility of turning into trust.

As all of the studies participants agreed that trust is the most important management tool for control, is seems likely that the personal manner of interaction aims at building this trust. Leaning on the assumptions of this study in section 4.2 and on the findings presented above, the use of trust as a control mechanism becomes inevitable. And as Nahapiet and Goshal (1998) note that trust comes forth from mutual
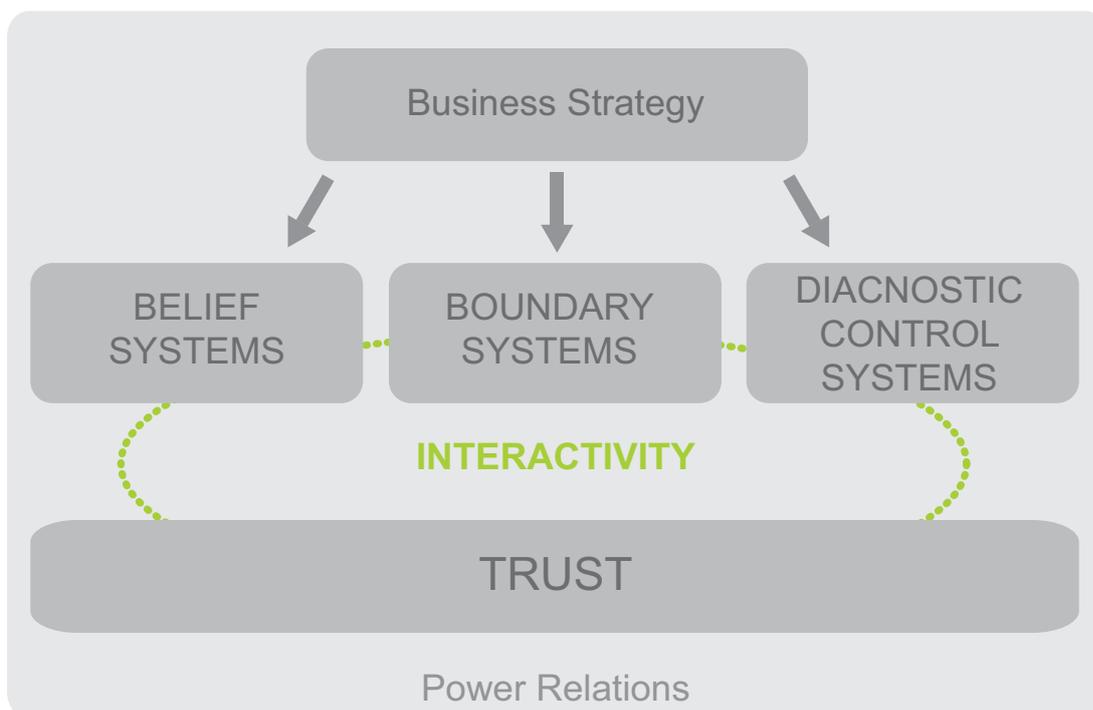
Figure 3: New Model of Control

Interactive control mechanisms are described by Simons (1994) as formal information systems that management uses to be personally and regularly involved in the decision activities of subordinates. This implies that information is shared in face-to-face meetings and personal contact between superiors and subordinates is fre-

acquaintance and recognition, the interactive use of the other levers leads to the development of trust. Therefore, the interactive control mechanisms are in this model not seen as a fourth lever of control, but rather as a tool to achieve trust.

Here trust as a fourth lever of control is introduced. Taking agency theory as a basis for the study at hand, it has to be noticed that an increase in trust leads to a lesser need for other control mechanisms. This would indicate that once the fourth mechanism, namely trust is achieved, the need for the other controls, such as belief-, boundary -, and diagnostic control systems decreases. When the strategy of the organisation is discussed, the three levers of control visualised in the model, are the main focus as they are definable and able to be regulated. Once these three mechanisms are installed, the interactive manner of handling arranges the personal relationships and ultimately leads to trust. Considering the findings the difference in power between superiors and subordinates still needs to be accounted for. This again links the framework to agency theory, where a distinction is made between principle and agent. Therefore the power relations frame the new model to note that it influences the behaviour of the interacting entities. The next section summarises the findings to get an overview of the formerly discussed issues.

6.4. Preliminary Conclusion

Summarising the findings, it can be noted that even though there is a shift in the relationship between headquarters and subsidiaries a distinction between the two entities in terms of power can still be observed. Therefore a need for an efficient control of subsidiaries is still present. Within the case study all four levers of control, proposed by Simons, are employed. Some, such as diagnostic control- and belief systems are used more than others to control the processes taking place within the subsidiaries.

However, signs of all of them are recognisable in the findings.

Concerning the use of interactive control systems, the data shows that the three other levers are used partially in an interactive manner. Yet, the interactions between different units are mainly used for the building personal relationships developing trust. These observations have been integrated into a new model of control (see above). In this model, belief-, boundary-, and diagnostic control systems are used in an interactive manner. This interaction builds the basis for trust. Additionally, the new model takes the power relation between headquarter and subsidiary into consideration. The following chapter will now provide an overall conclusion and summarise previously made observations.

7

CONCLUSION

As the globalisation and internationalisation of multinational corporations progresses, new mechanisms of controlling the corresponding processes have to be considered. Due to the geographical dispersion of integrated entities additional complexities have to be accounted for. In this context the study at hand shows a new approach to the subject of control between headquarters and subsidiaries. Based on a theoretical framework, combined with empirical research, the study reveals a change in the control mechanisms of global players.

As organisations grow in size and globalisation advances, an increased need for investigating multinational organisations becomes apparent. Many MNCs are comprised of headquarters in one country and various geographically dispersed subsidiaries. For this reason examining these types of relationships also becomes increasingly important on the academic agenda. The study at hand, takes an agency theory perspective to investigate the relationship between headquarters and subsidiaries. Within this theory entities are seen as principles that delegate work to agents. Even though agency theory takes several aspects,

such as information asymmetry and differences in risk perception into account it does not consider changes in power relations.

Already in the early 90s however, Roth and Nigh (1992) come to the conclusion that a shift in the nature of relations between headquarters and subsidiaries has taken place. As subsidiaries shift in their position of solely being supplier of raw material to possessing their own R&D departments and financial resources, the power relation between headquarters and subsidiaries changes. Thus, even though the principle–agent view of (headquarters – subsidiary) relations is still valid, a need for the integration of new perspectives and models for controlling and monitoring partners deems appropriate. The decreasing power over subsidiaries leads managers to focus more on informal control mechanisms. The introduction of cultural control within the agency perspective points in the right direction but is not far reaching enough to understand the current controls needed.

Control between organisational entities reduces uncertainty and ensures that common

organisational goals are supported. This shows that efficient control systems are the basis for any organisation. Even though a great amount of literature on control and its mechanisms has evolved over the decades, implementing and using control still seems to be one of the greatest concerns of managers. Furthermore, a shift in the view on organisations from being controllable entities (system–control view) to being social entities (process–relational view) has taken place. This shift leads to the need for considering new mechanisms of control. Taking an agency perspective two main controls are described, namely output and behaviour control. Ouchi (1979) furthermore integrates cultural control into the theory. These three types of control are used to describe the mechanisms that are implemented to assert control and reach the alignment of organisational goals. The study at hand additionally takes another framework into consideration, as it is easy to apply empirically and stems from recent research. Simons (1994) divides control into four mechanisms, which add up to building the control framework of the organisation. Even though Simons' framework is easily applicable it still needs to be handled with care as the fourth lever, namely interactive control is described as being any of the other levers used in an interactive manner. This leads to the question of whether interactivity is a tool rather than a lever of control.

As discussed above using the interactive control system as a fourth lever seems inappropriate due to Simons describing it as any of the other levers being used in an interactive manner. Therefore it should rather be seen as a tool than an actual lever of control. This assumption is supported by the findings here, as all interviewed managers describe the interaction with the counterpart as a way of developing personal relationships. Thus, interactive behaviour and communication are not necessarily seen as mechanisms of control, but rather as tools for building personal relationships. These relationships form the foundation for developing trust, which is then eventually used as a control system.

Throughout the findings, the use of trust as a control mechanism becomes apparent. Considering assumption 1 of this study, it can be concluded from the findings that an increasing need for trust develops as direct control decreases. Because of the geographical dispersion between the management in Hanover and the processes in Puchov or Otrokovice, the need for trust becomes particularly apparent. All managers, be it of headquarters or subsidiaries, note that the implementation of trust is the most valuable control they possess. Without trust as an additional tool for controlling the processes within the other unit, all other control mechanisms are void from the beginning. Taking the special case of novelty and non-comparability of the processes in the subsidiary into consideration, the use of diagnostic control mechanisms becomes obsolete. If the trust in the counterpart does not exist, the data does not need to show the actual situation, as numbers can be cheated. However, when placing trust into the equation diagnostic control systems become valuable again as important information is shared.

Furthermore, the management of headquarters places a great deal of importance on the building and maintaining personal relationships to develop the necessary

trust. Recalling assumption 2, stated in section 4.2, it can be seen that the intention of building trust through personal relationships is demonstrated in the empirical data. Through travelling between the sites and regular personal meetings deep trust between the partners is observed and described as being particularly vital to both entities. Thus, coming forth from the findings is the observation that an increase in personal communication and relationships lead to trust between the interacting parties. Because of the interactive nature of many activities of the organisation, trust is bread and personal relationships are built.

From these observations it can be concluded that the nature of control within multinational corporations is changing. The study at hand shows that control between headquarters and subsidiaries changes from formal mechanisms to personal relationship and commitment. Accordingly, the findings demonstrate that control between geographically dispersed units is mainly based on trust. These findings are summarised in the new model of control (see 6.3), which takes belief-, boundary-, and diagnostic control systems as a base and integrates trust as a fourth mechanism of control. Furthermore the need to integrate multiple perspectives in the model becomes apparent, as managerial applicability as well as the nature of relations has to be considered. Thus, the new model aims at fulfilling these objectives and paves the way for additional research in this field of study.

7.1. Applicability

The intention of the study at hand lies not only in the advancement of academic theories but also in handing managers a tool

for implementing efficient control systems. Through the use of the two main theories applied in this study, namely agency theory and Simons' lever of control framework, this goal is attained. The underlying theoretical frameworks integrate a meta-theoretical basis with an applicable tool for implementation and empirical examination.

Due to the increasing need for organisations to act in a global environment, a shift in control systems is inevitable. This, in turn, leads to the need for new theoretical groundwork in this field of study. The model developed here appoints towards future direction for research in this area and seeks to stress the need for including new aspects of continuously changing external conditions. Considering the findings it can be seen that multinational organisations apply an integration of 'traditional' and relational control mechanisms. This however, is a fact that is often neglected in theoretical studies. In several former studies the use of traditional control mechanisms (Taylor, 1911; McGregor, 1960; Child, 1973; Ouchi, 1977; Mintzberg, 1979; Eisenhardt, 1989) is investigated. In contrast to this, more recent studies (Ouchi, 1981; Uzzi, 1997; Davis, Schoorman & Donaldson, 1997) have put the use of informal and relational mechanisms into focus. Thus, little has been done for the integration of the two views. However, considering this integrative use of the two perspectives as the main finding from the empirical data, it becomes apparent that a need for the integration still exists in the academic environment. The study at hand offers a starting point for future research and is therefore widely applicable in the theoretical setting.

Additionally, the study incorporates mana-

gerial applicability, as the empirically relevant framework of Simons is employed. Within the newly developed model, four mechanisms of control are introduced, which can be easily applied in the organisational context. In the ever-shifting environment of multinational organisations, an easily applicable control framework is inevitable. Therefore, the study at hand introduces a tool that is easily employed and therefore straightforward in its application.

Thus, the study at hand is valuable in both the theoretical and the managerial context. In both fields the proposed model can be employed advantageously. To see in how far this model lead to further research, additional theoretical implications and an outlook for future research are discussed below.

7.2. Future outlook and limitations

As the applicability of the study at hand has been considered above, the implications and future outlook of the study need to be investigated. Because of the integration of the widely applicable meta-theory of the principle-agent relationship and the empirically employable framework of Simons' levers of control, the study at hand introduces a new perspective on existing control literature. Yet, to this end both the limitations of the current study and the implications for future research will need to be discussed in more detail in the following.

7.2.1. Limitations

To obtain an unbiased overview of the subject of study, some limitations need to be taken into consideration. One of the limitations is the position of the subsidiaries within the overall structure of the company and the role they played in this study. Both units were treated as subsidiaries and named as such because their communication and control structure within Continental is the same as in an official subsidiary. Both parts are consolidated in the annual reports in Hanover, which means that they are financially dependent on their German counterparts. The management in Puchov as well as Otrokovice receives their investment budgets and management guidelines from the German headquarters, which makes them at least informally dependent on the German headquarters.

However, in the legal sense of a subsidiary both units, the one in Slovakia and the one in the Czech Republic are also responsible to a division in their home country. This means, formally and officially the units are not subsidiaries of the German headquarters or at least not to the department they are reporting to. Thus, when considering the research undertaken here, it needs to be contemplated that in a legal sense the headquarters and subsidiary relationship does not exist. But as the communication and control structure is identical to that of a headquarters – subsidiary relationship, this paper takes the stand of reporting it as one.

Furthermore, it has to be mentioned that while Simons' framework provides an overview of control systems within one company, it does not specifically take the

control between organisational units, such as headquarters and subsidiary into consideration. As this study is mostly concerned with the control relationship between headquarters and subsidiaries, Simons' framework was deemed needing additional elements or rethinking. Yet, when examining and criticising Simons' (1994) levers of control, it needs to be mentioned that he introduced this framework as a tool for managers of highly innovative entities. Simons studies the relationship between managers and employees concerning the balance between opportunity and attention. So taking his framework into a different context might lead to a falsification of his intentions. Nonetheless, the framework seemed highly appropriate in the context and made the empirical investigation of a very complex situation possible. Taking all this into consideration, the reasons for the employing his framework becomes obvious. At the same time however its critique should be considered with care.

One additional note also has to be made about the sequence of the interviews and the development of the interview guides. The first two interviews were conducted in headquarters, which led to the development of a slightly different interview guide. After the third and fourth interview the interview guides were again slightly adapted. Thus, even though seemingly negligible, the experiences of the former interviews had an influence of the development of the new guides. Assuming that the type and style of questions has an influence on the responses of the interviewees, the difference in experience and knowledge acquired during prior interviews shape the outcome. And while this influence might be trivial, it nevertheless needs to be considered.

7.2.2. Future Outlook

An implication for future research is the testability of the newly developed model. The study at hand is built on qualitative research and is meant for the development of new theories. Through the built-up and critique on existing theory, a new model resulted. Therefore the method of a single case study was chosen, which gives the researcher the opportunity to develop new models and frameworks (Ghauri, 2004). As a new model is developed, future research should be concerned with the applicability and testability of the theoretical framework. Further qualitative, as well as quantitative data is needed to validate the obtained theory. Therefore future research could be concerned with the testing of the model, to confirm the applicability of the introduced model in multinational organisations. As described previously, it can be concluded from the empirical investigation that organisations in general are faced with an increasing need for trust. This indicates that not only multinational organisations should be aware of the crucial point trust and personal interaction plays in staying competitive in the global market.

As the globalisation evolves over the years, organisations are confronted with the increasing geographical dispersion of organisational units. These developments clearly indicate a need for matching control mechanisms. Thus, traditional control mechanisms, such as output or diagnostic control, can not be seen as sufficient mechanisms of control anymore. The understanding of this shift also needs to be noticed in the academic environment, where new models and frameworks need to be developed and tested. The study at hand makes the start

for a new model, which can be taken as an initiation of theory development in this field. However, to understand the field of study sufficiently, other models need to be developed and tested.

B

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A

Appendix

1. List of interview partners

For position in the organisation, see organisational chart (Appendix 4)

X_1 → Dr. Holzbach

X_2 → Dr. Nohl

X_3 → Dr. Kassen

X_4 → Mr. Dieterich

Y_1 → Mr. Vanko

Y_2 → Mr. Pesl

2.   Interview guidelines

Interview guidelines 1 and 2 (X_1 and X_2)

<u>Personal information</u>

Work experience, position and function in the organisation

What market does the organisation compete in? What is the goal of the company? (Cost leadership/ differentiation)

How do you experience the structure of the company?

(Very bureaucratic, hierarchical, top down or rather flat?)

<u>Headquarters - subsidiary relationship</u>

Can you describe the relationship with your subsidiary?

What is the relationship between your department and the subsidiary? How much (peceived) control do you have over them?

How does the information sharing between HQ & subsidiary take place? (Informal and formal)

With whom do you communicate? (Only managers or also employees?)

Can you describe a typical meeting between you and people from a subsidiary?

How would you like the subsidiary to behave?

(How do you expect the subsidiary to behave?)

What do you do to achieve this?

Are all subsidiaries treated under the same rules and procedures?

On which factors does this depend, according to you?

Are some subsidiaries considered more important than others for the success of the organisation as a whole? (Depending on for example, shares, sites, countries, net earnings of the subsidiaries)

What do you think of the subsidiaries employees?

Do you think they are doing a good job?

Would you assume they would still do the same good job if you were not controlling them?

Do you have a 'good feeling' with the people in the subsidiary?

(Do you trust the people working the subsidiaries?)

<u>Technology (Knowledge transfer)/ Communication</u>

Is there a transfer of knowledge take place between headquarters and subsidiaries? Does this also take place between the different subsidiaries?

How does this transfer take place?

Through what kind of processes? (E-mail, mail, phone, video conference, face-2-face meetings?)

<u>Control systems (interactive mechanisms)</u>

What is the vision of the company? What do you identify as threats to this vision?

What do you consider critical factors for the future success of the company?

What issues are seen as strategic uncertainties?

What control systems can you identify within your organisation?

How are subsidiaries guided in their actions?

What control systems do you consider important in the way you manage your business?

Which control system do you consider especially important in gaining information / in controlling / in managing operations?

When considering these mechanisms, can you describe a typical situation how they take place?

<u>Own experience</u>

What part of the organisational goals & activities do you perceive as most important?

Which part of you daily tasks do you think are most important for 'doing a good job'?

What do activities you spend most of you time on?

Interview guidelines 3 and 4 (X_3 and X_4)

<u>Personal Information</u>

Work experience
Position and function in the organisation

<u>Headquarters - subsidiary</u>

Can you describe the relationship between headquarters and the subsidiary?

In what way is the subsidiary dependent on you?

How does the communication take place? (Informal/ Formal)

With whom do you communicate in the subsidiary?

Is there also communication between co-workers of you with co-workers there?

<u>Technology/ R & D</u>

How do R&D processes work in this organisation?

Are all ideas developed here at Central and then sold or extended to subsidiaries?

In what way would it be possible for subsidiaries to be innovative?

In what way do you share know-how with the subsidiary?

How does the information sharing take place

Is there also information exchange between subsidiaries?

In what way?

Control

Can you describe the tools you are currently using to control the subsidiary?

Which tool do you consider most important?

In what way do you think expatriates are the right way to steer the processes in a new organisation?

Enactment

Can you describe a distinct situation/ problem with your subsidiary? (Concerning the management of people there)

How did you react? What did you do to prevent further damage?

What did you do to solve that problem?

Interview guidelines 5 and 6 (Y_1 and Y_2)

Personal Information

Work position and function in the organisation

Work experience

Headquarters – subsidiary

Can you describe the relationship between headquarters and subsidiary as you see it?

In what way are you dependent on headquarters?

How do you communicate with headquarters? (Formal ways and Informal ways) Can you describe the ways of communication?

What kind of information is shared between HQ and Puchov/Otrokovice?

Does the Continental AG has a good image with Slovakian/Czech employees?

Would people like to work there?

Why is this the case?

Control

In what way is headquarters controlling you?

What are the mechanisms that are used?

In what way do you perceive this control?

Are you aware of any boundaries given by headquarters?

Do you know what kind of sanctions are given for overstepping these boundaries?

Do you feel that there are boundaries that only hinder your work?

What do you consider important values of Continental AG?

What do you perceive as being very important to headquarters?

Are you evaluated as a company as a whole, or are you also evaluated individually?

Do you think this is appropriate?

<u>Technology/ R&D</u>

In what way is it possible for you to come up with new ideas?

Have you ever introduced new ideas concerning technology into the company?

How do you share know-how with the headquarters in Hanover?

Do you share your knowledge with other subsidiaries of Continental? How?

<u>Enactment</u>

How do you feel about the strong involvement of headquarters? (Ex.: personal involvement, visits, expatriates)

Do you feel controlled?

Do you feel that they trust you with the management of the plant in Puchov/ Otrokovice?

In what way are you able to implement your own ideas concerning the management of your company into your every-day work?

Do you feel your ideas are being valued at this company?

How satisfied are you to work at Continental?

Can you describe a distinct situation with headquarters where you had problems with them?

How did you react?

3. Interview transcripts

Full versions of the interview transcript are available on the enclosed CD-Rom. Furthermore, the audio-data of the interviews can be found on the CD.

4. Organisational chart

Interview, Tuesday, 24th of June, 2008

Total duration: 30:10 min

Dr. Kassen

Dr.K.: You are aware of the organisation?

A.: In what way?

Dr.K.: The structure of the organisation.

A.: No, that's...may be you can just like... That's maybe the beginning that you kind of describe your position, your function in the company and äh what your work experience has been with Continental.

Dr.K.: ok, than I think the first point is that I will print out the organisational chart, so you can see the different functions.

A.: Ja, that would be great...

Pause

Dr.K.: Maybe some sentences about my personal background. I studied Physics many years ago and I did my PhD in nuclear physics and since then the science has gone. So, at that time I... for me it was clear, that I would not be a scientist. But I would like to apply what I learned before, so whether this would be at Procter & Gamble or whatever, I didn't care, or just what is needed and what is the science good for. Äh, so then, for whatever reason, I tried the tire industry. So at the beginning I was two years in the R&D area, working for non-destructive tire tests, so this has a little bit to do with physics and then I went to the tire plant, had there several functions... managerial functions, manufacturing headquarters and staff functions and then around ten years ago, this

organisation that I am responsible for was founded. Ähm, and I am responsible for the tire moulds. Äh, in order to produce a tire, this bit has a lot of different components, but it has not so much to do with the tire. The tire gets its final properties during tire curing, vulcanisation. So to do so, the 'green tire', how we name this raw tire, it put into a mould, the mould is closed, then pressure is applied, temperature is applied and for passenger tire, up to ten minutes, this tire is ready. For truck tire it is around an hour. So whenever you see a new product, a new tradepattern, a new side layout, whatever, a new mould is needed. So this is basically the tool in the tire production, which gives the final face to the tire. And ähm, Continental is investing around 60 -70 million euros every year for new moulds. So its some kind of big organisation. Part of the moulds are manufactured in-house, this is the plant we will speak about in Czech Republic, and part of the moulds we are buying on the open market, whether its in, Europe, in Western Europe, Eastern Europe, North America, Asia, South America, so basically wherever moulds are needed, we try to buy them locally, or where it makes sense to buy them cheaper, that's including transportation costs at the end of the day, the lended costs are ok. That's something to do with timing, capacities, know-how of the different suppliers, whatever, what we can do. So in order to produce tires, first of all, we need a mould design. So the input is coming from R&D, from the tire engineers. They specify a contour, the pattern and whatever, what the tires should look like.

A.: And they are mostly here or are they also...

Dr.K.: Mainly they are here. Part of them is in Slovakia, parts are in North America and might be a little bit in Asia, in äh Malaysia. But mainly they are here. So they specify how the tire should look like at the end of the day. So we translate their input, or their requirements into a mould design. Those are CMD

designs, that means computer made, but it's a lof of effort, because we need a lot of...ja... a lot of details to be considered and whatever. Äh, so this is done in the mould design departments. PLT means passenger light truck. So this is in Stöcken, that it means here, in America, in Otrokovice and lately we had another organisation here in Puchov, Slovakia.

The same is done for the truck tires, commercial vehicle. So again, Stöcken, Mount Vernon, Illinois and Otrokovice. So this... they are creating the tire designs electronically, those data are send to the mould producer. So part of the moulds are manufactured in-house, in Otrokovice, and all others are done externally, so they send the drawings to wherever...äh... the supplier was supposed to produce the mould. So we have one other department, mould services, they are allocating mould ... They are saying, and this is the company here, and there and there. They should produce some mould by then, they track the order and make sure that the order arrives on time. And in addition to that, mould quality, that means he is looking after claims, is there any .... He is doing the order at suppliers and whatever. So he has to make sure that the product is ok at the end of the day. Then we have the mould engineering, this is a smaller team, looking mainly after the tire plants... 'what are there needs'. Those passenger mould, you have that part with the inner shape, which is specifying... or which is relevant for the tire and the outer part, which is more relevant for the curing presses, for the external and whatever... for the tire manufacturing. So, those are those people.

A.: Ok. ... So most of the part, especially with the technology or with the R&D and all that, with the innovative part, they are mostly here and the manufacturing is mostly in Czech Republic.

Dr.K.: Correct. We have only one mould shop internally, that is in Czech Republic.

A.: So, all others are external...

Dr.K.: Ja.

A.: Ok, then ähm. Because then, big part of your job is also the contact with the manufacturing part in Czech Republic.

Dr.K.: Yes, Czech Rpublic and also the other suppliers. So I am saying they are basically part of a virtual organisation. So I have no direct influence, by indirectly of course. So if they don't do what we want, then we don't need them anymore, we will try to find something else.

A.: ok. Then maybe, to focus on one thing now. Ähm then can you maybe describe the relationship you have with the subsidiary in the Czech Republic.

Dr.K.: Ähm, first of all from the official and formal part of view, this relationship is complicated. Because our mould ship is not a legal entity. So its part of the tire plant in Otrokovice. So from the legal point of view, it is just one part of the tire plant. Äh, the tire plant is a legal entity, that means the head of the tire plant is also responsible for the mould shop. Even if they don't have any say in that.

So this is somehow, not like too much, ja, most likely there is no other way, or at least we didn't see it, it should be organized differently. But in any case, the manager of this mould shop, get his directions from me. And from my boss of course and from our controller, but basically headquarters. Ähm, so first of all we are discussing the annual budget, so what is the amount of mould they should produce, the investments he has available and they are discussing what kinds of projects and whatever. So this is done once a year, when the budget is approved, ok, then the day to day operational business starts. Ähm, we have a strategy meeting once a year, that means the total organisation, including them also. Ähm , so one part is then to look back, to reflect 'what did we promise,

what did we achieve', but also what are our plans for the upcoming year or upcoming years. So this is then together with all managers of my organisations. Ähm at the end of that strategy meeting we have a balanced scorecard, so we have… or other key performance indicators, but … some key figures, which we want to report monthly. So this is not only true for the mould plant, but also for the other organisations. Ähm, in order to achieve the targets we agreed upon, we need to set up some measures, some projects, whatever … otherwise you can not do it. So, those projects are specified during those, during that strategy meeting, that means we have as a target and as a commitment from the managers, their key performance indicators, their projects and äh then it's a question how to track and how to follow up.

So, once a month we have a meeting with all managers here, with all department managers here, there we go through our balanced scorecard, what is ok and where we might need to adjust and to steer somewhat more differently. Äh, there we are discussing targets, also upcoming ideas during the year. So its not only once a year we have ideas and then we just do, but also in between there are some additional requirements, some other ideas, additional projects and whatever might be. So this is then mainly discussed and reported during our monthly meetings.

A.: Ok, is it also possible for the subsidiaries … they also meet with you, right? …People from Otrokovice.

Dr.K.: Yes, normally its just the manager, who is coming once a month to Hanover.

A.: ok, is it also possible for him… if he… if they come up with something, if they innovate anything… I don't know, if they come up with any idea. Is it for them also possible to introduce that and ähm are

you open for ideas from them, or is it more like 'it comes from here and they just do'.

Dr.K.: No, every idea is welcome and for the tire mould manufacturing, I think he is the expert. So, and he is developing the technology, or he is trying to improve the technology or what he has to done differently during his manufacturing process, is his area of responsibility. Äh, so mainly, nobody will tell him something else. Ähm, and if he is coming up with an idea how to produce something differently or detailed and whatever, every idea is welcome and we try, we check and if its fine, its ok.

So, its not just Central has ideas and what others has to do, at least we try to do that.

A.: Ok, and in what way are they dependent on you? Are they... that is really a part of your company or are they also supplying to any other company?

Dr.K.: No, just for Continental. Ähm, we are saying, 'as long as they are better in terms of quality, delivery time and price as the suppliers on the market, we want all their capacity'. If they are more expensive then the external suppliers, we don't want them at all. So this is a clear target.

A.: So, if they don't get up to that point, than ...

Dr.K.: No, why should we then have internal suppliers? So, then we buy, so that's very clear.

A.: But until now that never happened?

Dr.K.: No, they are definitely one of the best suppliers we have and... because they are in Czech Republic, they are also among the cheapest. And delivery time

and quality is no point of discussion. But this is also no point of discussion we would like to discuss with the others, sometimes we have to, but... normally we take this for granted.

A.: Ok, ja, that's just a given.

Dr.K.: Ja, in most case, sometimes we have to a little bit, but ja....

A.: Mhmm, and then, I was wondering, how does the communication between the two of you actually takes place? Between the headquarters and the subsidiaries... is that only the monthly meetings, is there also informal communication?

Dr.K.: Ähm, first of all we have the day-to-day business. They produce the moulds, which have been allocated by mould services, so they are saying 'those twelve moulds, please mould shop, I would like them from you'. Because they know what is the open capacity for the next week and weeks. So they are saying for this capacity I would like these moulds to be produced. They look into the order, and this is just the same communication as with external suppliers. So they are just allocating the mould order. The mould supplier, internal , external, they review the order, 'everything is ok, documents are there and I can produce and I commit myself to deliver the mould by that and that time'. So this is basically what happens daily.

A.: But this happens between these two? You are not involved?

Dr.K.: The departments... No, I am not involved in the day-to-day business. So they also check what they are doing and deliver in time and whatever it is. The payment for them, because this is part of the legal entity in Otrokovice, and they are paid from the other tire plants, this is handled between the plants. So the

plant basically sends then a … the mould shop sends his invoice to the tire plant, who gets the mould. And they have to pay.

A.: Ok, and ähm you only meet with them once a month? But you don't have… and you get the information by the balanced scorecard…

Dr.K.: …balanced scorecard and the meetings … yes

A.: but you don't really call with them?

Dr.K.: From time to time, ja, it depends. So we are running projects with central IT and whatever… if there are some issues, which we have to discuss, then we just pick up the phone or we write an e-mail. Ähhhh… ja normally in between we don't meet. So this is… monthly and this is …it might be already more than enough, but at least enough.

A.: Ok, ähm…ja, in what way is knowledge actually shared also? Is… they get it from you, right? But that we already had … kind of …

Dr.K.: The exports and tire manufacturing with them. So I cannot tell them 'do it the other way or whatever', I can share some ideas. So, because we are travelling around, we and also the other colleagues here from Central travelling around, see other mould suppliers, because we are also dealing with them. Bringing up some ideas, not detailed, not know-how, but just they bring it somehow differently, but then we discuss 'Could it make sense for us to consider this'. Äh, sometimes we also have a formal cooperation between this mould shop and an external mould shop. So that means, this is a give and take. If we are saying, 'this is of interest for us, this is of interest for the others, is this somehow balanced, is this the same value if we agree on that, ok' and then the exports they are going there and vice versa and sharing ideas and detailed know-how.

A.: Ja, ok. So there is also exchange between the people from here and external suppliers. Because you don't have any other subsidiary that is focused on mould building.

Dr.K.: No..

A.: ok, so, there is actually knowledge sharing between...

Dr.K.: Ja, what we try to avoid is some kind of 'intellectual inbreeding', because if we just rely on what we believe is good, we might be out of the business in some years. So we try to keep the state of the art, ja we have … we have to compare ourselves with others, whether its totally different or no… anyway we can see and we can try to do something against.

A.: Ok, ähm, ja, I don't know, we kind of already touched on that as well. If you can describe the tools that you are currently using to control the subsidiary. Is that only the balanced scorecard or...

Dr.K.: No, this is … those are the figures I am looking at. But also my boss, as a controller which is also responsible for my organisation and other organisations within his area and also for our mould shop, so I say he gets the financial figures and also between the controllers several issues are discussed and tracked and …äh ja, sometimes approved an investment or whatever. So it has also to go through the controller exercise, investment calculation and whatever.

A.: Ok...

Dr.K.: So and then the manager of the mould shop is putting things together to a monthly report and this is discussed also when we have our meeting here, another hour, together with my boss and our controller. So this is another level, and this is … ok, first of all financially, some condensed versions of different key

figures or whatever… not the details, but just the … what is the business, the workload, the illness rate… äh, financial forecast and things like that. And this is also done monthly.

A.: ok, but… so you basically …to control them you are only looking at the figures and what the output is actually, you don't go there and check the factory, see if everything is running good … I don't know…

Dr.K.: I am there from time to time, and also going through the plant, but basically there is nothing I can tell them what is good. I get an impression, yes …ähm I have the feeling that this process is not really ok, and then I discuss with them and might be they see a chance to do it differently… äh, but not in detailed and in detailed and whatever…

A.: No, no… and do you also ähm give them rules about how they have to manage their plants?

Dr.K.: No.

A.: That's all up to them? As long as they produce the output and the quality and the… money wise and time wise… then

Dr.K.: Ähm, if there would be a serious problem with the units for example or with the work force, because of the management style, I would try to investigate and to understand and might be also to get some influences on that. Ähm…, but this is not the case from that point of view, it seems to be ok.

A.: Ok,…

Dr.K.: No, he is responsible for what he is doing and this is also true for the others who are sitting in Hanover. Also normally I don't discuss the details of their day-to-day work.

A.: Ok, so they just do and you get the figures? And check if that's …

Dr.K.: Ja, and then we discuss common issues, common projects and whatever, or interactions and things like that. Äh, but also here we are discussing department managers, so they are responsible and he is also ... or if you are like a plant manager, he is responsible, äh otherwise I wouldn't need that.

A.: Ja, that's true. And ähm, which tool would you consider most important in controlling? Is that more the facts and figures, is that more the monthly meetings, talking to them, ähm...

Dr.K.: I would not say it's a tool. First of all, it is some kind of personal relationship and trust. I think if this is not there, you can create any kind key figures, you would never have full control of what you would like to see.

Ähm, but as long as the personal relationship is ok, trust is there in both directions, ja, then I rely on what I see. Because you can hide things, you can ... whatever you do of network of different key figures, whatever you can hide. And this is basically what I am not able to see at all. Äh... figures are important, you can see trends. You can compare part of them at least with what we get from external. So whether still the relation is there, you are making the same progress as others on the market, I still believe then everything should be ok.

A.: Ok. Ähm, and then one of the final things actually... Can you maybe, I don't know if that ever happened, but can you maybe describe a distinct problem with the subsidiaries, in connection to ... did you ever have any problems in connection with working with the people there or management or controlling, ähm... where you had to react to a certain situation.

Dr.K.: Mhmmm, in former times it was a language problem, a language barrier... with the present manager I don't have any. He is really good in English. Ähmm, most of these managers are at least able to communicate in English, so this is

not a real problem anymore. Ähmmm, not basically… that's not a real issue. We have had problems with the predecessor of the actual manager. Ähm, so there was, I am not so sure how to say, at least we got some strong indications that there is also some private interest in one or the other action he was doing. Ähm, and at the end of the day he was fired, due to that. Ähm…

A.: But , you reacted then with … you investigated, or? Or was it up to you?

Dr.K.: No, first of all, I didn't see it at the beginning. But I got some strong hints from the organisation, 'there is something wrong'. And then …

A.: From the organisation there?

Dr.K.: Ja, because they are little bit afraid about their future, though the question is what is this manager doing and whatever. And then our corporate auditing was investigating and found out some things, which are not ok. And then…ok, this was then easy to decide.

A.: Ja, but then that is basically also people from the factory there, or people from the company there are actually able to just call up somebody and say… and go step over their manager basically …

Dr.K.: Ja, this was communicated through the workers council, it was a union. So somehow it was just the other way around, but ja, of course, if you want to communicate something, there is always ways.

A.: Ja, ok.

Dr.K.: And therefore also what I said in the beginning, if you have a trustful relationship then at least things like that should not happen. So, sometimes you

have a person there that you cannot rely on and he can hide things. You cannot have everything under control from here.

A.: Ja, ja...

Dr.K.: But also at that time, the plant made progress year by year, whatever, so at the bottom line it was not that bad situation. But now with the new manager, we saw a lot of other things, which could be done differently, so to make more progress.

A.: But then its really hard to say... if the figures are still good in the end...

Dr.K.: They are good, but not good enough or could be better. And this is different for my organisation and for tire manufacturing, because they have 15 or 16 plants, and then its easy to compare. Ja, the one is making five percent if I see them making progress, the other only two. Why? And where are the difference or whatever? Here I have nothing to compare with.

To a certain extent I try to do it with external suppliers. At least you get an idea of how many people for how many moulds. That's just some rough figures whatever. Äh, but otherwise I just have to rely on what I see and get.

A.: Ja, is there anything else you would still like to add or anything, I don't know.

Dr.K.: Ja, what might be a general point in relation to the manager in Otrokovice, but also the other managers, I try to build up some team spirit, therefore I am inviting for annual strategy meeting, I want to involve all, this is department managers and section managers, all together, we are around 20 people there. So and everybody has the possibility to contribute to what we want to do and at the end of the meeting it is not my decision, it is our decision and I

get the commitments of everybody. So this is, I think some kind of possibility to get things together. Äh, the bottom-line, we are not discussing my strategy, but the strategy of our team.

A.: So they all have a say in it?

Dr.K.: Ja, everybody can speak up. And some other issues with the department managers and the plant managers here we are doing a hiking tour every autumn, just two days, whatever. Just to get to know each other, not to talk only about business, but also about private and whatever, but just to do something together. I think that is important, just to build up relationships. No, that's basically all.

A.: Ja, so you would also say relationships and trust is the main issues that is most important in …

Dr.K.: Definitely. Because, what I mentioned in the beginning, I am a physicist, I am not an expert in mechanical engineering or in electronics or in CLD designs or whatever, so …. But I need to have some kind of technical background in order to have a common language with the people. Äh, without understanding details, but to get an idea what they want to do and what … in which direction they want to go and then its easy. So if I would be …. Economic or whatever background, I am afraid I would be lost. So we need some kind of common ground and common understanding. Äh, besides the personal relationships.

A.: Ja, ok. Well, then that was really interesting. Got a whole overview now…

Interview with Dr. Nohl (Wednesday, 18th of July, 2008) (Total duration: 49:44)

A.: Ähm, und ihre Sekretärin, oder Frau Block hatte gesagt, dass es auch in Ordnung wäre wenn das in Englisch wäre.

Dr.N.: Ja, das geht auch. Klar. Das ist für sie dann einfacher nachher...

A.: Ja, das ist für mich einfacher, weil meine Arbeit auf Englsich ist, Aber wenn Sie sagen, sie möchten es lieber auf Deutsch führen dann ...

Dr.N.: Nee, das ist überhaupt kein Thema.

A.: Ja? Ok, great. Than first of all, maybe you can describe your position in the Continental and what you have been doing and your work experience maybe here.

Dr.N.: Ehm, this is, we call it engineering tires and we are responsible for all the technique we have to use to produce tires, so its only in tire divisions. Nothing to do with technical products or automotive systems, but it's not dedicated to one single division, because we have two divisions in tires, this is pc tire division, passenger tires and commercial and we are working for both divisions. Technical issues means in this circumstances that we have to define machinery, equipment, how to produce tires, ähm we develop some of these equipment ourselves, we produce some of these equipment ourselves, this is another department to produce this, the development is on our side. Ähm , and we are involved if any plant will buy a machine and ähm they have to write a cr capital request, which then has to be signed by us and we have to take care that they have standard machine, which will fulfil their specific needs. Because specific needs means we don't have a standard for all plants, because we have different tires as well and for certain groups of tires we need certain features in the

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machines. So therefore it is not too easy to say, we have one standard and fft this will be the easy way. Unfortunately, it is real life, it is not the easy way. So this is more or less our function and we are heavily involved in all bigger projects, where we run these projects in a certain philosophy and we have one project leader onsite and we have always another project leader here in our group. We call this than the 'tandem' because we have lots of things that have to be solved in the plant and we have a lot of things that have to be solved here in the Central area. Discussions with R&D for instance, with standard machine suppliers. We have a lot of machine suppliers in Europe, even close in Hanover, which is strange, but this had nothing to do with Continental, but this is really a … to produce certain machinery is really here in Hanover. So therefore it makes sense, to have, especially if we discuss about projects in Brazil, in Mount Vernon or Malaysia, to have another one sitting here and then you get very close cooperation. And Greenfield's for instance, like we did in Brazil and we are actually running in China is in the beginning run by us. Because there is no local organisation and machine and equipment is the major part, most expensive part, and the most critical in terms of timing, so than it's our business to start this. As soon as we then develop a local organisation, we hand it over. But in the beginning, until machines are running in production it is our responsibility to take care for this.

A.: Ok, also if you take over, for example, buy other companies in...

Dr.N.: Ja, a little bit approach, but absolutely correct. We have, usually we don't buy anybody, we say from scratch, as a green meadow. So we have contacts with them up front, because we have this called technical assistants contracts, where we sell our know-how to partners and the principle idea some ten years ago when we started this business, was really to develop, and to check those

partners. So they get know-how, they pay for this and first we only give this know-how to produce tires and then we can go for a next step, where we say we want to have off-take tires from you, so then we develop those partners and then we learn how they work, we learn their mindset and then we check also this strategic way maybe to include them in our portfolio. So usually, if we say now it's time to buy shares or to swap shares, or to get…, with some partners in the past we had a management contract, that we run the industry leadership without being the leader in terms of money or shares, but this is also possible, this is one step in between. But then you know what to do and ähm then, in this case, as soon as we take over, we have responsibility for the tires they produce and this means on the other side, they have to have our standards as well, more or less standard. The problem is, that we don't kick all the machines out to get some new machines in, because this will kill you immediately. So, the question is, and this is a specific department I have here in this group, which is really looking for machines not fulfilling our standard and do the minimum efforts to achieve our standards. This is a little bit different, because there you don't need heavy money, sometimes yes unfortunately, but it's a different, it's a different approach. You should know a lot of technical details with machines, which the group sitting on this floor, does not know. Because they know the standard machines.

A.: Ja, so that basically means, I mean if you say, they, ähm the subsidiaries have to have your standards, or the minimum standard, ähm, is that also the same for all other aspects of the organisation? Do they take over your values, or like Continental's values? Do they take over procedures and rules and … ? Or do they still have their own management in that way ?

Dr.N.: Good question, ja. Ähm, the technical issue is the easiest issue, just listed. Ähm, and therefore this is always, äh I would not say it's a fault, but we discussed this several times here in our organisation. Quite often the technical guys they get a certain leadership and everybody says its fine, its running, because you can go there, you visit the plant and this is from day one and after six months we make some modifications and everybody is happy that now there is a standard and the quality of the product is similar or different now from the past, but the other issues are totally different. So, mindset issues are, because if you want to have a sustainable change, to modify the technique is only one piece of the whole chain we need. And this is much more, much more difficult. So really to run an integration, ähm, this is really a job, which needs much more than only the technical issues. I would say this is the basic.

A.: But is the rest actually also done? Is Continental saying, ok, if we... we want our subsidiaries to think like us or in a way have our same values, have our same beliefs, is that transferred?

Dr.N.: We need that at Continental, we need this. Otherwise this will be a disaster. Because, ähm, we have several issues, this is especially if you start a Greenfield , you have some different problems to solve, but if you have a joint venture or a take-over, äh we did this in South Africa, we did this in Malaysia, they are actually in the phase in Matador and ähm I think, in Mexico as well, and we always learned a little bit more, step-by step. But there are some principle issues which are totally different and therefore we have to apply our mindset and our philosophy, ähm. Let us look to such small plant in South Africa, they are, in the past they have been a stand alone plant, getting their know-how from us. First of all they served their market around with all their products. So they have a huge complexity in their plant and they are depending from each peak in the

market and also from the low values, sales values. So they know sometimes we have to produce x amount of tires and the next month because there is a different season, rainy season, or sunny season, or whatever, the sales are dropping down by 50%, so next month they produce less. But they have such a capacity installed here, and this month they use it here (showing) and next month they use it by 100% or 90%, so there is an up and down all the time, which is different in our plants, because if you are present in 30, 40, 50 markets then you don't have the seasonal times or winter and summer time are changing on the other side of the equator, so this gives you finally a more or less stable, more or less stable production. We cannot sell in Argentina winter tires, its true. But winter tires is still a little bit different, but if we are going to produce winter tires here, we source the summer tires somewhere else in the world. So therefore we can balance this, they can't do this. So, if we are getting leadership in such a plant, the first issue is we check what capacity do they have and we want to have tires from them, because they normally are in a low cost area and we want to take this benefit. Our management is saying 'Hey, I saw in one week you produced this capacity, and we want to have this capacity in 52 weeks of the year'. But they are not able to organize this, because there is summer season or special holiday season and breakdowns where they said in the past 'ok, we need these two weeks full capacity, afterwards we are at 60%, so no problem, we take care for this machine and then we do this and this and we have some modifications. Ja, this we do in May, because in May we usually only need 40 % capacity'. And now we are stepping in and we are telling them 'Listen friends, we need always 100'. So, they don't have planning tools to do this, operators are thinking differently, because they know exactly… well we have this in Germany as well, if you go to Aachen plant, they have Carnival, it's different. So and those things, this so called cultural issues you might expect in another country as well

and Conti would say 52 weeks, 7 days and you get some days of closure to repair or modify things, but we don't care about Carnival, or about this season, or that season. So this is totally different. And then, on top of this, as a company being self-sufficient, like Port Elizabeth, if they need to invest something, they check their own figures and I said 'ok, sales are running excellent, we have good margin, yes you can buy this machine or that machine, up to a certain limit of x million'. But this is different here in our organisation, because we have the supervisory board, we have to make a planning for investments and they decide, the supervisory board decide in December, what are the total investments for the next year. So we have a bottom-up planning and then we get confirmation. But then you have a certain limit of investments. If you need more, you can shift investments from one division to another one. But if nobody is willing to shift then you have to ask for more investment, which this means you have to go back to the supervisory board and nobody will do this. And I had this experience in ähh South Africa, when we were running this integration, it was 1998. We had specified a certain investment for them to … and mid of the year they had that great idea and they said, 'ok, for this we need another 5 million. And we checked this and this is no problem so far.' And I said, 'sorry, but this is a problem'. 'No, no, no, no, we checked with our banks'. I said, ' this is fine if you checked with your banks, if you can finance this by yourself and you get personally the credit, then it's ok. But as soon as you tell us we need 4-5 million euros more, this goes back to the company and there are no funds for this 5 millions'. And they could not understand this philosophy and they said 'that's crazy we are now with Conti and we've got more limits as before'. So this is ähm, this is difficult to treat. And then of course you have the problem with kind of motivation, which works differently and if you want to apply your organisational structure, there is always a kind of thinking for functional thinking but also a question of how to motivate

people and how to lead people, but this could be totally different. Totally different. So we once had the problem, that we had absenteeism on Friday afternoon were rising traumatically. So then we say 'ok, we will discuss about a premium, for those guys being here four weeks in a row, Friday up to 10 o'clock, because at 10 o'clock there was a shift change. But up to 10 o'clock on Friday and ähm this works normally in all plants, because they get something on top and then they will think 'ok, if I stay at home now, then I don't get the money'. But it did not work at all in South Africa. And then one guy from the HR department finally told us, two month later, 'ja, but' he said, ' this is clear, this can't work'. 'So, why does it not work and why are you not telling us that it does not work?'. Because we are from Germany, this was a proposal because we applied this in several plants and it worked excellent. In France we did this, in Portugal we did this, even in Germany in one place we did this, works excellent. And then he came up and he said, 'ja, but this is a social issue in South Africa'. So guys living in this, I would say huge family, were you have family and other relations coming together and once per week they put all the money on the table and then they distribute the money. And those guys needing more, they take some more and this is on Friday. So let us assume now that guy is not in the round, so will not get the money but next Friday he will have to put some more on the table, because he earns money by being not in this group and he puts more money on the table, which is not for him, which goes everybody else. So, this was ähm absolutely zero, doesn't work at all. And then this guy came up and he said, 'ja, but in this community, they like to play soccer and they need soccer fields'. And ähh, so you need this goal made by wood or metal or whatever and for those things they don't have money. So then we said, ' ok, fine, that's even better, because then you have the full group and you tell them ' Friends, you are maybe here 10 guys of this community and ähm we spend you equipment to

play football or soccer, even with the ball included, but the next four or five months you have to stay in, all of you have to stay till Friday evening''. This worked. So, these are totally cultural differences. Or if you go to Asia, if you talk to Asian people and they say 'Yes' and as typical German educated guy you say, 'ok, he got it', so you go back home and after three weeks you phone him, 'Now you are ready, because we said after three weeks we check'. 'No, you said this'. 'He, but you said yes?'. 'Yes...'. But yes is not a yes. Yes means I hear you, but it doesn't mean I got it, I will do exactly what you say. So, these are things which are really different, if you go in other cultures.

A.: But is this, that the subsidiaries then in the other countries... in what way do you actually get information from them? Do you.. do they... if they are a part of you company now, are they responsible for sending financial statements once a month, or about machinery or whatever?

Dr. N.: Ja, reporting will immediately be installed there and the financial reporting is installed. This is a must, because we have to consolidate them in our books, so therefore they have to report line by line as we did this. So, this is an absolutely must. Some IT will be introduced immediately, ähm, but of course for all these IT, or for all systems you have to include, you need an organisation to do this. Then you are back to the same problem. If they don't understand what you want, they put some figures in, but this you can scrap immediately. So this is really, I think it is really a complicated process to get everybody into the boat, to think the same way. Maybe they might have some other targets in mind, but at least from the figure side and from the quality side we need the same output. However, it is achieved. That's the difference, ne.

A.: Ja, ja. But they are, they are actually obliged to do it with a certain framework...

Dr.N.: Ja, ja.

A.: and are you also going and checking up on them and seeing if that is actually...so you have face to face meetings with them?

Dr.N.: Ja, ja absolutely.

A.: and is there also informal communication or what... how does a normal meeting take place? If you then, I don't know, have your subsidiary and you say, 'ok...I...once a month or something...I don't know...how...

Dr.N.: What I learned when I made this integration in South Africa you have to be there, there is no other chance, everything else is lost time. So, phoning and sending mails or videoconferences, you can forget. You have to be onsite. You have to walk with those guys, you have to see the plants, you have to talk to them, you have really… you have to show ähm activities onsite. Ähm, and usually we have these, we call this operations review, three times or four times per year, where the management is going to the place and is receiving the dates… the data and information concerning all the figures and results needed. But we have also everything, more or less, if you go for such an integration everything is structured in a so called prompt project from our side. So we have working packages for this, ähm we just had one meeting here, with.. this was a steering meeting, that means there was a team onsite, discussing all the details and working packages which have to be fulfilled and then we have a project leader onsite, we have a project leader here and they both report to the steering meeting about their project. Usually we try to do this onsite, but for this steering meeting sometimes two hours and then to travel somewhere else in the world, this is maybe a little bit exaggerated. But usually, this is what I learned, you have to be there, you have to be onsite, you always have to show that there is a

certain value we get from them. This was a fault we made... in, in ... other integration processes, so we sent a lot of expatriates into the new plant ähm, this is more or less then somebody from finance. You need to structure what is necessary, the general manager is usually from us if we own the plant and we have one from, it could be the plant manager himself or maybe a technical guy to check a little bit the technical development on the site.

But on the other hand you have to take guys from that location to sent to ...your organisation, to send them back. Because otherwise they get the feeling, we did everything wrong and now there is a big company coming and they are flooded us with expatriates, which are immensely expensive, because they have to pay them. And they don't want to have anything from us. So therefore I saw in this process, where I was responsible for this, from this moment onwards when I said 'I want to have this, this and this guy to go to Hanover and to support our central staff', the picture was totally different.

A.: .. they get a different meaning..

Dr.N.: Ja, they thought 'oh, there are even some things we did.., we did some quite well, and they have excepted this'. Because this is very difficult, this is in the beginning you are always telling 'no, we don't do it this way, we do it this way'. You can explain why, but they will not understand that. Because you have different targets in mind, you have a different mindset, you have a different culture, so it is always a 'no, we go here. No, we go here. No, we go here'. And this is a little bit hard. So, if you as a human being will receive everyday only a 'No, we do it like this. No, we don't do it like that, we do it like this'. They are not really lucky on this. But then if you go to them and tell 'this... you are doing an excellent job, I like this ..., I like this.., we want to have this in our plant, in the other plants as well'. Than you take them out, saying 'You are expatriate now in

Hanover or in another plant where we need your experience and your know-how'. Than it's different. Because then they know they have some rules, but there are things we did quite well and they except us.

A.: And do they actually get along here then, and are they actually valuable to the company then here or is it more a thing of actual a tactical thing of saying ähm, or both?

Dr.N.: No, I think there are at least three things. So, first we need to say this will motivate the local guys, because the other ones, they see ok there is a chance to come to Hanover. This is one kind, this is a moti... internal motivation. The second is ähm, they are coming here, they are learning the mindset and thinking and philosophy and basic values in the central organisation and then they are going back kind of brainwashed.

I think this is not the nicest word, but... Well, when I was the first time in India, I had to readjust my measurement..., my internal measurement as well. Cause as long as you live in this nice culture, Germany here, everything is quite nice. And your values are somewhere here (showing), this is what you want to achieve and then you are in India and you say 'oh my goodness'. Maybe this will be enough (showing) already, you don't have to go here, because there is other people living somewhere here and this... it's really different. So and äh, the third issue is, actually for instance it is quite difficult to get engineers, so we have a lot of open positions, and then it's quite nice if you get somebody, because he already has some tire know-how, he knows how the tire plant works, so he is already educated. If you get somebody from the university, you have to start from zero. So, that ...these are for me three factors I would like to have. And of course it is also a chance if you need, if you need detailed information from the plant ähm, communication in the beginning is always difficult, even after some years it is

difficult , some guy they can communicate and there are some that can't. So with somebody from this plant, you can really talk to him and say 'ok, we have an issue we could not solve so far, so could you help us'. And then he knows who to contact, and he has maybe some more explanation to this issue or he sometimes can also … this quite crucial point and 'you will never get an answer'. But then you know at least, there is a problem and you are on the right track. But nobody will really tell you if it's A or if it's B. So that's…, therefore I like to have guys from other plants here.

A.: But do you then, if you think about controlling a subsidiary or measuring, do you… are you mostly in contact with the management or are you also in contact with the employees working there?

Dr.N.: This depends a little bit. If you spend time there, then I would say also with employees. If not, you are talking to management, that's quite clear. But äh, this is also… this was quite interesting, because when we started also this process in South Africa, we had a plant manager ähm, which was a friend of mine and ähm then we got into some problems in South Africa, so we did delivery and production output was not as expected. So I got every morning a report from them and then I phoned to the plant manager and he had a lot of excuses and why is this, why is that and, and, and …But this was not really the way I would like to steer this process, because after a certain while I saw, you get excuses and this is not really reality and maybe also not what they really think because it again is a discussion German – German. So than when I was a longer time in South Africa, I saw the organisation, I talked to all of them, and I … there was project, äh production manager and a department manager in production. And finally I phoned to the department managers, because from the report I saw where the problems are, then I phoned them and I asked them and

this changed the picture totally. This is what they told me then when I was there the next time, because they said 'Ja, we have been protected, by the plant manager. Because in the morning we told 'this and this is our problem' and if we sent this at quarter past eight to Jörg Nohl in Hanover, we know that at half past eight he will phone us to know exactly what's going on or if he is on a business travel than its maybe somewhere on the day, but ähm between quarter past eight and half past eight this was really the time when the plant manager should really have the explanation from the department manager. And he changed it in order to sell it to me. But when I phoned directly to the department manager, there was no chance to sell it, so they were talking about the truth. And they have seen that nothing really happened if I get the truth. It was more clear to me and the next time when I was there, I said 'he, this was three times the case, so what actions do we have in place?'. Because they expected maybe to be shot or something. But this was not my intention. So I would really like to have this as an improvement, and then this communication changed totally. I even got once an e-mail, when I started up the computer in the morning, where somebody already explained it. We got 'well, I am off for the next three or four hours and I know you want it immediately to ask me because you will see the figures'. This was the problem and these are the actions we.. we are behind. So this is…I think we will not have contact to all operators, but anyway if you have a specific problem and you go to specific machines you will meet the same operators from time to time. We have four shifts, so it's not always the case, but at least then you know some of those guys and I think this is a question, also a question of motivation. If you talk to them… if the language fits. That's another… So if, as long as you are talking about South Africa or Malaysia, I don't have any problems because this is in English. Or even in India, it's possible. But in Mexico for instance it's a little bit more difficult. I am not Spanish speaking and ähm

then it's difficult. But this helps anyway, but the closest contact, I would say is to the level of department leaders.

A.: Ok, and then if we talk also about gaining information or controlling in general, what activities do you consider most important in gaining control or gaining information? Like is that, for example the reports, or is that the personal communication or is that the face to face meetings? You know, what activities do you consider most important?

Dr.N.: I would say, with reports you don't control, with reports you get some information and that's it. Control can then by personal contacts and this is the...the.. .One learning is for instance, and this we have seen in all our plants we bought so far, a sense of urgency is not existing. They don't know this. This is... they deliver figures and they tell you 'woo, bad luck yesterday and grandma's birthday and it was raining'. So, that's the case and this is not the explanation we want to have here at Continental. So, this means we have really to tell them and this is only possible by personal contact 'this is what we expect. If you can... you can maybe have some issues where you say I will not be in, and this guy will not be in and I will celebrate a birthday and, and, and, this is always possible, but you have to take care that the requirements we have will be fulfilled'. And we don't except a birthday party. This is the case. But this you cannot do by a report. And... of course you can send back some mails and then you will get another mail back and then finally your mailbox is totally filled with those bloody things. But I think this is really to learn about how we are thinking, what we are expecting, the only chance is to be there or at least to talk to them by phone. So personal contact is for me the most important. Onsite would be the best, it's a question of timing as well, because if you have to run such an integration process and you have the chance really to do this as a big portion of your job, then its ok. Then you have to spend a lot of time on the new site, if not then you have to

show up from time to time, but you need the verbal contact, this is done by phone … or videoconference, also not too bad. Also to see faces and see how they react in certain situations.

A.: That is actually also another question of what is your main task during the day? Like what do you spent most of your time on and do you consider that actually being the most important part? Or do you have the idea of you getting, like kind of unfocused or interrupted..?

Dr.N.: You mean today, not related now to those things. Because what I was talking about in South Africa, this was my former job.

A.: But that it than on site, right?

Dr.N.: Ja,

A.: But at the moment now, that you think 'ok, you are sitting here in Hanover, you are having contact, you are in contact with international subsidiaries, right?

Dr.N.: Ja,..

A.: … and in what way, like what is a normal day or what kind of activities do you spent most of your time on and do you consider them most important?

Dr.N.: Ok, let's see (showing his schedule for the day, laughing). No, I spent a lot of time in … follow-up projects, as a so called steering member, so steering plant projects. Ähm, talking about abbreviations to the plant. So for instance take now at 12 o'clock we have a meeting where one project doesn't perform as we want to. We had major problems with suppliers, this is then the next step I have. So if something goes wrong ähm, and then normally the responsible engineer had already some contacts to the supplier, maybe not on the top level.

So this is then the next step for me, so quite often phoning to suppliers and to discuss about underperformance or non-performance. We do quite seldom … them, will also happen to today. (laughing)

Then to follow up critical, all critical issues. We have some development projects, where it doesn't work quite well. The same issue as with the new plant – you have to be onsite.

A.: But then you actually go travelling there?

Dr.N.: No this is, development projects are more of less happening here in Hanover. So there are some…

A.: So, people are coming here also?

Dr.N.: Ja, we go to the site or go the machine, that's directly on site what's going on. Ähm, tja, and then we have to approve all these, what I said capital requests, which takes a lot of time and to discuss then with the plant about technical solutions. This is so the daily plan and then I am travelling quite often to all our plants, ähm to discuss future projects, future possibilities. Ähm, saving opportunities and where do they want to spent investments, to … at least to know what their intention is. Because then finally we get this CR in the next year maybe, or some days or month later and by wording you can… you can see a lot, but not everything. So this is more or less a summaries of this.

A.: And is there also, like that there, if you say 'you travel to the subsidiaries about their machinery and that'. Is there also meetings ähm between subsidiaries? Do the subsidiaries also meet with each other to, I don't know discuss how their machinery is working or how…

Dr.N.: Ja, next week we have an international meeting with all plant engineering managers, so 24 in total. We meet in Korbach, so not too far away from here,

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but we go to all plants. It is not only that we say it is Hanover, and it's Korbach maybe, which is only 60km far away and Aachen or so... Aachen we have never been so far. But of course oversees in Port Elizabeth, its not too easy to get there, because a lot of guys have …. I would be there as well.

But this are meetings were we get all plant engineering managers together, where we exchange, we say 'burning platforms', their problems, new things coming from us, good examples realized in the plants and each time in the end we really discuss what are the focus points for the next meeting. Or to solve in between, so we need to get their feedback also in this common round. Because we get the feedback of course ähm for certain projects immediately because we do this as I said with this tandem project lead. But in this meeting it's a little bit different because everybody is in and you get the opinion of everybody as well. This is on the level plant engineering manager and then the level below, the area manager, they have also... they have two times per year a meeting where they discuss their specific issues, more detailed. On this meeting, we don't discuss a lot of details.

A.: This one is more about management, and management issues and the other one is more about well this machinery works there very well and how ...

Dr.N.:.. we have excellent experience with putting the motor not on this side but on that side, you know... or to put the machine like this and not like that and so or maybe organisational issue, that operator panel is designed differently, this is what they discuss and we discuss about general possibilities to have a new process or different process, more or less automation. There experience with automation quite interesting subject, we will discuss on next Monday, or do you go with a higher automation in low cost countries or with a lower automation,

because work doesn't cost a lot, but you have to train people and if they don't have this relationship to the company as in some other countries, like in Germany for instance, they will, so leave the company quite easily and then we have to retrain them, that costs a hell of a money and you more or less of a drop in quality if your process if operator related. If you go for automation then you don't have this drop in quality, but you pay more for the machines, you need more craftsmen, you need more electricians, you process is more complicated, so there are lot of pros and cons, which are not too easy to evaluate. This will be one subject next week… so quite interesting.

A.: Ja, and if you… if we come back to the, ja to the different subsidiaries maybe, that you say with the one in South Africa, it's quite hard because there is .. or there is just a totally different culture and all that, but still if you take them over, are all subsidiaries obliged to ähm have the same rules and regulations? Are they all have an, like are under the same rules and regulations that you give them or is there also a possibility that you say äh 'well this one is, well I don't know, they can't make it and … or also depending … what I think, or maybe if a subsidiary already has ähm more power or can stand by itself, is it possible that that one gets less regulations or rules from the Continental or is it all the same, whatever subsidiary…

Dr.N.: I think in the past we had both projects. One was when we bought General Tire as an organisation in North America. This was a big ford, which has generated some headaches for 15 years, because they were running their business and not considering Continental anyway. For their Continental branded tires were on this level (showing, low), whereas their brand was on that level (showing, high). Quality wise of the tires, it was the other way around. When they failed with their brand in the market, we had no chance to get Continental over here (showing, high) because this was recognized as a budget brand in the

states, with an excellent performance. Ähm, so therefore we have some rules, which have to be applied. These are position in the markets, this is all what is quality, ähm , this is reporting, because as I said we have to consolidate those guys in our books and the processes how to get money. What we don't describe so far is how do they manage their whole process and people. But this is up to them.

A.: In all subsidiaries?

Dr.N.: Ja,..

A.: Ok.

Dr.N.: Ja, because this is …We started for instance in 1993, the process of semi-autonomous working groups in Europe, this was quite successful. And then we got visitors from India and from South Africa and they said, 'we want to do the same'. Ähm I said, 'ok, fine, we can support you with this'. And then I was invited to go to India and ähm they tried to explain me how they want to do this and this was exactly the same approach as we did here. But then if you walk through the plant and if you talk to people you see a totally different picture. They have this different caste system, where some people are operators at the machine and ähm then one machine was on breakdown and the operator was waiting, whereas another guy was cleaning the machine. I said, 'he, why is this guy not cleaning the machine, because if you go for semi-autonomous groups, he has to have a certain responsibility for the products, not only for this issue, but also for the environment in his area and, and, and. 'No, he will not do this'. I said 'mhm'. And then I saw this cleaning guy, he had all this dirty stuff and he put it on the floor. I said 'why is he putting this on the floor, because he can put this in boxes or he immediately puts it in the bag'. 'No there is another one

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coming'. And this is the payment structure, the operator gets a lot, then the cleaner, and then you have somebody, the housekeeper or who is really cleaning the floor and beside of this there was a big wooden stick. And if I see a wooden stick in production, it's always for me an indicator that some processes do not work properly. So when they have maybe some transport on the roof, where they have to adjust something, and, and, and. I was looking to this, I said 'Mmm, there is really nothing, so what is the stick for?' And I did not get an answer finally, so I tried several times and then somebody told me, ' this is to motivate people'. And I said ok, if you talk about semi-autonomous groups this is maybe a little bit too early, but I can tell you there are some don'ts and if you don't accept these, then you will never get semi-autonomous groups or autonomous groups and this is this hierarchy of castes, these are wooden sticks for instance, then you have to inform your guys why and what they have to do and not only to say 'this is the cycle and if you do this again you get another three on the back'. So therefore we can't apply all this what we have done here in other plants. In South Africa they did it differently, they had a similar approach, and ähm they all... they asked for a consultant to run so called mission directed work teams, where always a kind of supervisor is in the role to motivate and to discuss with the group, so they don't do it by their own. But they have always those communication areas, where they put the results in, they are talking about results, they are talking about to optimize processes, what is wrong in the process and why it was wrong in the process. So at least this totally discussion of understand what I am doing is also ... or was realized with this. And they had pictures from everybody in the group and therefore it was quite easy to get into contact with them. You see the pictures, you see those guys running around outside and then you can ask him, 'he, could you just explain me this graph'. Then you get him into the discussion. But this is different from the

approach we have here, therefore I think this is not at all possible or also shift systems. This is totally depending on cultural issues. If you want to apply the shift system, you work from 6 am to 2 pm, from 2 pm to 10 pm, from 10pm to 6 am. That's fine, it works here, but in some other areas where you don't have traffic ähh public traffic at 6 o'clock in the morning, you can easily forget this. Or they have different parts in Argentina, for instance, they go for dinner at 11 o'clock on the evening and you have your shift change at 10 pm, then the one coming from his shift, he can't be there early enough and the other one has to start earlier, so they have a different shift system. These are now cultural differences, where we say 'he, we don't care', but …

A.: So you say that there are rules that are given and then you have actually things that can be adapted?

Dr.N.: The rules, maybe I don't know whether I cover everything, but this is reporting of figures, it's a rule, and we have to make sure that products produced in any plant of Continental will follow the same rules and will show the same performance.

A.: Ok, so its quality insurance…

Dr.N.: Exactly, this might be … might be everything.

A.: Well, then that's mostly… I think most of my questions are answered. Is there anything else…?

Dr.N.: What is the … what was the target of your interview here?

A.: The target? Well, first of all.. or I am looking at the relationship between headquarters and subsidiaries and in relation to control processes. And ähm, what I want to do, and I am still going to do Interviews with people from subsidiaries, ähm to see if the intention that is behind certain control processes, is actually perceived in the

same way. So, if it's getting there the same way, as it is intended here, the same way.

Dr.N.: Ja, we had just this morning, in the first meeting this morning, there was a nice discussion. Ähm, talking about standards for machinery. We have a certain standard, but it is always a question, how detailed goes this standard into the technical issues and you can define something. If you define a car for instance, you would say, 'ok, we need a motor, we need ähm, three – four tires for that car, we need a steering wheel and some doors maybe or even not'. So, if you… you can define this as a standard. So then you have all tires, which you see on the road will fulfil those standards. Then you can go in and say 'ok, our standard is how many doors, do we need, power of the motor I need, colours… and then it's a little bit more limited and ähm the plants of course they want always to have all options, in order to get this fit to their organisation or to their problems with operators or to their ideas and their philosophies. And ähm if each plant is doing this, then we have twenty different machines and then if you discuss with the supplier and say 'ja, we need this standard machine', they say 'ja, if you talk about standards that is crazy, ja there is for tires on each machine that's true, but everything that is in is totally different, so you don't have a standard'. And you pay more for each machine, because if it would be a standard, than they would say 'ok, how many do you need? One for this plant, one for that , one for that, one for that … ok, its four and then you get a premium, because if you order more than three, maybe you get 10% rebate and ähm if we do it today, we don't get anything. If we have a standard..ja, because everybody wants to have some small issues different. If you have the standard, you can save the money, this will also be a discussion on next meeting.

A.: But it's not sure yet, whether it is possible to have?

Dr.N.: Ja, it's possible to have. It's set by the Central. We have to convince them, but anyway we will do this. No, because this is… we can not assure, finally we cannot assure to have always the same product performance, if we allow everybody to do it. There are some issues, so if the colour is green or yellow or white… we don't care. But there are some other issues, where somebody says 'ok, we need for instance, if you have an operator who has to run a certain process and if the process stops, in some plants they say 'ok, we have well trained operator, they can continue immediately, in other plants they say 'no, if the process is stopped for problem at the machine or what else'. Then we go through a default process by a kind of checklist and the operator has to say 'yes, I did this, yes, I did this, I did this, I did this… No, here it was the way where the machine stops' and he said 'ok, this I did not'. And then the machine is checking if this is true from the cycle, yes it is… and then he can restart. So, this is … on a mature plant, I would say you don't need this, but if you start with a new plant, it's different. And, äh , this are difficult issues then how to apply this. But on the other hand if you look for instance for the Toyota example, when they sold cars, they said 'ok, we put everything in'. What you had in this option catalogue, if you need an option or not, it is anyway in. you can't see it, if you say, you want to have this, then you pay it and you have a radio in or so. But everything else is prepared for a radio already. This can be a chance as well. So it's not absolutely necessary to tell them 'listen, we tell you exactly what you need, but we should take that the machine can …can offer all the options they need. But this should be for a certain limit, because then if you have twenty different plants, with twenty different options, then it will give you a quite complicated car finally.

So, this is the ongoing discussion. But that's life.

Interview Dr. Holzbach

Wedensday, 18th June, 2008

Duration:

A.: I thought I am just gonna ask you some questions and then...

Dr. H.:...I'll try to answer...

A.: Ok, great. Ehm, first of all a bit about you maybe.. you can tell me....like what is your work position at the moment and what is you work experience, how long have you been with continental?

Dr. H.: That's the easiest part. I am with Continental now since 1981, which means something like 27 years. In the various positions, starting in research and development, manufacturing... stepping up the ladder and at the time I am responsible for the complete engineering of all tire business worldwide. This includes engineering itself, then the bladder business, the machine factory we have here in the plant, and we have in Puchov as well, then it's the complete mould business, all international contracts, so called technical assistant contracts and ähhh...I hope I didn't miss something.

A.: Ok, no that sounds good. So it's a lot. And ähhm... you have different subsidiaries in different areas, in different countries, right?

Dr. H.: Äh, yes, this ähmmm, if you are talking real subsidiaries, that is especially in ähm ... Puchov, in Slovakia and this is a little in Otrokovice (Czech Republic) as well but this is just this part from ähm the machine plant. If we are going to bladder business, for example, we have subsidiaries as well in Mexico, in Malaysia, Czech Republic. And if you are going to talk with Jörg Nohl, this is in addition, he is responsible for all engineering of all plants worldwide, which is

quite a lot, because we have plants meanwhile in the US, Mexico, Brazil, South Africa, France, Czech Republic, Slovakia, Romania, Germany, Malaysia and he is responsible as well for …, in this case he is supporting the so called technical assistant contract part , because all these partners we have in this sense, they are licensed by us for example to produce either Continental tires or they have bought the know-how from Continental. And this is some in addition like India, Argentina, Russia… ähmm, Pakistan, Central Africa.

A.: Ja, but they are more in the production then. They are basically do.. they actually producing the tires… but they are not so much in R& D for example. Do you also have subsidiaries, or companies that work together with you, that are actually also in R&D, where you share knowledge with? Or ähm..

Dr. H.: Yes, with nearly all of them. Because you can't really differentiate … äh… we are only research and development. Ok, research and development in this sense means they are only… only developing the product, but the complete research and development concerning machinery and äh auxiliary parts, this is all done with us and ähh so this kind of development takes place, not only here in Hanover, but äh in Puchov for example as well, and to a certain extent, all the plants Jörg Nohl is responsible for, for example is. They have a certain part of development as well.

A.: Mhm, ok, and ähm, so if we then maybe focus on the one in Slovakia, because that is the one you are mostly concerned about, right?

Dr.H.: Ja,..

A.: or you are working with them. Ok, then can you maybe describe how much info, or how you… you have a certain kind of control over them, right? Because you are the headquarters and they are the subsidiaries?

Dr.H.: Yes, …

A.: …and ähm in what way do you express that, or in what way is , for example information sharing,… how much information are they giving you or what kind of information do you get from them, and need to get from them?

Dr.H.: We have, ähm. Ok, then lets just compare…because we have two different methods. Dieter Kassen who is responsible for the complete mould management. He, as my co-worker is responsible for the part in Czech Republic and Jürgen Dietrich, as director of the machinery plant is responsible for Puchow, but both of them they are having a total different kind of control system for the management. Äh, Jürgen Dietrich is doing more the, let me call it the 'old fashion' part. That means, we have regular management meetings, where I am participating from time to time as well. So they have a monthly meeting, steering the business, they are reporting, they have the normal control lines, like telephone, pc, or normal controlling systems, focusing on facts and figures. That's… I call it the 'old fashion' style. So they are travelling there as well, from time to time they just meet in the middle, in Vienna for example, to ease the contact a little bit.

And the other part is Dieter Kassen, he has a totally different tool box and style as well. Ähm… in 1996 or 1997, I introduced here in Conti, this so called 'balanced scorecard' and ähm as long as I was running the manufacturing part, with these four plants. At that time, I used that tool and toolbox to manage it. But then when it was …. They tried to transfer it to whole Conti, and this is always steered from the top. When the CEO changed, this was totally cancelled. When Kessel was fired and Wennema took over, he said, 'I don't need this kind of a toolbox, I don't want a balanced scorecard'. But he left it to everybody, on his own responsibility whether he would like to continue, yes or no. And Dieter

Kassen at that time said 'I am going to continue', so he is running his business with the balanced scorecard. So the... Your are familiar with the balanced scorecard?

A.: Yes,...

Dr.H.: Yes, so that's the two ways now and ähm I think both of them are with their management style quite successful. So... I am always, I must admit I always would prefer the balanced scorecard. Because within the company at this time there is a certain revival, it is not called anymore balanced scorecard... but the facts behind, what is been done at the time.. is equivalent, like key figures for human resources development, this is just a part of the balanced scorecard ... or what did I learn yesterday? They have introduced it in quality management, it's called now...balanced ... oh, I can't remember... But nevertheless, taking out key figures, exactly like in the balanced scorecard and just giving it a different name, so...

A.: Ja, ...

Dr.H.: .. so in the end of the day, it is something like the balanced scorecard. So there is a certain revival within the plant, ähm in the company now.

A.: Ok, and ähm ... ja, that is actually, that is basically going back to the whole subsidiary thing and how the different subsidiaries are actually treated. Is there a difference in, I mean if you say there is different approaches to actually guiding the subsidiaries, is there also a difference in rules and procedures and all that with the different subsidiaries, and does it depend on what kind of subsidiary it is?

Dr.H.: Of course there are certain differences, but I think this is more on the human side, so when we took over that business, ähm there were at the very

beginning things like intercultural relationships äh we had a workshop on that, so specialist out of those country were teaching our people what are the specialities of these people, äh what are the customs, what are they familiar with, äh what is their attitude, the behavior, what are their reactions, what… the does and the don'ts, what they like, what they don't like. So I think, this is, concerning the treatment is a little bit different on the human being side than on the facts and figures. Because the facts and figures are standard. We have a standard process and in this case we are quite rigid all over the world. Mmm. If we are stepping into a business or when we are taking over somebody, and the control system concerning the figures is all over the world the same. So when we are talking for example scrap figures, or claim statistics, or cost per standard tire or research and development costs percentage wise. This is all over the world, if outside you see the word Conti, that's standard.

A.: Oh, they all have to be the same, all over… they get the same information everywhere?

Dr.H.: Exactly, so äh for example when we take over a company … äh then they are immediately implemented our financial systems. Period. End of story. Because, äh, and I think this is correct, there are always made comparisons and if you are making comparisons, you have to compare apples with apples and pears with pears, otherwise you are lost. Because there are then, … otherwise there will always be excuses, and you can't compare this and you can't compare that, and this is different in this case and that's different in that case. So, simply forget it. So, there is one standard, period, end of story.

A.: But if there, in a way it is actually, I mean this is, because that is the framework I'm working with, is that you have four different kinds of control and there is for example, you have belief systems, where you

integrate values and beliefs throughout the whole organisation. Is that also the case?

Dr.H.: Yes,…

A.: Is there…

Dr.H.: Yes, we have the basics, this was called the 'bills of Continental', I think your word concerning beliefs might be even better, äh, vision means, and this is…everybody has to be aware of that as well. All employees of Continental are trained on this, are informed about that, 'What are the beliefs of Continental?' and äh I can give you a handout if you like, I can give you a print out. So what is then really the vision of Continental, that we are 'making mobility safer' and all this stuff.. this is

A.: Ok, ja, but then focusing on the vision, if you say well 'making mobility safer' and all that. Ähm, can you identify threats to that vision? Is there anything you would think that could really be a threat to the vision Continental has?

Dr.H.: Mmmm, what are you referring to, what are you thinking?

A.: …like changing environment, or anything that could.. or competitors, or….

Dr.H.: Not really, because ähm, these visions, or these so called basics are adapted from time to time. So there is the general view, which is valid over the time, so if your belief is value creation, or commitment to the employees, I think this is standard. Äh, but for example when this CO_2 discussion came up, there was a certain adaptation of the basics, in that sense that, we felt obliged to the environment anyway, from the very beginning on, but then there is a slight adaptation, just … I can't quite remember what was the real wording on that. But

the meaning was…at the end of the day, that we are supporting this reduction of CO_2 output. So, this is than, ähm, an adaptation.

A.: So, then you say, that basically the vision also changes to environmental changes, for example.

Dr.H.: Yes, exactly.

A.: Ok, ähm, and then. Ja, looking at the, coming back to the model basically, we had now the belief systems, and then there is the diagnostic control systems, which we already talked about, that you said there is your financial figures, for example, they are throughout the whole organisation the same, right?

Dr.H.: Yes.

A.: The key performance indicators, they are being send. And then there is one that is the interactive control system, that's what it's called, and that is basically, saying there is a control within organisations, that is given, because managers or the people in top positions, they actually lay the focus on a certain thing, what they consider very, very important, and thereby actually introducing ähm, ja the, or.. by themselves being interested or focusing on one part of the company, they actually give a sign about what they consider important and what also employees should put their focus on and actually this is done by personal meetings and these kind of things. And is there anything, where you would say, you would consider, or which you would consider very important in, or where you would put a special focus on when being in relation with the subsidiary or if you have contact with your subsidiary? Is there anything very important, where you think this is…?

Dr.H.: Mmmm. I am not quite sure. At the time I must say, this is not that important for me. Because I am running the business more via my direct members. But in the past, and especially in the international business I am focusing on at the time, I am putting much emphasis on personal relationships.

So, ähm, I did it in the past as well, that I try to fix, to put it that way, the managers… to my person. So that we have a direct relationship, which is based on …äh trust…,on trust, confidence..äh. I know that this is a little bit dangerous, because as this is… this is more stringent, this is more … fixing on one person. When this person steps out, there is always a big hole, very often a big hole, where people might plunge in. But, ähm, on the other side I think, this kind of management tool is normally quite successful, because …äh…then even if you don't look at the business each day, you have trust in that guy or in that woman, so that's not a problem. If you are out for a week or two, you know I can trust them, I can rely on them and that's it.

A.: Ja, so you basically say, it's like you don't, I mean you have the financial information and the key performance indicators, you have that on the side, but you basically saying, ok, 'I have a valuable person as a manager in that position in the subsidiary, I trust him and he is doing a good job'.

Dr.H.: …he is doing a good job. He knows his responsibility, he knows on the other side his possibilities as well, äh, it must be quite clear that he is capable to bear this ähm responsibility, as well as the possibilities he has. So, it doesn't really help, if he is only… fulfilling his promises or he is taking his responsibilities and ähm working with this. But he has also the responsibility to develop the business. So,… we need then somebody, or I need then somebody who is not only maintaining the business, but he has push and develop the business. So, at the end of the day, you have to know whether this … person has the ability to fulfil the job as a whole.

A.: Ja, ok. But you are then, if you are in contact with them, you are in contact with the manager, you are not in contact with the rest of the employees?

Dr.H.: That depends. That depends... From time to time, with certain people there is developing ähm a personal relationship as well. In this case, it is my attitude, that, from time to time, if I know these guys, if I like the way they are doing their job, than I am even passing by their top managers and talk to these people directly. Äh, I know this is dangerous as well.., but on the other side, this is always quite clear, this is not ähm... just to pass by the manager, or to blame him, or ... I always tell them, 'Look I of course anticipate that the guy or the woman I am talking to is informing his direct boss about what we have talked about'. But I prefer in this case, that the top manager is not only the messenger, but I would like to have them the information direct from the source, where it was created. And this ... I like the way more.

A.: So, there is also informal communication going on. Because if you say there is ähm, because of trust or because of relationships you have with some employees, is it more like you also go call them up and say 'hey, ähm, how ...'?

Dr.H.: Exactly. This is, by the way, the way our CEO is acting as well. This is for many, many people surprising, because he is passing by nearly everybody. Cause he has his, I suppose, his telephone directory and ähm if he knows people, äh... The normal way would be: he as a CEO would call my boss, my boss would call me, I would call Dr. Nohl, and we would call his co-worker, 'what is the result?'. And Wennema is directly calling this employee, because he knows him from a visit or from a presentation or whatever it is. Because we have a control system, I think this is first week of July, we have this so called RDE meeting , this is research, development and engineering, where the CEO and the board are directly informed by research and development from research and development and engineering ähm about the actual development of certain key areas. And ähm Wennema in this case is always making notes, at the very

beginning it was very... people were very surprised and it became very dangerous, because in certain presentations, there were given timings and given dates. And Wennema has all noted this, he made notes and when there was written 14th of October, you could be sure that on the 16th of October you got a telephone call or you got an e-mail: 'what about this important project, where is the result?'

A.: Ok, ... (laughing)

Dr.H.: This is his special control system, this is Wennema typical. Because this guy in this sense, he must have a diary, this must be unbelievable.

A.: Ja, ja. So, he is basically doing the whole control by himself?

Dr.H.: Yes, but he is... what he really obviously can differentiate is about the importance of the project. If it is not... if he decides, 'this is important', either for the company, for the customer, for the financials ... or whatever it is, then he is sticking to that. And, äh, he is making the control by himself. Äh, how did we come to that ... ?

A.: Äh, we came to that, for like if there is actually, ähm how the information is just goes from...

Dr.H.: Ja, so this is... this describes the personal relationship within the company, the personal, the informal ways, which are besides of all official control systems and äh I think from time to time, this is the most important part. I think, Arne Hüning at that time, he made, when he was, 20 years ago, I think he made the comment, ähm when Continental had a disaster in organisation, then the company itself was really maintained simply by personal relationships. So, you

know somebody, who knows somebody, you call them up and say ' ok, come, let's do it' and that's it.

A.: And is there also, ähm, meetings taking place within subsidiaries or between subsidiaries? Or is that going through Continental?

Dr.H.: No, no. We have at the time a meeting in Sagemin? , where Didi Flamm, who is responsible for the technical assistants contracts. He has gathered all the various plants, we have a technical assistants contract with, for example, Argentina, Pakistan, JK from India, Russia. They are meeting at the time in Sagemin for their annual plant managers meeting. So, in this meeting, all information's are shared, what has newly developed, what is the situation in the other plants. They are not informed among each other, what they as a tact partner are doing, but they are as well informed what is running at Continental at the time. And these kinds of meetings are taking place not only among the plant managers only, but about the engineering managers as well. So that there in general is information exchange as much as possible.

A.: Mmm, so in between them...

Dr.H.: So, because, something I really believe in, that mmm you can't run a company only by control systems based on facts and figures via computers. People have to meet, they have to know each other. Because if there is somebody anonymous on the phone, you never met him, you can't trust him, you can't build up a certain personal relationship that is impossible. You have to meet, you have to have...depends on his religion, you have to have a glass of beer, wine, or simply a fruit juice with him to discuss with him, to understand what is going on.

A.: So, you consider that one of the main, or the most important system or control mechanism?

Dr.H.: Yes.

A.: Is actually the trust and the personal meeting

Dr.H.: yes, I think so. Because, as the Japanese call it, you have to have personal obligation. If I have done for somebody something, and I know him and he knows me then next time he is obliged to do me the same... favour or something like that.

A.: Ja, it's much different if you actually know somebody. Ähm, and, well then, it's just like one, I think we are kind of at the end of it. But ähm just, what do you ..., or what is the main part of your job all day? Like if you, do you, like what is an everyday, is it lots of phone calls or that I will imagine that the phone calls e-mail and that kind of thing. What is like the main activity of your everyday job?

Dr.H.: Not to lose contact with people. I think this is one of the most important parts, because ähm people have to know you ähh, who is it, not really what he is doing, because they will find that out by on their own, what you are doing at the end of the day...ähh... But I think the most important part is still networking. So ähm, if people are calling, and possibly they don't know what to do. But they know that I might know somebody who might know what has to be done. Something like that. And ähm, ja I think at the time this is really my important, most important part, because I have made all the contact with our, well what nobody was expecting, because we, when I took over the business for the international part, I think it is now three years ago, everybody was expecting that my task was to downsize it. Because somebody was of the opinion, we don't need that anymore and exactly the contrary happened... So I heavily developed the business again and ähh the problem, or the positive part is now that I know

all new international departments. And I am the only one who really knows them, whether it's Russia, or whether it's India and so all these contacts are now , I am the interface known to everybody. So, that is quite a nice experience. (laughing)

A.: Ja,... (laughing)

Dr.H.: It's a lot of work, but nevertheless, but in this case I think I have the advantage that I have a lot of international experience, because when I had the manufacturing job, I was responsible for the plants in Sweden, Scotland, Portugal, Czech Republic, Austria and the US and even for a certain period of time in Malaysia. So these are so different people, so different cultures and to balance them, to negotiate with them, this is quite a nice experience. So now the new responsibilities with Russia and India... that's really nice.

A.: Ja, that sounds really interesting, everything.

Dr.H.: Ja, and these people they don't believe in facts and figures at the very beginning. They want to know you. Especially the Russians... whether you would like to have a drink them, yes or no, whether you would like to be in the Sauna with them, yes or no. (laughing)

A.: (laughing)

Dr.H.: and the Indians are quite the same, quite similar. And some of our young managers, they make the same kind of experience at the time in China, because the Chinese are obviously of the same kind. We have real problems to hire people, because the first question is not 'what is the new job or something like that', they simply ask 'who are you'..., people sometimes don't have an answer for that. Continental ...

A.: What?

Dr.H. Häh? And a 'who are you', you will be my new boss, I don't know you. That is really a problem.

A.: So when you take over a subsidiary, you also put new managers from here ähm in there too?

Dr.H.: Very often. Yes, we bring them over very often. Because you have to have a direct interface… it's recommendable, let's put it this way, because very often, I did it in the past and we are, especially my people are doing, from the engineering part we try to get into… our group here, we try to get people from the plants, äh especially the new ones, like at that time Otrokovice, Slovakia and so on. When they are coming here in … they are becoming part of the family. We hope always, we hope that they become part of the family. So, they are that special kind of an interface that the colleagues in Central, they are coming to them now ähm, 'oh, you are from Puchov plant, look I have a special problem, can you help me'. So, he is than doing this kind of a business, he is really the interface, he is calling his people home, and he has the big advantage that he is talking their language, mostly he knows those people and so the whole, you would possibly even describe it as controlling, this is a special kind of control, this … from both sides concentrating, focusing on this special guy. He is then responsible for relationship management.

A.: So, very much focused on people here.

Dr.H.: Exactly, exactly.

A.: Ok, well ehm. Than that's about it, I think. Thus, the main questions are answered.

Dr. H.: If I could help you, would be a pleasure.

A.: Ja, thanks, it was really great.

Interview, Tuesday, 24th of June, 2008.

Total Duration: 41:42 min

Mr. Dieterich

A.: Ähm, ich kann das auch auf Deutsch erzählen, nur eben was ich mache. Ich bin Moment... äh studier im Moment in Kopenhagen. Schreibe da meine Masterarbeit in Interkultureller Kommunikation und mache jetzt quasi meine Untersuchung über die Beziehung zwischen Mutter- und Tochter-unternehmen und ähm im Bezug auf Kontrollsystem.

Mr.D.: Das müssen sie dann nochmal ein bisschen erläutern, aber ok.

A.: Also oder insgesamt Kontrollen, in wie weit ähm beeinflusst die Muttergesellschaft die Tochtergesellschaft und inwieweit ist die Tochtergesellschaft abhängig von der Muttergesellschaft.... Ähm solche Sachen, was ist die Intention der Muttergesellschaft hinter den Sachen und was ist eigentlich die Wahrnehmung der Tochtergesellschaft dann dazu. So, das ist worüber ich im Grossen und Ganzen meine Arbeit schreibe... und dann hatte ich jetzt schon mehrere Interviews hier und das wäre auch dann im Nachhinein die Frage, weil ich hatte von dem Herrn Dr. Holzbach gehört, dass Sie vor allem für Slovakien, Slowakei....

Mr.D.: Slowakei...

A.: Ja, mit dem Deutsch das ist ganz schrecklich bei mir... und Puchov verantwortlich sin, ist das richtig?

Mr.D.: Ja, wir haben... sie befinden sich ja hier in der CM Hannover, also Conti Machinery, und wir haben in Puchov, in dem Reifenstandort Puchov noch eine Maschinenfabrik, die nennen wir Conti Machinery Puchov logischerweise, aber die wird von hier aus gesteuert, also in sofern ist die angehängt an uns. Das wäre jetzt in ihrem Wortgebrauch eine Tochter.

A.: Ja, genau.

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Mr.D.: Ok, weil rechtlich ist das nicht so, weil rechtlich sind wir eine Kostenstelle innerhalb der Continental. Also Continental Machinery, das hängt damit zusammen, wie wir organisatorisch eingebunden sind. Wir sind zwar ähm verantwortlich für profit and loss, aber eben nicht rechtlich selbständig, ähm gehören also zur AG, Continental AG, Bereich … Und damit sind wir dann formal eigentlich eine Kostenstelle.

Während die Conti Machinery Puchov, ist rechtlich auch eine Kostenstelle, aber innerhalb der ähm Continental Rubber …. Continental Matador Rubber, CMR, fro. Das ist also eine GmbH in der Slowakei. Weil wir da natürlich auch Gewinne machen und was weiß ich alles haben, muss es eine rechtlich selbstständige Einheit sein und innerhalb dieser rechtlichen Einheit ist die Conti Machinery Puchov eine Kostenstelle.

A.: Aha, ok. Aber es ist schon so, dass sie… Ist es in Ordnung wenn wir das jetzt auf Englisch machen?

Mr.D.: Yes.

A.: Ok, great. Then maybe you can first describe your work experience and your position and your function in the Continental.

Mr.D.: Mhm, my position is formally said, ‚I am director of Conti Machinery'. Conti machinery is a source for Continental and our affiliates to äh… for ähm tire building machinery or rubber machinery in general and ähm we are selling our products approximately 60% to Continental and 40% to external customers ähm. Ja… There we have some affiliates, who are ähm contracted with Continental, with a technical assistant contract, which is dealing more or less (…) transfer and we are following this technical assistant contract by providing the machinery, which is well adapted to Continental processes to build tires. And ähm so have

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all over the world our customers, spread all over the world , ähm our main regions right now... äh external regions are Russia, India, ähm Argentina, so these are the regions, and as well Iran..., where we have customers, external customers. And all other plants from Continental are as well our customers. So we are a global... 'player' is a little bit big, but äh more or less we are present in all regions of the world.

A.: Mhm, and ähm if we then come back to Slovakia, or Puchov, then how is relationship with them... are they producing also or .... In what what are you related?

Mr.D.: So, first of all I should tell a little bit more about history, ähm in November 2007, Continental purchased all the rubber activities from the Matador Group. The headquarters of Matador is located in Puchov and to this group, following groups belong: Passenger tires production, truck tire production from 25% out of the Joint Venture together with Continental, then R&D, research and development, Conveyer Belts, it's a group now from Conti Tech and Matador Machinery, which is now Conti Machinery. So these activities were purchased in 2007 and ähm the former Matador Machinery has to be integrated to Continental. It makes sense to integrate it the former FMF, so called Mould Machine Factory, so it's a German abbreviation for machine factory, so ähm and since we are more or less a global player, we took the opportunity to give us a new name, Conti Machinery. And ähm now we are still in the integration to bring all the works together ähm. Conti Machinery Puchov has more or less the same business that means ähm they produce ähm tire manufacturing machines, or tire building machines, but the product portfolio more of less fits... there is only a few overlap...äh a little bit overlap with certain products. They are... they have their own customers, external customers äh as a majority and they made some business with Matador Group as internal business in former times and now they

get some portion of business from Continental through their mould business, which we don't have in our portfolio. This is … so we have the same business, we have more or less the same organisation, because we are organized like a standard machinery producer without some service functions, which we render from our plants like HR, like some controlling functions, for accounting something like that. Ähm and all others… all other things we do by ourselves, so we are more or less independent in our business and in our organisation.

A.: But ähm , they have to… like they are under your …

Mr.D.: We steer their businesses there, that means we are reporting, like a business unit, that means their profit and loss will be consolidated… I think it's the right expression… in our figures. That means we report our figures as well as figures from CM Puchov.

A.: Ok, so you also responsible for them making good figures?

Mr.D.: Right.

A.: OK, and then in what way do you actually …ja in what way do you actually communicate with them? How much… or how do you get information from them… do you get information from them?

Mr.D.: Oh, we have a lot of information channels, ähm the most important is, I guess to visit each other personally in a regular way, and ähm secondly e-mail, phone conferences on a regular basis as well ähm and last but not least through our standard reporting systems, for example controlling issues, profit and loss, balance sheet ähm cost center reports and so on and so on.

A.: Ja, and which one do you consider most important in the once you just named?

Mr.D.: Oh the most important is personal presence. Because the cultural differences between German and Slovakian people is huge. There are such bigs, that I would have never expected before. Ähm, because when we started our integration process ähm we found out that the colleagues in Slovakia are very friendly, they seem to be open, ähm, we always received answers to our questions … everything was fine. But we had … after a short period of time, there occurred some problems, especially when we decided for a strategy or special measures, it was obvious that they, let me say, they behaved a little bit different or they executed a little bit different. If we tell them please go 180 degrees, they only went one hundred… approximately, which as well could be 120 degrees. So the deviation of what we agreed was from time to time very significant. And this we could not … we could not explain. And sometimes it … we had a lot of communication problems, because of these … of these behaviour, but then we decided to make an, let me say a training course for intercultural … ja … differences. First on the German side, that means we had a teacher who was very experienced with this Slovak behavior and culture and we learned a lot about their history, how they behave through that point of view and what are their … are there any does and don'ts and so on, ja … and so we found a lot of interesting things out, which explained this behaviour or this difference. If we tell five, we mean five, Slovakian only mean approximately five and we are talking about problems, we are straight ahead and we believe very much in working … in structures and Slovakian people are working with context. They are very hierarchical, ähm that means, if you have a guy from… let me say from purchasing in your team, or in your discussion, you find out 'ok, lets make it like this'. You have a conclusion. He say 'yes', then he is going home to his boss, 'we said this and this and this, is it ok' and if the boss say 'ja, it's ok', he comes back and say 'ok, we do it like this'.

But this we did not mention before, because we thought he is deciding or he is agreeing to our topics and that's it. But this wasn't the case, this was no decision, this was more or less 'ok, I understood, but I have to prove… to clarify this with my boss'. So they have a different approach to work together and as well to manage. And this to realize and to overcome, was let me say a process which tooks us more or less three months, I guess. Because until we checked this, we were a little bit unsure what's happening.

A.: But you were making a course here, but did they also …

Mr.D.: They will do it… in a short period of time. Ja …So that my idea behind is, 'we don't want to become Slovaks and as well the Slovaks don't want to become Germans, but we have to move to any centre line, so that the communication process is much more smoothly and evens out any misunderstandings. That's my dream. (laughing)

A.: Oh, it's a good one. And is there also … because you just took it over, right? Or like one and a half years ago in 2007 you bought that….

Mr.D.: Ja, in November 2007.

A.: Ähm, is there … when you started out, did there also expatriates go there or did there people come here or is still separated and you have a manager with Slovakian… this one there.

Mr.D.: Ja, we built up a virtual organisation for the steering of the business meeting. There we have some participation of two managers from the Slovak plant ähm … so … because this is from my point of view an integration. Conti bought Conti Machinery, but I am still believing in this integration process, otherwise we will have two separate units who are more or less competing, which is not our … target. Ähm and so we did not… we thought about sending an expert

to Slovakia to have a deeper look inside their business and to learn much more about them and so on and to steer a little bit the business over there äh, let me say more or less indirect. But our trainer said 'if you do this, your integration process will be stopped immediately'. Because then they loose their independency, which they reserved for a certain degree.

A.: So they still need to have the feeling, that they are doing their own… that they can…

Mr.D.: Yes, it's all… we will now make it a little bit different. I will cancel the virtual organisation, we have two organisations side by side, but we will steer, let me say the functions from Hanover, that means we will give strategic points and ähm, let me say something else and so on, as targets. And to work more or less… so the coordination of these two businesses must be much more closer than before. That's what I learned in the past.

A.: But äh, you are giving them targets, but how they do it and how they manage it's still up to them? Or is there also ….

Mr.D.: Ja, because they are self-responsible for their own business, that means they have to fulfil, let me say, sales targets. Ähm they have to make their own approaches towards their customers, because they are more different to our customers and ähm… but we have some …äh… resources, which we want to use both. For example the design resources and äh therefore we need, let me say, a structure or a frame in which we can put in our targets and make a priority … or give them a priority. And the priority for these targets, must be in line with the overall strategy of Conti Machinery, and not only for priority for Hanover or Puchov. And this is the coordination process I mean.

A.: Is there then also knowledge sharing … take place?

Mr.D.: Yes, there is a lot of knowledge sharing, especially on their ähm … in … on a special process level. For example the purchasing processes know-how about suppliers, it's the same with design department, ähm what experiences do they have and what systems do they use, how … what's the reason for this decision or that decision to overcome a technical problem and so on. And this we want to share, that's for sure. But this is a very complicated process. We will… for example for the design department we decided to have a standard design software …äh software… design software tool…ähm so that we can exchange drawings and so that we can start any shared projects. That means we develop with our engineers a special component and they will do it as well and this will be combined to an entire machine.

A.: And how does that work?

Mr.D.: Oh, we just are at the beginning. We now have to ähm make this new … CLD system happen and this purchase will be in place, I guess, end of the third quarter of this year.

A.: Ok, and how does normally the communication take place between Puchov and here? Is it also employees calling employees, or is it only management … or is management also calling with employees… or?

Mr.D.: Ja, there we have a problem of understanding, because the Slovakian people almost do not speak any other language then Slovakian and ähm, so the communication is more or less on the management level, but even on the lower level … management level.

But we exchanged a lot of people, especially workers from Slovakian, looking to Germany to work for specific project, which is related ähm … which is related to the Puchov plant, because we equipped this plant with quality tire technology and so äh we try to get a win-win situation to use the people from Puchov for

this project as well. Because they have to maintain the machines later on and they have to put them into operation, they have to repair them, they have to … they will put them into place, they will direct them and so on and so on. So this we do already, so they came … a special team, I guess 10 people, came from Slovakia to Hanover and they work together with our (…) people to assemble the machine for example. And this know-how they take with them at home then.

A.: Is there also Germans going there, or…?

Mr.D.: Ja, we are almost with different people over there, with purchasing guys, quality insurance guys. OK, and as well management level, that's for sure. We have a regular business unit meeting every month, which regularly takes place only in Puchov, because we want to show our faces there. Ähm and ähm, ja… we use almost these dates to extent our stay there (…) some more detailed work, which is äh… which we have to do with our counter parts.

A.: but then you also go there check everything, look around and …

Mr.D.: Yes, yes.

A.: Ok, ähm. I think it was a kind of …ja, kind of … all questions. Ähm…Ja, only if you could describe certain problems, but I mean some of them you already did. A certain problem, a particular problem that you had with the subsidiary concerning management or concerning people… management of people, is there anything …

Mr.D.: Ja, what we … recognized very clear is that style of management (…) is completely different to the German style. Ähm, we almost, … suspect Slovakian managers do not work – that's not true for sure, but they work differently. And this is not visible for us. Cause we try to, in Germany, we try to discuss any problems with our employees and tell them 'please solve the problem' and they

can do it on their own, that means they can look for the method, they can look for the way. Perhaps they get a target for the timing and something like that, but that's it and we believe they will do it. And almost they make it. And in Slovakia it's just the difference, let me say in the morning the manager has to go to each office team and say 'ok, today we have to do this and this and this and this'. So a list of, let me say tasks and the employees are working with this and then they come to their boss and say, ok I made this, this, this, this. And then the boss says 'thank you, or it's ok, it's ok, it's ok, please make this or this to, to… for completion for example'. So he is managing a lot of very small tasks for each of his employees and this is a big difference. And we are talking with the managers about strategy, about future targets, about projects and almost these managers have not enough know-how and inside view of their own business – that's what we recognized. And this is very complicated, because we are talking on a high level of experience here in Germany and all the managers know very good about their … have a good know-how about their processes of their departments, and their responsibilities and äh in Slovakia we have a lot of people who don't … or managers who don't have this and so the communication is very complicated, because they are saying always almost 'yes, yes, yes', but they only mean 'I understood'. They don't agree, they only 'I understood what you are saying' and then they go back and then they have to divide what they heard into small tasks and bring it to their … or give these tasks to their employees and when the result is back, then they are online to discuss further on. And this is very time-consuming and this is not the style how we work, because we have to be very fast and we are used to be fast and we decide very quickly and ähm with this speed the Slovakian style of managing does not compete and that's a problem. So we are almost ahead with our ideas with our decisions, with our executions and the Slovakians are behind that. But they are more experienced in, let me say

in … what's the right word for this … to improve… no improvisation. So, if nothing is there, then they have an idea, even they know somebody who might have an idea, because they are always working with networks and äh context and so on. So this is in the end an advantage they are having, but in the business, especially within Continental with facts and figures and deliverables, ähm the Slovakian style has some disadvantages.

A.: But is there anything you actually do about that? Is there something, I mean as you say, it's really quite hard to work with them then, if they are so different. But is there anything… like in what way do you react to that? Do you just wait?

Mr.D.: No, we changed a little bit our style of communication, that means, if there is a very important thing, ähm to be implemented or to be done in Puchov, I have to take my position and talk to the director of CM Puchov and tell him 'ok, we have to do this, this, this, this. I would like to make it like this, this, this, this. Do you agree? Shall I ähm contact … or shall one of my team share contact one of your team directly, is this ok for you?'. 'Yes, this is ok', and then it works. Because then we go directly to this person, who has this know-how to tackle this point, the boss over there knows about, he does not lose his face, because this is not ähm a violence against their structure and then it works. But this is a little bit strange for us, because if the … for example, production area… if there is no severe problem occurring, I don't have to care about this, because I am 100% rely on my production manager to fix all the problems. If he has a problem, he will identify it and then he will come to me and ask me for some …some …ok, he will discuss it with me, what to do and that's 100% different to Slovakia.

A.: Ja, ja. So it's probably really hard for you also. But you can't really talk to them because of the language, so you are talking through the boss anyways…

Mr.D.: Yes, yes, right...

A.: Ähm, ok, then that's kind of it. Is there anything else we did not touch upon or where you think this is still important. I want you to know that ... I don't know.

Mr.D.: Ähm... I think we have two different generations in Slovakia. It's, let me say the 'old style', where we feel very much that they have lived in 'family'. Family, called Matador, which was a private own company and let me say the father took care about his children... ähm every time. And this is now completely ähm ...this now completely changed, because Conti is not the father, because now let me say, CM Puchov is more or less a unit, which has some targets and which have to be achieved and if not, ähm, it will be taken out of the company, because they are problems. And for example if the costs targets or the EBIT targets could not be achieved. And ähm this was ... this style of ... or this kind of generation, we have some people in there and we have some younger people who are much more open and are much more influenced through other styles of ... of, of working together. And they adapted very, very fast to our style of management and working together and they feel very happy and they now see a lot of opportunities to ... äh... to achieve a higher level in the organisation.

A.: Where did they actually meet your management style? ... the younger ones...

Mr.D.: Because we discussed with them, now tasks which they have been tackled not in the past tense, because for example strategic issues was a target or a task from the boss and not from, let me say, the boss in the third line. And now they are asked to participate in the strategic development or the development of the strategy for their department. And this is a totally different approach, but they like it, because now they feel that they are turning the screw. And they are

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working on their … on their own future and they are not steered by others. And this is an experience the younger people with an open mind right now make and so they participate … they have a very, very big benefit out of this cooperation. And the olders…the older people with the other style of … or with the other mindset … let me say it like this. With the other mindset, they will more or less be the losers.

A.: Ja, it's hard to work together with them…

Mr.D.: Yes, yes. And we have some people over there, we cannot work with them. It is impossible, they have no knowledge, they have a lack of …as well … of English skills for example and ähm they are not in the position… or not able to translate what we are talking about to their people, so that they be… that they are on fire for our next approach in the future. So it's a very ähm …

A.: What do you do then with these kinds of people, because they have been in the company for quite long, but …

Mr.D.: Ja, we ähm … I only can tell my counterpart, 'please fire them, or look for another position'. Ähm, but they don't do it. Because in Slovakia you can only fire people if they make mistakes in their kind of … in their kind of …ähm… structure, but what we are talking about is a lack of experience, a lack of skills and so on and therefore nobody in Slovakia will be fired… in Germany yes. (laughing). So I only can tell my counterpart, 'ok, please take this guy out of this position' and I turn again the screw, 'please look to the fixed costs for example', because if he is remaining in the organisation, nothing is won. I have no benefit out of this.

A.: And then if they don't do it?

Mr.D.: the problem is my counterpoint.

A.: Ok, but you can't really …

Mr.D.: Yes, I can fire this …

A.: So in the end they know also that …

Mr.D.: I have to put a lot of pressure on the boss there and then more or less it works. He is then very creative in solving these problems, so that's the point. But I can not tell him, 'please make it like this, and this, and this', because this I cannot do because I don't know all these … as well legal things, which have to be respected, production, …

A.: So you could actually do it, but you can't because you don't have the knowledge of the country, of the people…

Mr.D.: Ja, and I would not do it because then I will have a big image problem there. And we have to take care about our image of Continental in this area, because this is important to get new people hired from the market. Because we want to get new engineers, skilled workers and so on. And they only will come, if the general mood … or the general image of Continental is ok.

A.: Ok, ja, then… I think I got a lot out of that.

Telephone - Interview, Thursday, 3rd of July, 2008

Mr. Ales Pesl (Otrokovice, Czech Republic)

Total duration: 33:05

A.: Ok, äm then maybe we can start out first that you describe your work position and your function within the organisation.

Mr.P.: Oh, I am director of the division mould manufacturing, äh located in Otrokovice, Czech Republic and this mould shop is responsible for the delivery of saying 50% of the consumption of mould as a key to … for the tire plants and äh that's it.

A.: Ok, and ähm so you are in direct relation with Dr. Kassen in Hanover right.

Mr.P.: Ja.

A.: And you are having some kind of headquarters – subsidiary relationship with Continental in Hanover.

Mr.P: Absolutely not. It is only through the position of Dr. Kassen and possibly Dr. Holzbach, who is his boss and this is the … I would say the rank of headquarters … I can say it like this … with whom I am in contact.

A.: Ok, ähm… then can you describe the relationship you have with Dr. Kassen or with Dr. Holzbach. In what way are you dependent on them?

Mr.P.: Ja, … I report monthly, I would say, to a mini-board äh consist of Dr. Holzbach, Dr. Kassen and Reinhold Koberg, who is the controller of Dr.Holzbach department and äh I am showing basic economical data… the results of delivery orders, quality, finance, open projects, the whole activities regarding the trade union. I mean to keep a social piece and all… I would say all run of the division. It means that this is a monthly report that is describing the whole performance of the division.

A.: Mhm, but you are running the division with your own ideas and own values, or is there guidelines given from…

Mr.P.: No… äh… we have a budget meeting once a year. There I can prepare all the division, all the facilities for the year run. Then we have the monthly meeting with the forecast, how the business is, how many orders we are taking, what divisions and as well once a year we prepare our strategy planning for a five-years outlook and all the base, all the base data, all the base vision following the basic goals of Dr.Holzbach and Dr. Kassens departments. So this is the way how

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to, how do I report and concerning the leading of the business and day-to-day operations and management is 100% up on myself. It is necessary to point out now, that our division is a part of the large tire plant, local tire plant in Otrokovice that counts 5000 people. But I am not äh reporting to the headquarters of this tire plant. I am 100 % äh dependent on the … on the Stöckens department.

A.: Mhm, so you are …

Mr.P.: …because… sorry… because we don't supply our products only for local tire plants, but for the whole rank of the tire plant of Continental worldwide. It means that my responsibility is for the whole partners of the Conti tire plants.

A.: ok, so you are legally part of the tire plant in Otrokovice, but you are reporting to Stöcken…

Mr.P.: Exactly, ja.

A.: Ok, and how do you communicate with them… in what ways?

Mr.P.: In what way… as I said personally once a month minimum. There are of course there are occasions when for example special suppliers are coming visit and to report to Hanover and I am there as well to attend these meetings. But generally saying, once a month personally. Once a month in a written report, how the business is going on and from time to time talking by telephone if there is anything urgent or e-mail, it's the normal way of communication I would say. But in general, the general business is described monthly by a written report, a presentation.

A.: Ok, and if you have any problems at the plant or I don't know … do you also communicate then with Dr. Kassen or Dr. Holzbach or are you managing that by yourself?

Mr.P.: I do it by myself, because it is up to me to lead the business, it's my responsibility. And of course if I need… if I need suggestions from their side, I can rely on their help. And äh, this is … I would say, concerning this point. Because I must say that I have a high level of freedom for my management, I must admit. But if everything goes well, so (…). Otherwise I am not here for longer. (laughing)

A.: Ok, do you have the feeling that you are also being controlled by them?

Mr.P.: No, not by this way, that I am controlled. As I said, my responsibility is to deliver 100% on time and on quality and to reduce costs, these major criteria are

followed by monthly reporting. It means that if we are in very good results, there is not necessary from their side, I believe to take some measures, special measures of the control of our, or of my, my performance or my activities and of course from time to time, I need their help to help to stand our ground for negotiation with our colleagues from Conti, like IT support or procurement or whatever, because these activities are organized in generally and globally by central corporate institutions and they are in Hanover and they are closer to these colleagues and of course they are Germans all of them, so its better to communicate in the native language sometimes. And for this particular case, I can rely on their help and effort to follow our needs in the base of corporate, I would say in the corporate floor.

A.: Do you also get boundaries or do you get rules from central?

Mr.P.: No... sorry... I must follow all the regulations and instructions that are generally valid for everybody throughout the corporate platform and ... of special bindings, special rules for myself, I am not aware. For example, a typical example is the acceptance of investments. There is a corporate instruction how it is provided, who is to be approved as an approver of the respective investment and these regulations ran smoothly and it is really easy to communicate in this way.

A.: And are you aware of any values that are very important to Continental? What would you consider values or believes that are very important to Continental as a company?

Mr.P.: äh... values ... I am not very sure about the meaning, because if you are asking what kind of values do I consider to be important for the Continental...values

A.: Is it more the figures, or is it more trust or is it...

Mr.P.: Aha, this is the business. So, I believe that Continental, because I can compare for example behaviour of the top management or the philosophy with an American company. Continental behaves more socially; it means that Continental gives a lot more social support for all people, as well for the environment protection worldwide. It gives unique opportunities for the whole, local companies either in Asia, America, Europe, everywhere. I believe that these rules and the strategy of the equal opportunities is the main goal and its based on a basic, so called basics, these principles are collected in this I would say... a bible of the company. And this is the main, I would say impression for me as a

newcomer, cause I am only three years with the company. So this is just the impression that I can pass to you, regarding these values.

A.: Is that also the image that Czech people, or the Czech employees have of Continental?

Mr.P.: äh, Czech people…äh

A.: …that people would like to work there for example…

Mr.P.: Ja, ja, ja… I understand that. Äh, prior to answer this question, may I add something to the previous one? Regarding the figures … of course the figures are the principles scheme for the Conti äh beyond these figures is everything true, as I made the last comment concerning the social benefits and social feeling and equal opportunities for everybody worldwide. But the figures is the principle goal of course, because this is the only way how to improve the satisfaction of the stakeholders and the shareholders and the performance that the Conti shows is on a growing balance. So I can't miss to emphasize figures of course.

Now back to your last question, you mentioned the feeling of people in the Czech Republic. They are very tied to brand Barum. Barum is a part of Conti; it's a ship part of the Continental corporate group. So the feeling of Czech people with Continental is of a high level because the day –to-day use of the product. Because I would say, major part of the Czech cars are using our products and even for example through the advertisements for low caps that is very high, they are in contact with the Continental somehow commercially, commercially. And concerning the employees here äh they like to work in this company, due to growing performance, social benefits or activities and that's what I can feel here.

A.: ok,

Mr.P.: And it's, sorry… it might be the second or the third biggest employer in this region, if I am not …if I am right.

A.: Ok, that sounds good. Ähm and then if we talk about technology or R &D ähm, is it possible for you to come up with new ideas and introduce them to the company or?

Mr.P.: Ja, for sure… For sure äh, but the main, the main scope of our work is to produce our products and it's up to us, how to improve processes, how to improve technology and äh concerning this… because we are I would say in a unique, rather unique position because, because this kind of business as far of the rubber, because we are machining mechanical engineering industry, rather than making tires and being in touch with rubber and in case we do need to

corporate with some universities or other labs or to need some support for R&D business in the corporate, we are welcome to take part and to participate in some, I would say R&D projects. Once, for example, new successors are going to be introduced and maybe some successors new type of tire, we are ask to cooperate and to perform the first trials, the first moulds... first duals for these tires. So, we are really, really sagged to these R&D activities.

A.: Mhm, but if you say first of all you have to produce the right figures and then you can get busy with R &D, ähm you don't get an extra budget for new R& ähm for new developments?

Mr.P.: No, no, we have ...we calculate some portion for our internal... It means portion for investments in a financial budget for our internal projects improving our processes and äh these figures are calculated in the budget and as well we calculate some R&D support for our external colleagues from tire plant and from R&D in Stöcken, so these figures are considered in our annual plan.

A.: Ja, do you also share know-how with the headquarters or are they also in the business that you are in ... how is that going?

Mr.P.: Ähm, pardon, I am not now with you...

A.: Ähm... if you share know-how with Hanover as well.

Mr.P.: Ja, for sure, we do, we do, we do because... Well we do, because part of Dr.Kassen's department relates to some innovations in the field of, I would say ... old manufacturing support and the customers of ours. That means the tire plants. They search for the satisfaction, for the suggestions of improvement as our customers and äh we share our know-how with them and try to get some feed-back if something new is introduced in the sense of mould manufacturing, so up ...even up to the moment we do share our contribution to know-how. And even more, we do cooperate, cooperate in commas, with external suppliers of Continental in the mould manufacturing. It means for example external suppliers from the US, from France and share our ... our experience with them. That is very helpful I must admit. So it is even with external and non-cooperate organisations.

A.: Ok, so you are cooperating with externals and thereby giving them also your know-how and getting know-how back?

Mr.P.: Mhm, exactly. Of course for some level. They are not going to tell us their core know-how and as well us, vice versa.

A.: Ja, ja … and then is there also expatriates from Hanover in Otrokovice or people from Hanover working there?

Mr.P.: Äh… it used to be so … two years ago, because a member of the board of directors was äh , who are responsible for the controlling, was exactly a man coming from Hanover, but since then, he left for retirement, there is nobody … if I am right. Nobody from Hanover in the local tire plant.

A.: Ok, and how do you feel about that?

Mr.P.: Well, it's from my point of view, it's some (…) that is really based only on the people and their performance and if people are available to other company and coming from local country, it's ok from my point of view. Then it's no necessary to, I would say … delegate somebody from, from the centre of cooperation. If it's not really necessary.

A.: Do you maybe also have the idea that you are being trusted more, that nobody from Hanover is there now?

Mr.P.: Oh… trusted. It's a very sensitive question, because äh I must admit that ach…äh…it can be said officially like this, I am convinced that this is really a sensitive question and I have to say that if somebody is more trusted if he comes from central, from Germany …yes, perhaps in the past, it was really necessary to somebody to really scrutinize and to really check the performance and the run and it is a normal way of, of international company that for some period of time, when start the run of the new partner, or the new company, that being a part of a big cooperate, that some supervisor is coming from the centre is present for some period of time. It is just a question of better communication and really of the phenomenon of knowing people themselves and to better communicate. Because this is the main point, I would say, the better communication. That's nothing to do with performance and from this point of view I would suggest that the way to lead better communication from the start up time is done by this supervising of people coming from the centre. That I can't say that somebody is trusted just because of the nationality or the relationship of the different countries … I can 't say it like this.

A.: Ja, but äh do you have the idea that they, or that headquarters or Dr.Kassen or your boss trusts you more with not having anybody there? That they think, 'ok, they are in Czech Republic, they now have our values, they now have our ideas, they know … so we trust them to do it 'right', in their way'? Do you have the idea…

Mr.P.: Well, uff…ach…äh…you know… this is some äh…oh…I am not sure how to describe…ja, there is, for example … they are afraid of strikes… we are a huge company – 5000 people and äh this is a kind of …äh… worry, not to … to protect the rest of the company. The rest of the tire plant to be supported with the moulds, with the tools, which is necessary if something, happens here. Because 100 % of product, of the cheap products of the tire plants is… is stopped. So this is a disaster for the whole cooperation. And this is the protection against some local problems with … I can't say that this is not trusting us, but this is the protection of the rest of the cooperation against some local problems. And for the first time it can be taken as some kind of frustration and this trust, but a reasonable thinking human being, must admit, that this is something reasonable and something is in the right place. Even though it is much more expensive then to rely a 100% of the delivery of the product being done here. And this is another kind of business … but the expression of trust …äh… we deliver, we deliver 100% of the time, 100% of the quality and äh one of the cheapest suppliers worldwide. So this is the base philosophy and äh that's it.
Concerning the trust … yes there are some limits.

A.: Ok, that you have the idea they don't totally … or because it's been … or installing certain controls they don't totally trust the people in Otrokovice.

Mr.P.: Äh, it's hardly said like this… they must rely on some performance and even they must share a piece of trust for the performance and delivery and so. But they mus … I would say… consider some risks … to diversify risks and therefore it is difficult to say, that it is in any connection to trusting people. It is the philosophy and the organisation and the diversification of risk and it's very difficult for me to make a statement to say' this is due to this trusting people'. This is just a way how to lead a business.

A.: Ok, and do you have the idea that you are being valued at the company? That you can actually …ja… bring value to the company ähm… ?

Mr.P.: Well…mhmm… the feeling of myself is that äh … there is … I hope a high level of satisfaction of my boss and of all people that we are serving as suppliers. I mean of our customers and that they don't have any problems and we did some research on the customer satisfaction that is our priority and concerning my person… I can't feel any problems from the side of my bosses. And if I am

valued... I can't feeling ...being said like this. We deliver, with a very good performance and I was thanked many times, but nobody said that I am valued for the company... so

A.: Mhm... and do you trust your bosses? Do you have a good relationship with them or ...

Mr.P.: Mhmmm...personally I can't say that we make any disputes, I mean principle disputes äh ... I ...äh believe that everybody makes mistakes, generally worldwide in a marriage... generally worldwide and concerning my bosses ...mhmm... I can't say that we have any problems like this... and I must trust them, because otherwise it's ... something is wrong. I must trust that they feel that they are doing their best and they support for our company, even though frequently it must be mislead, because, you know, sometimes you feel that they could do more or could have done more for us. But I don't have information enough and sometimes it's not available for me to get information from them. It is really not necessary and ähm it is really difficult for me to judge if ... the, the decision was made in accordance with our vision and in accordance with the way we feel. I feel that it could be better and it must be considered and tolerated. So it's very difficult to say and to communicate trusting my, my, my bosses. In a way that they don't except that I would like to have things done, because a lack of information is not available for my level.

A.: Ja, ok...

Mr.P.: That's the reason that I must trust my bosses, that they do their best and the company to support the best solution for the company.

A.: So you are left with no option than to trust them basically...

Mr.P.: Ja, that's the way it is. You told it.

A.: Mhmm, ok, well that would be all questions. Is there anything else you want to add or you want to talk about, I don't know.

Mr.P.: Mhmmm... I believe that you mentioned all the topics related to this question of the relationship of myself and my bosses and vice versa. So nothing that is coming to my mind.

A.: Ok, great ähm then if you want to I can send you the... if I am done with the Master thesis... I can send you a copy per e-mail, so you can read through...

Mr.P.: Ja, that would be nice. I appreciated that...

A.: Ok, great. Thanks a lot for your time and for answering the questions.

Mr.P.: No problem

A.: and have a nice day.

Mr.P.: Thank you and good luck.

Telephone - Interview, Wednesday 2nd of July, 2008

Interview Partner: Mr. Vanko, Slowakia

Total Duration: 40:13

A: Ok, then I am just going to ask you some questions and you just try to answer, ja?

Mr.V.: Ok, if I understand the question…no problem.

A: Ok… (laughing)… ähm. Maybe you can first describe your ähm… work position and your function in the company.

Mr.V.: Mhmm, Mhmm…Äh. My name is Karel Vanko and I am responsible for the äh machinery division in company CM Puchov with Conti-Matador. Ähm, Conti-Matador established this Joint Venture in November last year and äh our division is existing more than five years, is that we are the result of the joint activities between Conti and Matador. How we have one company äh, which name is Conti Machinery, we have two locations, Hanover and Puchov and I am head of CM Puchov. It means I am responsible for all activities directly here in Puchov city.

A.: Mhmm, and ähm you were also already when Continental took over the group then you were also already responsible?

Mr.V.: Ja, I started my job here this division in 2000 and äh after the establishment of the new form of our division 2001, I was the commercial director of this division and two years ago I started my position as director of this division. It means that I continued my work, which started before the Joint Venture with Conti.

A.: Mhmm, ok, and then maybe can you describe the relationship you have with the headquarters. How is the relationship between the subsidiary in Puchov and … with the headquarters in Hanover?

Mr.V.: The now situation is very interesting for us because we are the part of the law subject of the Continenal-Matador rubber limited. It is the subject which is located here in Puchov, but I am …my responsibility is connected to CM Hanover, what is another law subject, but according to Conti standard we are together as a division CM, its Conti Machinery. My boss, my chief is sitting in Hanover, Jürgen Dieterich and I have also another boss, which is sit here in Puchov, which is the chief or the director of the Continental – Matador rubber limited, but this is more formal boss, formal chief for me. This means I am full responsible to Jürgen Dieterich and to Mr. Kalina, which is director of the Puchov part äh we

have only the formal relation. It means that he is my director according to Slovak law, but I am not full responsible for my result or for my activities to him, because I am led by the Hanover headquarters.

It means that this is interesting position for me, but I feel and I understand that Mr. Dieterich and CM Hanover is the äh headquarters for me… for all my activities.

A.: Ok, so you are also dependent on them?

Mr.V.: Ja, ja… ja, ja, much, mostly I am dependent on Hanover decisions.

A.: Ok, do you also get your budget from Hanover?

Mr.V.: Budget?

A.: Ja…

Mr.V.: Ja, we have two budget. First budget is a budget as a part of the Continental –Matador rubber, CMR … and also we have budget together with Conti Machinery Hanover. It means that this budget CMH, Conti Machinery Hanover is more important for me, because also the higher managers, äh… or high managers are receiving the result from the Conti Machinery, which means that this budget is more important again for me and budget consist of three parts, CM Hanover, CM Puchov and äh CMB Otrokovice, which means that the budget is prepared for this three subjects and this is the most important budget for me.

A.: Mhm, ok… and in what way do you communicate with Hanover? So is there formal communication, informal communication… ähm …

Mr.V.: No…, because ähm CM Hanover and Jürgen Dieterich is really my boss, it means that we are discussing all items äh, which are normal items for communication between us and the manager. Of course, we here in Puchov, with own tasks, own budget, own problems , it means we have to solve everything here in Puchov on our own, but most important decisions we are discussing with Hanover and what is an example for example that the budget for us is clear and we are responsible for the way how to fulfil the budget. If we have some problems with the fulfilling or we have some, some, some changes, we are discussing with Hanover and we agree together a way how to change the budget or how to solve some important figures in the new budget, but we are responsible here… fully responsible to find a way how to fulfil this budget and how to solve the problems. It means that we are very, very independent company here. Because 80-90 % of our problems we have to solve alone and

also this 10 %, 20% is subject of discussion, or subject of decision from Hanover.

A.: Mhmm, so you basically make your decisions on your own and then basically the output or the outcome is what you send to Hanover?

Mr.V.: Ja, ja…as I explained to you about 90% of decisions are our decisions, that we are responsible for the decisions and the rest is the communication.

A.: Ja, ok, and in what way does the headquarters control you? Ähm, so what kind of information do you have to send them? Ähm…

Mr.V.: Ja,… the basic, the basic is the economic results. It is logical to say each company and such big company as Continental is, the economic figures or the controlling figures are the basic for the controlling system. It means that the budget and fulfilling those budget is the number one indicator for controlling for discussion and of course that we, because we joined together with Conti only several month ago, we have also a lot of tasks form this joining process. We call it 'high integration' – 'high integration' Matador to Conti company. It means that we have a lot of tasks from this high integration and this is the second group of the task, which are controlled by the …how… if everything is running according to our original ideas. And ähm also we are discussing and we are controlled by another figures, which are connected to budget, connected to controlling results. For example, if we speak about results of turnover and about profit, immediately we are also discussing about our customers, about projects, about contracts… äh… which are necessary for the fulfilling of the budget äh, but always we are running around the budget, we are running around the controlling figures, this is the basic way of the control and äh we have also this system: one time per month we have the business unit meeting, one time per month we meet together with these people, … responsible people from the Puchov, possible people from Hanover and we are discussing about the high integration process, we are discussing about economic results, we are discussing the plan for the next year, we are discussing about the budget for the next year. It means that regular meeting of … top managers of both parts, Hanover and Puchov and during these meetings all these items we are discussing about regularly.

A.: Ok, and do you have the idea that … ähm… at these meetings, or also if Mr. Dieterich is coming to Slovakia, do you have the feeling that you are being controlled or is it more a feeling of sharing information?

Mr.V.: Äh... I ...I don't have the feeling that I am under control. Of course that, I have to be under control, its logical, because we are ... how do you say...(...) company or some company which is working under the headquarters, but the system, which we have established now is very suitable for me and for my people because people from Hanover are not controlling daily operation or daily tasks. During the discussion with Dieterich or during the business unit meetings, we are focus for the main, most important figures or most important targets. With most of the (...) way of communication of controlling ähm, this is the communication between the responsible people, between here and Hanover. For example, Hanover has, or CM Hanover has seven or six top managers, we have here in Puchov also seven or six top managers. Man who is responsible for the production, Mr.Kitchena is communicating regularly with the man who is responsible for the production in Hanover. It means that we established a couple, Brandt – Kitchenar. The same couple we have established for purchasing, Mr. Wartenberg and Mr. Quich, we have established for the selling, ... for the, äh, for the design department, so it means that if couples are discussing during these month all activities, operations, they are consulting together some important questions, sometimes they receive some tasks and requests directly from this man, from his director, from his manager. It means this is the daily operation communication, this couple communication. It means that high integration means for us to, to set the one system for the both operations. It is not possible to continue our work that we have one system and Hanover has another system and systems are not comparable. It means that this is this way... we had before our system, Conti had before their system, now high integration also means to join the systems together, to prepare the best of both and to prepare the new system, but see for the both locations and this is the job of these couples, to establish, to set the systems for the Hanover, for Puchov, for production for example.

A.: **So you also have the idea that your system that you had before is also being recognized or is also being integrated, it is not only the Hanover ideas and the Hanover system being implemented in Puchov.**

Mr.V.: Ja, ja, we have this feeling that we are quite happy by this cooperation. We are quite happy also by the quality of the manager, because they have really something that teaches for us for some activities we have some advantage... äh some advantages. This is quite a different situation, if I compare our high

integration with the Matador as a producer of the tires, because in case of the tire production, Conti has 19 factories in the world. Matador is the factory number 20, which means that it is not possible to...to change the system of the 19 factories. This Matador plant has to follow the system we established in the 19 factories, without any comments, without any excuses, which means they have a very clear way, the same way as in 19 factories. It means that Matador system is completely changing. If people are happy or not happy – the system is changing. In case of the CM, we are one mechanical company in Puchov and one mechanical company in Hanover. It means that we are able to set the system, which is the … something is the best of the best from both. But its true that the majority of the system is coming from Hanover... majority, because the Hanover system is also very close to big Conti systems, especially the controlling, economic results, information systems … (…). So its logical that the majority of our system is coming from Hanover, but we are happy that we are able to... to do something and to add something to the system. For example, the (…) organisation, because we are more focused for the external customers an Conti was more focused for Conti customers, or Conti partners... strategic partners, we have … or we had some net of the agents in the world. We have our agents in China, in India, in Serbia, in Russia and we established this agent net for the new CM company. That means for example now that our agent in India is running also Hanover machines. Ja, it means that ...because it was logical. It was a good system; it was working, why to cancel it then, if it is able to also help the Hanover part. It means for example, that if something was better here, than Hanover immediately is establishing the system of the CM as a new component.

A.: Ok, so you also have the idea, if we talk about R&D or if we talk about new technology that you have the idea that you ideas are actually also welcomed and valued at the company?

Mr.V.: Ja, because we have similar type of machines, Hanover and Puchov part, but different technology. We are using... we are producing the uni-stage technology for the external customers mostly and Conti is producing two stages machines for the Conti factories mostly. It means that the developing system was quite different, but now we are preparing the new solutions, new machines and we would like to use the old spin off and to design together new generation of the machine with the advantages of the both parties. It means that this developing process now is a bit changing, because we are not alone, we could

use the help of the Hanover part, Hanover design department. It means that this RD system is a bit changing and is based now on the experience of the both parties. This is an advantage for us, because we can use all the advantage of the Hanover people, Conti people. Opposite advantage is that our labour costs is much lower than äh… labour costs in Hanover, it means that we can use our people also for the German projects, projects of the CM Hanover. For example, we are now using two or three of our software specialists for the application for the Hanover machines here in Puchov, we would like also to use the people from the design department for the activities of the Hanover part. It means that we have to design books and our people to be used in the future also for the Hanover project. It means this is also a combination of some activities, and it is an advantage for the both parties. With one brother as a better source of information and the other one is brother is cheaper in domestic constructers.

Again, it has to be balanced, because if it is not balanced, people are not happy.

A.: Mhm, so you also have the idea that Slovakian employees, or the employees in your company are happy to work for Continental, or would they rather…

Mr.V.: Ja, I can say that we see it as a challenge for us. Our people also see it as a challenge for their job, because according to Conti, a lot of people will have a chance in the future to travel all over the world or to work in some Conti location all over the world. It means that äh something is an impulse for them to be better and to learn English, because it was a problem before that our people had no chance to use English and they had no reason to learn English. Why? Because they produce the drawings for the company, they travelled out of Slovakia one time per year – no reason. Now we have the new impulse, it means that people are learning English a lot, the best of the best can be used for the Conti needs in Hanover. It means really something special for them, something new for them. But this is the one advantage for the people and for me as a manager of the people. Second advantage is that Conti is a big company, is a worldwide company, our people are proud of the membership with Conti. It means that äh this is also important for them … - oh I am working in big company. What is a disadvantage comparing the history, Matador was also very famous company in Slovakia and Matador was a family based company. It means that the decisions were much quicker, if we had some problems we were able to meet the owners … the owners about a problems and so on and so on. Conti is completely

different style of the company. It is not family based, it is figure based, controlling figure based. It means that this is a disadvantage and people are missing something in the family behavior of the people. I met a lot of people from Conti, which are responsible for the different departments in Continental and they are really responsible... they are focused <u>only</u> to this departments and they are not really willing to help in other departments in Conti or to do something for another department in Conti, they are responsible and they bate only for their own tasks. This is sometimes, the communication between the departments in Conti is not family discussion is something as a discussion among the (...)... it is something different of what we are used to in Matador. In Matador, of course we had also a lot of departments, but we always tried to think about another department and to help each other and we felt as a family – really as a family. And now this feeling is out.

A.: Ähm, *do you also have the idea that because of this decisions take longer to actually be made, because it sounds like your company, or at the family based idea it was more you would talk more informally with people and you knew each other and through that actually decisions could be made, but is this now changing or ...*

Mr.V.: I think, if we speak about the inside company and inside divisions in Puchov, we have no problem. It means that we have still the multiple communications and äh people are really friendly and we can speak together without any problem, inside nothing changed. If I speak about my direct bosses, I am quite happy, because I am able to speak with Jürgen Dieterich or Karsten very openly, we are always speaking about the family and so. It means that this again situation is good and we have this tie with our bosses and we are really happy that we have such ties with people that are our bosses. But if I speak about wider Conti, which means what is something out of the CM Hanover-Puchov, the situation is completely different – completely different.

A.: *In what way?*

Mr.V.: Sorry?

A.: *In what way?*

Mr.V.: In what way .... We are fighting, we are not cooperating. We would like for example to sell our machines, our (...) to some Conti factories and the behaviour of the people which are responsible for purchasing these machines, its worth than some... not friends. It means that I expected some support, some help,

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some communication, some, some ...activities to do something – some positive activities, but unfortunately outside of CM I met a lot of negative äh reactions. I didn't understand why, I had big problems... The first month I had personally big problems to understand, wow what happened? Why are these men fighting against us? Why do they not help us and they support some companies which are outside of Conti? I didn't understand, and I have still some problem with this understanding of the situation that somebody is not helping to me inside the family, somebody is fighting against me inside the family. This is what was really hard acceptable for me, but now I am half year in Conti and what to do, I have to follow this game. I have to receive the game, but for me it's much more important the situation inside of Puchov and the situation of Conti Machinery is much more important. And outside of CM...äh... if we have some problem, ok äh ... we will try to change some communication or I don't know ... what to do, but it is very hard acceptable for me this behaviour of people outside of CM.

A.: So, that's what you say that everybody is focused just on their own division and there is no helping each other out throughout the company?

Mr.V.: Ja, ja... and absolutely, absolutely. I never met similar situation, because maybe I have no experience with big companies, but I am a bit smiling when I receive an official document of the basics, which is an official document of the Conti about how we are building our company, how we are friends and how we are bla, bla, bla and in reality it is completely out. And this is ... something ... two faces. Two faces for me, one face official and these people which are responsible for the advertising of the Conti, they try to display to us, how we have a good family, how we are happy inside and what we have to do for the Conti and so. And the second face, the people which I met in the real life are completely different.

A.: So, there is also a lot, that you get values given from Continental, or beliefs. If you say you get like e-mails or papers about that you are all a happy family ähm... So you get also a lot of information about how you should believe... or ?

Mr.V.: Ja, ja. It's a of course Matador wasn't an ideal company, of course... we also sometimes something was advertised, what was different to my personal experience. Of course it is in each company, but in Conti this behaviour of some managers is very surprising for me. Very surprising for me and it is completely out some friendly behaviour and this is the worst, the worst point for me after

half a year of the thigh integration. But I have to repeat it is not a question of my bosses, it is not a question of CM. I am very happy that we are together, because we understand each other and we are fighting together against these other managers. But äh... what I am missing... I am missing something as a father. Father of the family. If I have a problem, the father has to decide and say ok, you have provided for the responsibility for a department, but at the same time you have to help your brother, because we are inside of the family. And if your brothers, will produce some profit, better profit than before, this is the profit for all of us, this is the profit for the family. And this is what I am missing at Conti. Nobody is responsible for some ...some communication among the departments or some ...some increase in profit because of the better communication again in the departments. Nobody is responsible for it, everybody is responsible only for own.

A.: So there is no feeling of togetherness or sharing or something?

Mr.V.: Ja, ja... Fortunately I have not ... feeling. I have the opposite feeling, negative feeling. They are not helping, they are fighting with us.

A.: So you think that is also not ... or that is something that is hindering your work in Puchov? That ...

Mr.V.: I think that it has not directly influenced my work. I am happy that it is not directly influenced. Because as I explained to you that we are more focused for the external market, external customers. It means that before high integration, I was äh focused only on external customers. I only after the start of the cooperation with Conti, I wanted to start also supplying the machines of the Conti inside and this is the problem that it's not possible. I's not possible. Ja, it means... ok, it's not possible, I will follow my way, which before. No influence to my budget, to my activities. It's only a pity, because I see that I lost a chance. I lost the chance to be active also inside of Conti, but no direct influence, only the bad feeling.

A.: But you have the idea, that Mr. Dieterich, or your direct bosses, they are actually really valuing your new ideas or that kind of thing, but going anywhere behind that, you are not... nobody is actually interested in ...new ideas?

Mr.V.: I have to say that we discuss very openly with Jürgen. Jürgen knows my opinion, I am open there. And if I have some problem, I have no problem to out it openly. It means that he knows my feelings, he knows feeling and äh he is

smiling, because he explained to me that he had the same problem before. He met the same problem before and äh now he is living, he is working in this atmosphere, this conditions disappeared. It means that he has some way how to fight against it or how to …live together with it. Because he had a lot of years with the system, it means that it is nothing new for him. But he confirmed to me that he had the same problem before.

A.: So it's a thing you get used to?

Mr.V.: Ja, ja, ja…

A.: And then ähm one of the last questions… ähm what do you think Continental or Continental headquarters what kind of values do they consider as important?

Mr.V.: What kind of values?

A.: Ja, values, like what do they think is most important? Ähm what kind of believes or what kind of also rules or procedures, or ähm like is it employees, is it customers, is it financial things ähm…

Mr.V.: It means what I feel about the headquarters, right?

A.: Ja, what they think what is the most important …

Mr.V.: Ja, ja äh…Of course, my feeling is that the figures that the next develop is the most important. Figures, because of figures we are a member of the Conti and it was explained very clearly to me that if we have good results, we'll have a future. If we have no results, if we have a loss, we have no future. Ja, in Conti, which has 150.000 people and hundred and hundred divisions, it's no time for some people äh discussing about some problems of divisions. We are working, you have the results or you haven't results. It means that the basic economic results. But also for my headquarters is very important (…). It means next research, next machines and so and so. It's very important (…) my philosophy, because äh the developing of our process is our future. It means that again and again we try to develop machines to find another customers, to find another agents for the regions and so. It means that it's a developing process; we try to develop all our activities. I see that headquarters is not sleeping, that headquarters is not satisfied with the results. Results are good, but headquarters is not satisfied. Headquarters wants to do something more and it's also important for me, because the developing process is very strong. And developing process is inside is it part of the managers, so its very important.

A.: Ja, so is the headquarters are not satisfied with the numbers, they won't ähm go into further discussion or they won't further talk to you about why or …

Mr.V.: Ja, but again, our bosses, my direct boss, Jürgen Dieterich, if we have some problem we are discussing very openly, we try to find a way, we try to find the reason why something is wrong and so. But, higher managers, or board of quality, or the main controlling managers, they have no time to discuss about some small divisions, some small results. They have work with red numbers or black numbers. It means that we have to work only for the black numbers. Because if we have black numbers, we have a future. If we have the red numbers – no time to discuss why for the main top managers. It means that this is our target, to be always in the good, black figures.

A.: Ja, and do you feel that Mr. Dieterich or the management in general trusts you totally with the management of the plant in Puchov?

Mr.V.: I think they believe us and we are happy that they believe. Also we changed a lot of people her after integration and äh I gave the chance to younger people. It means that I think now that all these couples are set very well and I also, I understand we are the finish also with Jürgen. How to say… we have no German here, we are only Slovak people, Slovak managers, Slovak workers, Slovak designers. It means that it is also the fact – we mean something. That they believe our activities, they believe our responsibilities, they believe us and it is very important for us that somebody that has the right to set some Germans here is somebody that believes our activities, our responsibilities. It is very important.

A.: Ja, so you think it's actually… or it makes you feel good that they don't send people over.

Mr.V.: Äh, ja of course… of course that is not the reason we don't know… we don't want somebody here, but the reason is that they believe us. Because if I see for example the tire division, after the starting of this process immediately Mr. … from the Otrokovice was moved from Otrokovice here to Puchov or Mr. … is also the previous member of the Conti staff from Otrokovice and other people (…) the new director from Germany, German man. It means that all divisions äh have some people on very high position places, which are from the origin and we are still the same management as before. It means that this is something that is

a result of the believing. Result that our headquarters believes us and of course we try to do our best for the same situation in the future.

A.: Ja, ja… and in that way you also trust Mr.Dieterich that he has you best interest in mind.

Mr.V.: Ja, ja, of course. You know after this high integration process several companies around Puchov or around this place asks me or another managers to change the place or if you are happy and so and so. And I have to say that nobody left, because we believe in the future and also our managers, my managers are satisfied with the couples. I am satisfied with Jürgen and it means that this relation and this personal feeling is very important and it's on the right way. Hopefully in the future will be the same.

A.: Well, ähm. Then that was basically all my questions. It was really, really interesting talking to you and I can if you want to, I can send you my paper when I am done writing my thesis, I can send it to you by e-mail so you can look over it.

Mr. V.: Ja, please, please. I find it really interesting what is the…

A.: OK, ok. Great. Then thank you again for taking your time and I will send you the e-mail.