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# Influential Factors within MNCs: From an Extended Agency Perspective

*- A case study of the relationship between DNB's subsidiary in  
Poland and its Headquarter*

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# ABSTRACT

**Title:** Influential Factors within MNC's: from an extended Agency perspective - *A case study of the relationship between DNB's subsidiary in Poland and the Headquarters*

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**Five key words:** Headquarters (HQ), Subsidiary, Relationship, goal alignment, Multi National Corporates (MNCs)

**Purpose:** The aim of this thesis is to give further understanding of the relationship between subsidiaries and HQ by applying it to the broader agency theory perspective. By providing empirical material from a case study, the purpose is to further enrich and complement the agency theory applied to the context of subsidiary and HQ relationship.

**Methodology:** This study is a qualitative case study of the relationship between subsidiary and headquarters with elements of both an inductive and deductive approach. Semi-structured interviews with representatives from DNB's three ventures in Warsaw, Oslo and Stockholm were conducted. A theoretical framework was developed and revised by the empirical findings.

**Theoretical perspectives:** In studying the relationship between subsidiary-HQ from an agency perspective this thesis follows the narrow and broad perspective of agency theory, applied to the relationship of subsidiary-HQ within an MNC. Most importantly it takes the literature a step further as it introduces an extended agency perspective on the relationship, consisting of three extensive variables that have never before been added to this context.

**Empirical foundation:** The empirical data consists of 25 semi-structured interviews with employees from DNB HQ in Oslo, branch DNB Stockholm and subsidiary DNB Poland.

**Conclusions:** The result from this case study is a revised theoretical framework that indicates that an extended perspective of the agency theory is applicable when studying the relationship between subsidiary-HQ. Three additional factors were found to affect the relationship – trust, attention and path dependency. Traditional agency theory measure goal congruence, additionally this thesis argues that goal achievement and goal commitment should be added when studying the relationship between subsidiary-HQ.

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# 1 INTRODUCTION

This thesis focuses on the area of Multinational Corporations within the area of business studies and in particular it looks closer at the relationship between headquarters and subsidiaries. In studying this relationship from an agency perspective the thesis follows earlier research in this area, but importantly it takes the literature a step further as it introduces three new variables that have never before been added to this context. This introductory chapter presents a theoretical as well as an empirical problematization of the area of interest of this study. With this background the research question is formulated and the purpose of the thesis is stated.

## 1.1 THEORETICAL PROBLEMATIZATION

This section looks closer at the relation between headquarters (HQ) and subsidiaries within the area of Multinational Corporations, (MNCs). Previous literature has shown that it is beneficial to study this relation within the agency framework and this section introduces the 'traditional' agency framework as well as the more recent so called 'broader agency' framework. Finally the section points to a potential gap in this literature when studying the relationship between the HQ and subsidiaries, which will be the point of departure for the empirical study in this thesis.

### 1.1.1 HEADQUARTER AND SUBSIDIARY

The focus of this study is the intraorganizational relationship between the headquarter (HQ) of an organization and its subsidiary. This relationship has inspired a lot of research within the social sciences in recent decades, especially within the international business segment, as summarized by Tasoluk, Yaprak and Calantone (2006). One reason may be as Hoenen and Kostova (2015:104) puts it:

*The nature of global business today increases the complexity of multinational companies and highlights the challenges of managing headquarters–subsidiary (HQ–Sub) relationships.*

Yu, Subramaniam and Cannella (2009) argue that subsidiaries often fail to act as expected by the HQ and subsequently fail to act in the best interest of the firm. Ghoshal and Bartlett (1989) claim that this is due to the complexity of these organizations, as well as to the

transnational condition which involves a natural conflict scene because of cultural and environmental differences. According to Hoenen and Kostova (2015) this problem is aggravated by two different developments within MNCs that has occurred in recent times. First of all there has been a conversion of the firms' international operations into highly complex organizational models, which gives the subsidiary more autonomy and discretion, and paradoxically also more centralized control and coordination from the HQ. For an MNC to succeed despite of these developments an alignment of the HQ's and the subsidiaries' interests, goals, and capabilities is essential, according to Hoenen and Kostova. Secondly, Hoenen and Kostova suggest that there has been an increase of companies that expand into developing and emerging markets in the strive for growth and success. Attempts to leverage local talent as well as relocating advanced and sophisticated activities like R&D has increasingly become popular, as opposed to simply expanding in volume.

Opposite to an argument made by many scholars that the importance of local contexts have declined due to globalization, Meyer, Mudambi, and Narula (2011) suggest that differences in local cultures and markets will continue to be visible and relevant within the area of MNCs. They point out that MNCs actually seem to experience even bigger challenges in coping with the complexity of their cross-national interactions as the globalization continues. These increased challenges Meyer et al. argue, are due to the fact that the MNC needs to handle what the authors call the 'multiple embeddedness' of handling both external contexts of the host country, as well as internal integration to the MNCs overall structure. The authors suggest that there is a trade-off in the situation of multiple embeddedness since it can create both business opportunities as well as operational challenges.

Yu et al. (2009) summarize the problem of the relation between the HQ and the subsidiary simply by noting that tensions can emerge because of the geographic dispersion and differences across borders, and that a number of various factors can either enable or constrain the ability for the HQ to coordinate its subsidiary's actions.

### **1.1.2 AGENCY THEORY**

Agency theory has been widely applied within many disciplines since it is applicable to many contexts, not only to the relations that exist within or between organizations (Eisenhardt, 1989). Several researchers within business suggest that in the process of trying to understand the relational interactions between a MNC's HQ and its subsidiaries, the application of

agency theory is beneficial (Hoenen & Kostova, 2015; Tasoluk et al., 2006; Bergen, Dutta & Walker, 1992). Bergen et al. (1992) argue that agency theory constitute the proper lens through which international business operations should be studied because of the existing information asymmetry between the HQ and the subsidiary. Hoenen and Kostova (2015:105) claim that the use of agency theory when analyzing the relationships between HQ and subsidiaries is essential because of three reasons:

*(a) headquarters (principals) delegate decision-making authority to subsidiaries (agents); (b) headquarters are unable to fully observe whether the subsidiary properly exercises the delegated authority; and (c) the two parties often have divergent motivations resulting in subsidiaries not behaving in the corporate best interest.*

As noted by Hoenen and Kostova (2015) there are several 'streams' within agency theory. The traditional agency theory is mostly about hard variables, mainly studying the contracts, how to control the subsidiary through economic incentives and monitoring. Agency theory has mostly been about the hard variables and several researchers have criticized this, such as Hoenen and Kostova (2015) who underline that social and contextual factors need to be taken into consideration as well, as the relationship includes diverse units that are embedded in its specific context. Furthermore, more recent research has broadened the agency perspective when applying variables such as trust and path dependency, and recent developments of research within the MNC area has pointed to attention as an important factor for the success of the relationship between subsidiary and HQ within the MNC.

A gap has been identified in this previous research in the understanding of Subsidiary and HQ relationships as these additional 'softer' factors (trust, attention and path dependency), needs to be taken into consideration in this specific relationship, as a complement to the agency theory. The theory section of this thesis discusses them from the agency perspective on MNCs and argues that they are an important contribution to the broader agency perspective.

## **1.2 EMPIRICAL PROBLEMATIZATION**

DNB is Norway's largest bank and holds a home market leader position (Norges Bank, 2014). DNB was established in Poland by a joint venture in 2006 (DNB NOR Annual Report, 2006) and the Polish firm is a legally independent subsidiary (DNB Annual Report, 2014). DNB had a turbulent historic development in Poland with several reorganizations, strategic changes and

changes of the entire banking profile. Today the Polish operations are solely focusing on corporate banking. As a result of these developments, the Polish subsidiary has experienced large employee layoffs, and it has a portfolio that partly lies outside the DNB corporate strategy. Since 2010 the Polish operations are fully owned by the DNB group and the alignment of the Polish operations with the rest of the group is in progress.

As mentioned above, managing the subsidiary-HQ relationship is challenging because of its cross-border condition and natural conflict scene. The relationship between the Polish subsidiary in Warsaw (Poland), and the DNB group HQ in Oslo (Norway), constitutes a good empirical example of the cross-border condition between subsidiaries and HQ's, and it represents the empirical contribution in this study. The branch in Stockholm (Sweden) is taken into consideration as well and it is a part of the empirical contribution, since some authority over Poland is transferred to Stockholm. From the agency perspective the subsidiary in Poland represent the agent, whereas the units in Stockholm and Oslo represent principals.

When trying to leverage the market-leading position that DNB holds in Norway into its Polish operations, a well functioning relationship is essential. As suggested by Hoenen and Kostova (2015), in order to succeed despite working across borders, the firm, in this case DNB, needs to align the subsidiaries' interests, goals, and capabilities with the HQ's. Today DNB is in the middle of this process and DNB's operations in Poland face many of the challenges that are described in the theoretical problematization. For instance, DNB Poland operates in a completely different context on the financial market, where high competition and a dispersed ownership structure is the reality, whereas DNB in Norway holds the position of market leader within a highly consolidated market structure (Finanstilsynet, 2014; PFSA, 2014). The dispersed contexts the units operate in makes the relationship particularly interesting to study and analyze.

The empirical material in this study is predominantly based on the subsidiary's perspective, since the majority of the interviews took place in Poland. Because of this, the relationship is put forth as "subsidiary-HQ" throughout the paper instead of the contrary; HQ-subsidiary.

### **1.3 RESEARCH QUESTION**

Based on this background the research question is as follows;

What factors affect the relationship between a subsidiary and headquarter, when trying to align the subsidiary with the headquarters' goals?

### **1.4 PURPOSE**

The aim of this thesis is to give a further understanding of the relationship between subsidiaries and HQ through a broader agency theory perspective. By providing empirical material from a case study, the purpose is to further enrich and complement the agency theory applied to the context of subsidiary and HQ relationship.

### **1.5 DELIMITATIONS**

Agency theory is applicable in many contexts, but the focus of this thesis focuses on the subsidiary-HQ relationship. Furthermore, agency theory covers many aspects and due to time limits it is not possible to cover them all. Aligning the agent through the right composition of economic or 'hard' incentives constitutes a large part of agency theory. This aspect has been consciously disregarded in benefit for social, or 'soft' incentives and implications, such as environment, trust and attention. As a lot of focus is placed on these social and psychological incentives, the thesis might be argued to ignore the full potential of the agency theory. There are delimitations when performing the empirical research as well. The context is limited to one bank, DNB. To broaden the perspective, multiple units within this context are analyzed, to get various perspectives upon the relationship in focus. Performing a multiple case study on several banks would further benefit the research, but again, due to the time limit this was not possible. Suggestions for further research within certain areas of interest that have been noticed throughout the writing of this thesis is presented in the discussion below.

## 2 THEORETICAL REVIEW

This chapter begins by an introduction to agency theory and goes on to discuss the application of this theoretical framework to the relationship between subsidiaries and their HQ's. The chapter highlights factors that earlier research has identified as important when applying the agency theory to the subsidiary-HQ relationship. First of all it looks closer at three factors that the traditional agency theory denotes as important, which are *information asymmetry*, *risk and control*. Secondly the chapter discusses the additional factors that are proposed by Hoenen and Kostova (2015) to be important extensions of the agency theory within the MNC context. These are presented as 'organizational culture' in this thesis. Finally three factors that have been brought to attention by the literature on MNCs and agency theory separately will be discussed in the context of agency theory within the context of subsidiary-HQ relationship and argued to be potentially important complements to the broader framework, proposed by Hoenen and Kostova (2015). These factors are *path dependency*, *trust and attention*. The chapter concludes by presenting a theoretical framework that includes all the factors presented in the chapter that may affect the subsidiary-HQ relationship. This is the framework that will eventually be applied to the case study on DNB.

### 2.1 AGENCY THEORY

#### 2.1.1 APPLICABILITY

Ross (1973:134) argues that "*examples of agency theory are universal*", by which he implies that agency theory is applicable in many different situations. Eisenhardt (1989) claims that agency theory can be most useful in examining organizational structures, and specifically when looking at the relationship between two actors in an organization; the owner (principal) and the manager/employee (agent). Several researchers promote the use of agency theory for the purpose of investigating the relationship between headquarters and subsidiary (Tasoluk, et al., 2006; Jensen & Meckling, 1976; Eisenhardt, 1989). The agency perspective on the relationship between headquarter and subsidiary is particularly interesting because of the asymmetry of information that exist between different locations, because of the focus on relatively different goals on for instance performance, and also because of self interest on the part of the HQ in that it cares more about the global achievements all together in the organization than local ones (Tasoluk et al., 2006).

In this paper, the principal-agent formulation as proposed by Jensen and Meckling (1976) is employed. In this thesis the HQ represents the principal which has delegated authority and decision-making rights to the agent, the subsidiary. The subsidiary in turn is performing services on behalf of the HQ.

### **2.1.2 BACKGROUND AND DEFINITION**

In their influential paper on agency theory, or “the theory of agency relationships”, Jensen and Meckling (1976) defines the relationship as a contract between people where one or several persons (the principals) hires or engages another person (the agent) and gives authority to the agent to perform a service on behalf of the principal. Arguably both of the parties within the relationship are utility maximizers, which implies that the individuals rationally choose alternatives that maximize their own utility. Because the principal and the agent may have different objectives or preferences, the agent will not always act in the principal’s best interest (Jensen & Meckling, 1976; Cuevas-Rodriguez et al., 2012). Tasoluk et al. (2006) describe this separation of interests as ‘goal incongruence’. The problem suggested by agency theory is how the principal can get the agent to align its work with the goals of the principal, that is, to achieve goal congruence. The usual instruments put forward by agency theory to achieve this are contracts and control mechanisms (Tasoluk et al., 2006). The costs associated with applying the instruments are called ‘agency costs’, which work against the principal in its aim towards profit maximization (Fontrodona & Sison, 2006). Fontrodona and Sison further assert that these costs also can include efforts pursued by the agent in demonstrating its commitments to the principal's goals. The focus of the theory is to minimize these agency costs through efficient alignment of the principal's and the agent's interests (Shankman, 1999). As stated by Bergen et al. (1992), there is an assumption that the principal within the relationship is the dominant party, and most models within agency theory are viewed from the principal’s perspective. This implies that the efficient contract is one where the utility is maximized for the principal, and not for both the principal and the agent. Baiman (1990), among other authors, underlines the fact that all agency models are based on the pessimistic assumptions that the agent acts in self-interest and that the agent is work-averse and risk-averse. Miller and Sardais (2011) describe this relationship as one where agents are held to be opportunists and owners the responsible parties.

The traditional agency theory highlights several important factors, or variables, that are important for the principal-agent relationship. In the following the most important of them will be presented and further discussed in the context of the subsidiary-HQ relationship. These variables are *information asymmetry*, *risk* and *control*. The choice of these agency variables is based on the argument made by Eisenhardt (1989) that the next step of the research within agency theory should focus on these variables as they make the most beneficial contribution to the organizational research.

### **2.1.3 INFORMATION ASYMMETRY**

That one individual to a party possesses more information than the other is usually referred to as asymmetry of information. In the particular case of the subsidiary-HQ relationship, the headquarter possesses less information about the national circumstances for instance than the subsidiary (Eisenhardt, 1989), and as such the agent possesses more information than the principal (Darrough & Stoughton, 1986). Arrow (1985) assimilates the term with *hidden information*. The HQ wishes for the information not to be hidden and to be able to observe that the subsidiary is exercising the delegated authority properly in order to reach goal congruence. This information asymmetry may become problematical for the subsidiary as well, as information valuable to the subsidiary is scattered across the organization, not least within HQ (Hoenen & Kostova, 2015; Tasoluk et al., 2006). Because of the lack of complete information Eisenhardt (1989) argues that the HQ is likely to be more risk averse in regards to the subsidiary's operations as there is risk of misaligned actions on behalf of the subsidiary, such as possible misrepresentation. Eisenhardt claims that the information asymmetry can be reduced through joint cooperative efforts. A long-term relationship, she argues, between the HQ and the subsidiary, makes it easier for the headquarter to co-align its incentives and also to get a more complete assessment of the performance of the agent. Shapiro (2005) argues that as relationships are sustained over time, principals and agents will learn about each other and develop the understanding.

Eisenhardt (1989) argues that within agency theory information is treated as a commodity in that it can be paid for. Investments can be made in formal or informal information systems such as budgeting and managerial supervision and these systems can be used in order to control the problem of hidden information.

#### **2.1.4 RISK**

Economists explored risk sharing in the 1960s and 1970s (Arrow, 1985) and later it was included within agency theory and added to the agency problem, in particular with regards to potentially diverging attitudes towards risk among cooperating parties (Jensen & Meckling, 1976). When it comes to risk-sharing within the MNC setting, the argument is made that it is the HQ that can or should take on more risk than the individual subsidiaries as it is better able to diversify the risk. However, risk-sharing can become a problem for the MNC to the extent that different actors in the agency relationship have different risk preferences (Eisenhardt, 1989). Moreover, agents, as utility maximizers, are argued to direct their efforts to maximize their own personal utility which may imply that they behave in a way that is beneficial for them but detrimental to the principal (Tricker, 2012). The subsidiary may, for example, have incentives to take on too much risk if it does not have to pay the consequences of a bad investment. Tricker (2012:61) further states: *“after all, it is not their money they are risking”*. Tan and Maloney (2006) have found that there are at least two reasons as to why managers would not align their activities to serve the goals of the HQ, and hence constitute a risk for the HQ. The first one is that there is a chance that there exists a misalignment in the economic incentives between the HQ and the manager or the CEO of the foreign subsidiary because of lack of motivation from the agent's side. He or she might focus the efforts on sub goals that do not fully benefit the economic interest of the foreign subsidiary. The second reason as to why the managers of the subsidiary would not fully promote the goals of the HQ is because these might not be the same as the subsidiary's goals. This, called an ‘economic incentive problem’ by Tan and Maloney, is why the HQs of MNCs use expatriates to fill positions at the foreign subsidiary, even though a national person would be more suited for the role. Headquarters believe that the expatriate has lower incentives for pursuing activities in his or her own benefit since he or she is more used to working closely with HQ and in the same social area, and thus, the expatriate lowers the risk for the HQ.

#### **2.1.5 CONTROL**

Getting an MNC aligned to work towards the goals set by the owners of the organization – achieving goal congruence – is, according to Haberstroh (1965), a problem of ‘dysfunctional variation’. Haberstroh (1965) further asserts that the process of alignment as well as the maintenance of it cannot be taken for granted, but needs control. The question regarding what processes and behaviors that needs to be controlled is key, and the choice is to be made from the highest controlling body of the organization. The prevailing custom within business is to

aim for profit maximization by monitoring and control (Haberstroh, 1965). Haberstroh describes this as ‘egocentric economizing’. When it is impossible for the principal to observe the behavior of the agent, the principal has two options. Either he or she can invest in information systems, such as budgeting systems, reporting procedures, boards of directors, and additional layers of management. This is also called ‘direct’ or ‘behavioural control’ (Andersson, Björkman & Forsgren, 2005). The direct control can also be in the shape of centralized decision-making and through direct supervision by the headquarters representatives. The other option is for the principal to state ‘outcome-based contracts’. This control mechanism can evaluate the subsidiary's performance through financial performance measures, market share, productivity or knowledge development (Andersson et al., 2005).

According to Andersson et al. (2005), the use of direct control from the corporate level might be hampering for the subsidiary since the decision-makers on the corporate level do not possess an understanding of the local business environment equivalent to the subsidiary employees. Andersson et al. further suggest that the use of corporate level expatriates can cause the local relationships of the subsidiary to become shallow. This is because the focus of the expatriates will be on activities that are easy to learn and understand during their limited placement. Anderson et al. also suggest that the subsidiary is likely to prioritize activities that produce relatively immediate profits as the subsidiary is evaluated on the basis of yearly profits. Ma (1999) and Yu et al. (2009) indicate that differences in key organizational characteristics between subsidiary and HQ can make it more difficult for the HQ to centrally monitor and control the subsidiary's actions and alignment towards the HQ. The differences, they argue, will aggravate the effective communication and knowledge sharing between the units.

What has been described above is the background to the traditional, or ‘narrow stream’, of agency theory, as well as three important factors derived from it (information asymmetry, risk and control). As stated in these paragraphs regarding the narrow agency perspective including the factors information asymmetry, risk and control, the aim is to achieve *goal congruence* between the agent and the principal – the subsidiary and the HQ in the case of this thesis. The following section will first provide a discussion of some of the critical perspectives on agency theory. Following this the two subsequent sections bring forward the contributions from Hoenen and Kostova's (2015) ‘broader stream’ of agency theory referred to as organizational

culture in this thesis, with focus on the social and contextual environment embedding the different units of an MNC.

## 2.2 PERSPECTIVES ON AGENCY THEORY

Perrow (1986), criticizes agency theory and asserts that it “rarely tries to explain actual events”, suggesting that agency theory is inapplicable for empirically testing. Various critical views on agency theory exist, and many of these emphasize that the theoretical scope is too narrow (Tricker, 2012). Some researchers argue that a broader progression of the agency theory is particularly relevant to MNCs that have the need to handle the relationships between various subsidiaries and their HQ (Hoenen & Kostova, 2015; Kostova & Zaher, 1999; Meyer et al., 2011). Fontrodona and Sison (2006) suggest that the firm should not be referred to as merely a nexus of contractual relationships and that such a notion of the firm ignores the human person’s full social nature. Hirsch, Michaels & Fridman (1987) made an early contribution to this line of reasoning, arguing that theories that combine Economics and Sociology give a more realistic view of organizations, as opposed to pure economic theories. In accordance with Hirsch et al. Eisenhardt (1989) recommends that agency theory should be used with complementary theories. She further argues that agency theory ignores much of the complexity within organizations and that it only present a partial view of the world. As mentioned earlier, when describing the theoretical problem of the study, Hoenen and Kostova (2015:108) advocate the broader perspective of agency theory that both social and contextual factors in to consideration. More specifically they argue that the broader perspective:

*[...] allows the incorporation of key organizational realities such as multilayered structures, multiplicity of principals and agents, continuity and change in agency relations, and impact of the broader social context.*

Following the more recent and broader perspective on agency theory presented above, important factors within the broader theoretical framework that applies well to the context of the relationship between the subsidiary and the HQ are discussed in the next section.

## 2.3 ORGANIZATIONAL CULTURE

Meyer et al. (2011) argue that an extension of the traditional, or narrow, agency theory is specifically beneficial to the study of MNCs because of the complex social contexts they operate in and because of what they call ‘multiple embeddedness’. At the subsidiary level there is a need to balance the local identity, the ‘external embeddedness’, with the subsidiary’s strategic role within the MNC, the ‘internal embeddedness’. This multiple embeddedness, Meyer et al. argue, aggravates the complexity in managing the interaction between subsidiary and HQ in order to achieve the goals of the MNC.

Several other authors argue that the cultural and environmental aspects of one host nation of the MNC not only affect the venture in that nation, but the whole MNC (Yu et al. 2009; Bartlett & Ghoshal, 1998; Ma, 2009). Altaf and Ali (2011) describe organizational culture as “*the shared values, beliefs and norms in an organization*”, and they emphasize that the stronger the implementation of the values and the control, the stronger this culture will be. In turn the staff will be more aligned to the goals of the MNC and a greater effectiveness in the organization overall is achieved, simplifying the goal achievement of the MNC. Altaf and Ali conclude that to achieve this strength of culture the organization needs to adapt to the external environment. Hofstede (1991) on the other hand, argue that there is a need for intermediaries, or ‘corporate diplomats’, as he calls them, who can work and perform within both cultures, and in that way make the multinational structures work. Hofstede argues that this is because a multinational corporation has to build links between both natural cultures that build on values, and business cultures that build on practices (Hofstede, 1991).

Kostova and Zaheer (1999) propose that there is another difficulty and additional cost for foreign subsidiaries that are culturally distant from their HQ, stemming from their unfamiliarity with the HQ's local embeddedness, such as its business procedures, information networks and political influences. Gulati, Nohria and Zaheer (2000) describe this characteristic as ‘liability of foreignness’. Because of the cultural distance, customers' preferences differ as well (Egelhoff, 1982). According to Egelhoff the consequence of unique local preferences is that more of the subsidiaries' focus needs to be on local responsiveness rather than global integration. The jeopardy in this lies in the subsidiary's potential incentives to initiate competitive actions to maximize their own gains instead of accomplishing the general strategy of the MNC.

Scholars emphasize that agency relationships are not static, but that they are performed within a social context and that external forces and changes in the social context will affect the relationship (Shapiro, 2005; Mitnick, 1992). Suggestions of forces that they put forward are competitors, regulators, interest groups, as well as other agency relationships. As the parties will develop a shared history and personal relationships, Granovetter (1985) proposes that the relationships get embedded, and that social networks are established. Lewis (2006) analyzes the problem of getting all employees aligned with an organizational change across borders. According to Lewis, motivation is closely interlinked with leadership and management, and the international manager who is unaware of different cultural behaviors will find it most difficult to motivate and cooperate with the foreign staff and managers.

Implied in the factor of organizational culture including the broader agency perspective put forth by Hoenen and Kostova (2015) is that the aim of balancing the differing social and contextual embeddedness of the various ventures in an MNC, is to make *goal achievement* possible.

## **2.4 ADDITIONAL CONTRIBUTIONS TO AGENCY THEORY**

### **2.4.1 PATH DEPENDENCY**

Mitnick (1992:77), assert that many scholars abandon the premise of an “*acontextual, ahistorical, and static relationship between principals and agent*”. In the same direction, Nilakant and Rao (1994) emphasize that it is essential to understand the long-term implications of the agency theory performance outcome. In this thesis, an argument is made to add also the historical and longitudinal aspect of the agency theory brought forward by above scholars to the subsidiary-HQ relationship. Few scholars have touched upon the issue of historical implications within this specific setting (Hoenen & Kostova, 2015) and a deeper evaluation of the theoretical and empirical effects of this addition seems to be lacking. Researchers have previously handled the implications of the historical effect separately within MNC research and agency theory (Halinen & Törnroos, 1998; Holmstöm & Milgrom, 1987). For instance Halinen and Törnroos (1998) emphasize the temporal aspect within the analysis of business networks. They argue that companies are bound to their past, present and future, and that each unit has its own history, during which it has evolved. The temporal aspect seems

very relevant when it comes to the subsidiary-HQ relationship, as the agency relationship may change over time (Nilakant & Rao, 1994). Accordingly, an additional factor to be added to the subsidiary-HQ relationship from an agency perspective is proposed. This factor will from now on be called ‘path dependency’, and it is one of three contributions of this thesis.

The firm cannot overlook its past, which makes it hard for the firm to fundamentally change its operations and routines. Besanko, Dranove, Shanley and Shaefer (2013:390) describe this as being ‘path dependent’: *“it depends on the path the firm has taken in the past to get where it is now”*. Vergne and Durand (2010:736) also illustrate the construct of path dependency, but as *‘a mechanism that connects the past and the future in an abstract way’*. They further assert, opposite to the wide description brought forward by Besanko et al., that a narrow view of the concept is to prefer, even though it has previously been used within organizational research to describe the general historical past, giving the definition less theoretical and empirical value. Their narrow version of the construct is defined as: *“a property of a stochastic process which obtains under two conditions (contingency and self-reinforcement) and causes lock-in in the absence of exogenous shock”*. When a lock-in occurs, Vergne and Durand explain, the process ends up in a situation that is hard to escape from. Equilibrium arises where endogenous change is unlikely to occur. They also describe that as a firm chooses paths continuously, a lock-in can happen even on the less optimal paths. Within the strategic management field, path dependency at the resource and capability level can both be used to describe a competitive advantage as inherited through persistent investment in resources and capabilities within the firm, and also as creating harmful lock-ins through inflexibility (Vergne & Durand, 2010).

### **2.4.2 TRUST**

The second addition this thesis proposes to an extension of agency theory is trust. Within recent management studies, authors have opposed the widely known agency theory with stressing the importance of building trust rather than trying to manipulate the setting with monitoring and incentives (Beccerra & Gupta, 1999). Granovetter (1985) refers to the agency theory as “under-socialized”, and due to the assumption of goal incongruence and difference in risk aversion, Perrow (1986) states that monitoring and incentives might actually increase the attitudinal differences between the principal and the agent. Beccerra and Gupta (1999) suggest it to be beneficial instead of opposing the literature against each other, to incorporate different theories on trust with the classical aspect of the agency theory. Beccerra and Gupta (1999) argue that trust is the most important ingredient of social capital, and it is very

valuable together with the other ingredients of social capital: cooperation and collective action, but not in itself. Major findings were that basically all managers the authors asked about trust indicated that personal contact was essential to establish a high-trust relationship. Trust enhances the willingness to take on risk and that is why it is so important within a healthy organization. When trust exists, an individual becomes vulnerable to another, because it accepts some risk. This implies that only in situations where there is some likelihood that an individual is taken advantage of another within an interaction, that trust as a concept becomes relevant (Beccerra & Gupta, 1999). Especially, Kim and Mauborgne (1993) find trust important for foreign subsidiary managers to be engaged in the organization and be committed to its goals. It brings along desirable social effects such as individual and group performance, societal development and also process variables that relates to management, such as conflict, commitment and cooperation.

Tasoluk et al. (2006) argue that due to the local conditions of the subsidiary, the achievement of the common goal might be hard to for the subsidiary to attain the same way as the HQ would like to. The major factor to these different perceptions is the lack of trust in each other's capabilities, which, according to Tasoluk et al. (2006), seems to be the causal condition of means incongruence. Their definition of this type of incongruence is: "*the extent to which there are differences in the means with which the principal and agent would like to achieve their congruent goal, given that goal congruence has been attained*". Tasoluk et al. (2006) suggest that in solving this problem, perceived competence level needs to be increased, and that HQ has two choices for doing this: i) either HQ chooses to increase the competence of the subsidiary by educating and providing resources for this purpose, or ii) it can try to increase the perception of itself regarding competence in the subsidiary's perspective. The first alternative they propose, even though it might seem as a logical attempt from the side of the HQ, can actually worsen the situation by increasing the discrepancy even more. This is because the subsidiary did not observe any effort to change on behalf of the HQ. The conclusion is that HQ should go with the second alternative and that only when both parts' conceptions of the counterpart's expertise and competence change, trust can be gained. This, in turn, leads to functional collaboration (Tasoluk et al., 2006).

### **2.4.3 ATTENTION**

Based on the arguments presented in this paragraph, the application of attention into the subsidiary-HQ context from an agency perspective is suggested in this thesis. Some scholars

have found that attention within an organization is the most critical and sought-after resource that the organization possess (Haas & Hansen, 2001). At the same time, Haas and Hansen argue, that it is the scarcest resource. This limitation of organizational attention they propose, can give raise to an internal market for the HQ's attention. Within a modern MNC, it is argued that the allocation of the HQ's attention towards its various and dispersed subsidiaries is a highly strategic implication, as the MNC tries to align the subsidiaries towards its general goal (Bouquet & Birkinshaw, 2008; Birkinshaw, Bouquet & Ambos, 2007; Campbell, 1989). Ambos and Birkinshaw's (2010) findings emphasize that for subsidiaries' performance to increase, it is essential that they receive attention from HQ.

Ambos and Birkinshaw (2010) argue that HQ's attention towards the subsidiary's initiatives, in interaction with subsidiary autonomy and inter-unit power will increase the subsidiary's performance. Kostova and Zaher (1999) are on a similar track, but put it differently. They argue instead that legitimacy is a critical issue for MNCs and that more research on the issue is needed. Pfeffer and Salancik (1978) mentioned that internal legitimacy, defined as "*the acceptance and approval of an organizational unit by other units within the firm and, primarily, by the parent company*" (Kostova & Zaher, 2010:72), is crucial for the survival of the subsidiary. This, Pfeffer and Salancik propose, is because the subsidiary is dependent on the HQ for sustaining access to vital resources such as capital and knowledge. Kostova and Zaher (2010) argue that if a subsidiary does not receive enough internal legitimacy, it can constrain its efforts to receive external legitimacy as well. External legitimacy is defined as acceptance and approval from the surrounding environment in the host country the subsidiary operate in (Kostova & Zaher, 2010).

Implicitly stated above in the extended perspective of agency theory suggested by this thesis including path dependency, trust and attention, is that there are different implications and thereby differing aims for the different factors. Path dependency is proposed to affect the whole relationship between the subsidiary and HQ, and thereby affecting goal congruence, goal achievement as well as *goal commitment*. Attention is proposed to affect goal achievement in a positive manner, and trust is regarded to affect the goal commitment of the subsidiary as the subsidiary get more committed to the organization once trust is established.

#### **2.4.4 RELATIONSHIP MEASUREMENT**

The theoretically derived factors presented above that are suggested to be affecting the relationship between subsidiary and HQ will be measured through goal congruence, goal achievement and goal commitment. Within the narrow agency perspective, *goal congruence* between the subsidiary and HQ is the objective, through an optimal design of the contract, which is the unit of analysis (Filatotchev & Wright, 2011). The social view of agency theory, as mentioned in the introduction of the chapter, relaxes the premises of agency theory and considers social elements as well (Hoenen & Kostova, 2015; Filatotchev & Wright, 2011). These mechanisms would through corporate socialization lead to a reduction of the agency problem. Strange, Filatotchev, Buck and Wright (2009), point to a lack of capabilities or absorptive capacity that can increase the agency problem through lack of knowledge in how to achieve the goals set up by the HQ. This can be interpreted as an argument stating that the agent's perspective is an important aspect as well, not only the principal's. The agent needs resources to be able to achieve the goals of the MNC, why resources should be considered an important aspect of a successful relationship. The aim within the broader agency perspective is implicitly stated to be *goal achievement* in this case. The same goal is found to be the aim with increased attention that implies an increased spread of resources such as knowledge to the subsidiary, making it possible for the subsidiary to achieve the goals. Increased trust in the organization between the subsidiary and the HQ is suggested to make the *goal commitment* of the subsidiary stronger. The next section describes how some 'smaller' independent variables in the shape of communication, collaboration and integration affect the factors (information asymmetry, risk, control, organizational culture, path dependency, trust and attention) brought forward in this thesis.

#### **2.4.5 RESOURCES AS INDEPENDENT VARIABLES**

Smaller variables are proposed by this thesis to make a measurement possible of the factors' effect on the subsidiary-HQ relationship. These smaller variables are suggested to be communication, collaboration and integration. A discussion follows on why these particular variables were chosen.

Meyer et al. (2011:241) argue that a MNC creates value across countries by 'leveraging tangible and intangible resources'. They also suggest that one of the opportunities that the MNC has got, having units in dispersed places, is the spreading and the integration of knowledge and competence between the units. Knowledge and intangibles are proven to

account for a widely increasing share of the income of nations all over the world (Lev, 2001; Mudambi, 2008). By this, *integration* is interpreted as one of the independent variables affecting the factors. The second independent variable suggested is *communication*. Ghoshal and Bartlett (1988) established that communication between units in an organization facilitates knowledge flows within the MNC, and it is also argued that internal communication is strongly correlated with employee motivation (Minbaeva, Pedersen, Björkman, Fey & Park, 2014). The third independent variable is argued to be *collaboration*. Collaboration is the main emphasis in Tasoluk et al.'s (2006) research about HQ–subsidiary relationships. Tasoluk et al. argue that in meeting common challenges, a greater communication needs to be established between the two units, as well as they point out that collaboration is argued by some to be the key ingredient for success between global and local units. The three independent variables integration, communication and collaboration will be used in the analysis of the factors, as they are argued to indirectly affect the relationship of the subsidiary and HQ through the suggested factors. A prescriptive framework of the factors that are suggested to affect the relationship is featured below.

### 2.4.6 THEORETICAL FRAMEWORK

A summary of the theoretical framework is introduced below in Table 1. The factors that are suggested to affect the subsidiary-HQ relationship in the theoretical review are presented on the left-hand side. A summary of the referenced academic papers on each topic, or factor, is presented on the right-hand side.

| <b>Subsidiary and HQ Relationship affecting factors</b> |  |
|---|--|
| <b>Information Asymmetry</b>                            | Eisenhardt (1989), Darrough & Stoughton, (1986), Arrow (1985), Hoenen & Kostova (2015), Tasoluk et al. (2006)  |
| <b>Risk</b>   | Arrow (1971), Eisenhardt (1989), Jensen & Meckling (1976), Tricker (2012), Tan & Maloney (2006)  |
| <b>Control</b>  | Haberstroh (1965), Andersson et al. (2005), Ma (1999), Yu et al. (2009)  |
| <b>Organizational Culture</b>                           | Meyer et al. (2011), Yu et al. (2009), Bartlett & Ghoshal (1989), Hofstede (1991), Altaf & Ali (2011), Kostova & Zaher (1999), Gulati et al. (2000), Egelhoff (1982)       |
| <b>Path Dependency</b>                                  | Mitnick (1992), Nilakant & Rao (1994), Hoenen & Kostova (2015), Halinen & Törnroos (1998), Besanko et al. (2013), Vergne & Durand (2010), Helfat et al. (2007)             |
| <b>Trust</b>  | Becerra & Gupta (1999), Kim & Mauborgne (1993), Granovetter (1985), Perrow (1986), Tasoluk et al. (2006),  |
| <b>Attention</b>  | Haas & Hansen (2001), Bouquet & Birkinshaw (2008), Birkinshaw et al. (2007), Campbell (1989), Ambos & Birkinshaw (2010), Kostova & Zaher (1999), Pfeffer & Salancik (1978) |

*Table 1, Theoretical Framework*

## 3 METHOD

*This chapter presents the unit of analysis of the study, the research method and the research design used. It also presents how the data has been collected, sorted and analyzed.*

### 3.1 SELECTION & UNIT OF ANALYSIS

The primary unit of analysis is the relationship between subsidiary and HQ. This relationship will mainly be viewed from the Polish subsidiary's perspective throughout the study as the predominant part of the interviews was undertaken there. The perspectives of the Norwegian and the Swedish unit are also taken into account, although with less weight. The interview context is the corporate banking divisions in DNB Oslo, Stockholm and Warsaw and the objects of the interviews are employees within these divisions. The majority of the employees is either top management, head of customer relations or industry division heads. Three respondents were analysts. In order to get as a complete and true picture that is possible of the study context, i.e. the intraorganizational relations within DNB, 25 semi-structured interviews were conducted.

### 3.2 QUALITATIVE DATA RESEARCH

Qualitative studies often show a strong focus on change and development and this includes studying how an organization's previous history shapes the present reality (Bryman & Bell 2013:412). Pettigrew (1997:338) defines a process as “*a sequence of individual and collective events, actions, and activities unfolding over time in context.*” DNB's operations in Poland can be viewed as a process because the longitudinal perspective has been studied and the aim was to further analyze how this process has developed and led to the current situation. The most suitable method to study a process is by applying a qualitative analysis (Bryman & Bell 2013:412). As Cronbach (1975:123) suggests: *the aim is to identify important factors that characterize the context or situation in question.*

Qualitative research interviews have been criticized for not being objective, and therefore lacking trustworthiness and validity (Kvale & Brinkmann 2009). Kvale and Brinkmann further argue that questions in qualitative interviews often are biased, and that the material will be interpreted in a way that reflects the authors' personal views and opinions. There are

different views on knowledge and in this thesis we have adopted a view from social constructionism, which states that the reality is subjective and that people perceive it differently (Bryman & Bell, 2011). Consequently, it is in this thesis acknowledged that being subjective is inevitable within qualitative research and therefore an attempt is made to carefully view the conclusions drawn from the interviews. Moreover, where there are references and other perspectives on the matter, these are applied to the analysis such that the analysis should not only reflect the constructionist view of the authors of the thesis.

### **3.2.1 CHOICE OF CONTEXT**

To investigate the research question stated before of what factors that affect the relationship between a subsidiary and the headquarter, when trying to align the headquarters' goals with the subsidiary, we have chosen to look at the relation between the HQ of the Norwegian bank DNB and one of its subsidiaries. More specifically we look at the relation between DNB's headquarters in Oslo, Norway and its subsidiary in Warsaw, Poland. This choice of context is considered highly relevant for several reasons. First of all there is a big difference in the environment that these two units experience, due to the complexity and competitiveness that characterize the Polish market. The market context of the HQ in Norway is quite the opposite, where they hold the leading market position in a market with high consolidation. Secondly, the historical development of DNB's operations in Poland has been complex and not completely unproblematic and straightforward, making the context further interesting to investigate.

### **3.2.2 DNB SUPERVISORS**

After the choice of context was made in collaboration and consent with our supervisor at DNB's headquarter in Oslo, Thomas Tønnessen, we were additionally assigned a supervisor in Warsaw, Magdalena Prusak. These two employees have functioned as a gateway into the corporate banking divisions in DNB Oslo and DNB Warsaw. The two DNB supervisors can be viewed as what Yin (2009) describes 'key informants'. The supervisors have provided access and insight into the company as well as relevant information in general. Furthermore, they have facilitated interviews, arranged bookings etc. in accordance with the topic of the thesis.

### **3.2.3 SELECTION OF INTERVIEWED RESPONDENTS**

The selection of which employees to interview is primarily based on the employees connection to DNB's operations in Poland as well as their experience from the relationship in question, with preference for longer term experiences. During meetings with the employees in Oslo a list of names of potentially relevant Polish employees was put together. As a result, the choice of respondents is not a random choice, but a choice that depends on the characteristics of the employees in Poland as well as the opinion of the employees in Oslo. We acknowledge that this decision could have been based on employees with a positive view of the organization and relationship, but this could not be avoided, as it was initially not possible for us to choose the interview objects ourselves.

### **3.2.4 CHOICE OF DATA COLLECTING**

In order to make sure that the case study fulfills the criteria of reliability (Yin, 2009), the data collecting procedure is carefully described in this chapter. The objective is to enable another researcher to perform the same case study and, under the same circumstances, come to the same conclusions (Yin, 2009). Yin further argues that the emphasis should be placed on the *same* case, meaning that the ability to *replicate* the case is not the goal. This is crucial to understand, as this case is individual and unique, and since the research findings are dependent on the specific time-setting, context and additional external factors.

### **3.2.5 CHOICE OF METHOD**

In order to conduct an investigation of the relationship between the headquarters and the subsidiary, a case study is to prefer. The reason is that deeper interviews with employees and managers can provide different perspectives on this relationship and should better enable the identification of cultural differences as well as give a better picture of people's feelings, opinions and thoughts on the relationship.

Due to time limits and monetary constraints, the addition of external observations on the HQ-subsidiary relationship was not possible other than reviewing DNB's website. In general, such observations may be useful for the analysis as the probability of biased perspectives on the relationship of the respondents is lower. However, the interpretation of such observations would still suffer from the potential biases on the part of the researcher. However, since we visited three ventures, we had the chance to develop our own general understanding of the environment and the culture. This understanding has served the purpose of a 'snapshot

observation', a small additional information source for our analysis (Bryman & Bell 2013). The extensive number of interviews undertaken together with a general understanding of the environment and the information from DNB's website implies that the method for collecting material is one of triangulation, which further legitimizes the use of a case study (Denzin, 1970).

### **3.3 CASE STUDY AS RESEARCH METHOD AND DESIGN**

Eisenhardt (1989b) describes the case study as a research strategy where an understanding of the dynamics within single settings is the major focus. Within this single setting, a multiple- or single-case can be studied. As stated above, the empirical setting is DNB and the relationships between the units. Arguably, the case study design then is single-case with multiple units of analysis, which is also called 'embedded' design (Yin, 2006).

Our intention when choosing to perform a case study was to find the underlying factors that affect the relationship between the units of analysis (Yin 2006). This means that we pose the question of 'what' (exploratory) instead of 'how' and 'why' that are suggested by Yin (2006) to be a better match with a case study. Yin (2006) further explains that asking the question 'what' can have two different underlying meanings. One of them, where the question 'what' is posed in order to explore something, is relevant for conducting an exploratory study. In this case study the approach can be argued to be a mix of an exploratory and explanatory approach, as we, in addition to asking the explorative question 'what factors affect the relationship...', also examine 'how' an MNC can leverage its market-leading position (explanatory). Further, Yin argues that any research method can be suitable for exploratory research, including a case study. Yin (2006) suggests two additional conditions that make the case study the most relevant method for a specific research question. One of them is that the research should not require control of behavioral events. As the research in this paper addresses personal behaviors and employees' subjective perceptions of events that have taken place at DNB, there is no need or wish to control them. The last condition that Yin poses is that the research within a case study focuses on contemporary events. The study performed was focusing on both contemporary and past events to get a longitudinal approach as well as to see how the situation changes over time. Bryman and Bell (2011) call this a 'longitudinal case'.

It considered difficult to master a case study because it demands the interviewer to have an enriching dialog, intellectual capacity and the ability to formulate and ask necessary additional questions during the data collection (Yin, 2006). This is because the collection of data is not routinized and the relevant information is not always obvious or easy to predict (Yin 2006; Kvale & Brinkmann 2009). In an attempt to minimize such problems the topic of the thesis was introduced at the beginning of the interviews. This also served the purpose of guiding and inducing the interviewees in the area of interest, and of avoiding the gathering of information that was irrelevant for the case study.

### **3.3.1 PROCESS OF STUDY**

The case study has neither been purely inductive or deductive. The case study was performed deductively in the process of shaping interview questions, as a theoretical knowledge base was established in the beginning of the process (Bryman & Bell, 2013). On the basis of theory, the interview questions were categorized under different themes. However, as the study for instance does not have any hypotheses that are being confirmed or rejected, it is not purely deductive (Bryman & Bell, 2011). Since the aim in this case study is to examine how 25 employees express their opinions and views on the intraorganizational relationship in DNB, an inductive stance that lets the empirical findings be the basis of our ‘theory building’, is best suitable. When using an inductive research approach, the outcome of the research is theory (Bryman & Bell 2011). The ‘theory’ derived from inductive research is seldom more than empirical generalizations (Bryman & Bell, 2011).

### **3.3.2 CRITICAL APPROACH**

Alvehus (2013) points out that a critical approach is not the same as being skeptical, but that it requires a large proficiency in the area and the ability to view a phenomenon from various perspectives. The theoretical chapter contains different angles in order to construct a wide and credible theoretical presentation. We have built up a profound knowledge base in order to examine the central dimensions, problems and possibilities that agency theory represents, just as Alvehus (2013) suggests.

### **3.3.3 THE BALANCE OF THEORETICAL AND PRACTICAL EMPHASIS**

Some researchers suggest that theory is not applicable to practical cases (Mason 2002). In this thesis theories have been used, as mentioned above, as tools to create a language to interpret information (Alvehus 2013; Merriam, 1994). ‘Theory’ can be defined in many different ways

since a large variation of theories exist (Merriam, 1994), and Knowles (1984:5) argue that: “*a theory is what a certain author argue that it is*”. Based on this, we emphasize that what is categorized under the headers ‘theoretical problematization’ and ‘theoretical review’ in this paper, is made up from different types of theory, from simple ‘ways to understand the reality’ (Bogdan & Biklen, 1982) to ‘substantive theories’ that are more concrete (Merriam, 1994). The theoretical framework is a central part of the argumentation within the thesis because theories provide an overview and a perspective on things, and they contribute with concepts and models (Alvehus, 2013) to interpret the empirical data presented below. The introductory problematization is emphasizing both the theoretical knowledge base and the practical material generated from the case study.

### **3.4 INTERVIEWS**

To study the relationship between subsidiary and headquarter, interviews with employees within DNB have been performed. The empirical data collection consists of semi-structured interviews with 25 employees at DNB. Of the interviews 19 were made face-to-face and 6 were made on conference-call. 7 of the interviewed employees work in Norway, 12 in Poland and 6 are working in Sweden, lasted around 60 minutes each. DNB Sweden will be used as a comparison to add further perspectives on the HQ and branch relationship. The emphasis in the analysis will be on the corporate banking operations in DNB Poland.

### 3.4.1 INTERVIEW DETAILS

| Date     | Name                 | Position   | Interview method        | Office            |
|----------|----------------------|--|-------------------------|-------------------|
| Jan 25th | Anders Grevstad      | Head of DNBs International Corporate division                                  | Face to face, single    | Oslo, Norway      |
|          | Thomas Tønnessen     | Head of Administration DNB Corporate division                                  | Face to face, single    | Oslo, Norway      |
|          | Øivind Tønnessen     | Senior Relationship Manager TMT DNB  | Face to face, single    | Oslo, Norway      |
|          | Rokas Bancevičius    | Business Analyst DNB Corporate division TMT                                    | Face to face, single    | Oslo, Norway      |
|          |                      |  |                         |                   |
| Jan 26th | Anne Hvistendahl     | Global Head of Foods DNB   | Face to face, single    | Oslo, Norway      |
|          |                      |  |                         |                   |
| Feb 11th | Tony Samuelsen       | Member of the Supervisory Council  | Conference call, single | Oslo, Norway      |
|          | Szymon Adamczyk      | Head of TMT Poland   | Face to face, single    | Warsaw, Poland    |
|          | Adam Żelezik         | Managing Director of Corporate Banking Division                                | Face to face, single    | Warsaw, Poland    |
|          | Eline Skramstad      | Member of the Supervisory Council, Senior Credit Officer Poland                | Conference call, single | Oslo, Norway      |
|          | Marcin Prusak        | Head of Sector Desks   | Face to face, single    | Warsaw, Poland    |
|          |                      |  |                         |                   |
| Feb 12th | Artur Tomaszewski    | CEO Poland, Member of the management board                                     | Face to face, single    | Warsaw, Poland    |
|          | Olof Seidel          | CFO Poland, Member of the management board                                     | Face to face, single    | Warsaw, Poland    |
|          | Piotr Kaczmarek      | Head of Business Development   | Face to face, single    | Warsaw, Poland    |
|          | Olga Plewicka        | Relationship Manager, Manufacturing & Foods                                    | Face to face, single    | Warsaw, Poland    |
|          |                      |  |                         |                   |
| Feb 13th | Alistair de Villiers | Head of Corporate Banking, Member of the management board, Expat from DNB Oslo | Conference call, single | Warsaw, Poland    |
|          | Magdalena Prusak     | Credit Process Coordinator   | Face to face, single    | Warsaw, Poland    |
|          | Anna Smolarczyk      | Credit Analyst   | Face to face, single    | Warsaw, Poland    |
|          | Ewa Banasiuk         | Senior Advisor, TMT, Seafood & Healthcare                                      | Face to face, single    | Warsaw, Poland    |
|          |                      |  |                         |                   |
| Mar 2nd  | Ulf Strandberg       | Senior Relationship Manager - Head of Healthcare                               | Face to face, multiple  | Stockholm, Sweden |
|          | Johan Sjögren        | Senior Relationship Manager - Head of Manufacturing Industries                 | Face to face, multiple  | Stockholm, Sweden |
|          | Erik Engström        | Relationship Manger Manufacturing Industries                                   | Face to face, multiple  | Stockholm, Sweden |
|          | David Palmér         | Credit analyst Healthcare and Manufacturing                                    | Face to face, single    | Stockholm, Sweden |
|          |                      |  |                         |                   |
| Mar 6th  | Maria Skogeryd       | Trade & Export Finance Sales at DNB, previous Credit analyst DNB Poland        | Phone call, single      | Stockholm, Sweden |
|          |                      |  |                         |                   |
| Mar 26th | Wojciech Dyk         | Head of Strategy, Marketing and Product Development                            | Phone call, single      | Warsaw, Poland    |
|          |                      |  |                         |                   |
| Apr 17th | Peter Carlsson       | CEO, Head of Northern Europe division  | Phone call, single      | Stockholm, Sweden |

Table 2, Interview details

### **3.4.2 DISCLOSING THE PARTICIPANTS IDENTITIES**

Disclosing the identities of the corporation and the interviewees has two helpful outcomes according to Yin (2009). First of all, the reader can apply prior knowledge about the case to the study and secondly, auditing the quotes and the material is easier. Grinyer (2002) underlines the importance of giving the participants a possibility to influence the interview to avoid leaving them with the impression that they ‘lost’ the ownership of their stories. Disclosing the name of the corporation and the names of the interviewees also increases the credibility of the study (Bryman & Bell 2013).

### **3.4.3 INTERVIEWS WITH HEADQUARTERS IN OSLO, NORWAY**

The purpose of the initial interviews in Oslo was to gather background information regarding DNB’s operations in Poland. The first interviews were performed with an open approach. We concluded that DNB did not have any specific preferences regarding what the thesis should generate. DNB was satisfied with a relevant topic, and supported us with the empirical material for our thesis.

We learned that entirely open interviews are more difficult to evaluate and compile and that they easily get out of focus, as every interview is different, just as Bryman and Bell (2011) suggest. Still, we found that open interviews in this first stage was essential, not to limit the respondent’s answers (Andersson 1994).

### **3.4.4 PERFORMING SEMI-STRUCTURED INTERVIEWS**

The choice of semi-structured interviews when collecting the empirical data was made in order to make sure that potentially differing perspectives of the respondents on DNB’s internal relationships were revealed. The extensive amount of interviews from three different units helps us to achieve a higher research quality through construct validity (Yin, 2009). We started from a template with different themes, or ‘constructs’, as Eisenhardt (1989b) defines it, and followed up with questions that would make the respondent elaborate further on the topic. According to Eisenhardt (1989b), it is rewarding to start off with a specification of the constructs that will most likely be valuable within the theory building later on in the process. Setting up semi-structured interviews with predetermined questions and subjects might hinder information that is essential for the thesis to reach the surface. We found it to be on the contrary. By covering pre-specified themes during the interviews we assured that certain areas of importance were not missed. The semi-structure allowed the interviewee to answer more

flexibly as well as to add additional thoughts on the theme. Further, we asked if there was additional information the respondent wanted us to know about. We applied ‘*Probes*’ as interview technique, which meant that we utilized pauses, encouragement, continued elaboration, repetition and clarification (Andersson, 1994). Both authors of this thesis were present during the interviews and the material was jointly interpreted in order to minimize biased interpretations.

### **3.4.5 ITERATIVE COLLECTION OF DATA**

The collection of data has been an iterative process. It became obvious after the first review of the material that some additional material was needed in order to complement areas of further interest (Bryman & Bell 2013). In order to receive more empirical data, yet without traveling to the various offices in Warsaw, Stockholm or Oslo, selected interviewees answered a few questions by email or in shorter additional phone calls. By utilizing an iterative process, we have been able to cover areas that otherwise may have been missed during the interviews.

### **3.4.6 PREPARATIONS AND PERFORMING THE INTERVIEWS**

Andersson (1994) presents advice regarding what to think about when performing interviews. First of all he suggests that the interview questions should be properly connected to the research question and the purpose. Furthermore, Andersson points to several issues that researchers often cross as well as recommendations on how to avoid failures. For example he argues that to avoid attacking too large areas, you need to conceptualize relevant concepts, trying not to be too ambiguous. Before the interviews we prepared by reviewing literature, studies and methodology in order to find and formulate relevant interview questions. As interviews are interactive, it is difficult to foresee how an interview will proceed. Factors that can affect the respondent during the interview cannot be prepared for in advance (Andersson 1994). During the interviews we tried to find the right tone in our conversations. Additionally, when preparing for the interviews, we took into consideration what to wear and how to behave whilst visiting DNB’s corporate banking offices.

The relationship between Poland and its principals may be a sensitive question for some of the employees as the relationship has not always has been successful. Alvesson (2011) states that it is of importance to bear in mind that respondents often wish to draw up a more positive picture and that sensitive subjects are hard to discuss. This may complicate the process of discovering the true relationship between the HQ and the subsidiary. The operations in Poland

during some periods can be regarded as a 'failure', and therefore as a more sensitive matter. To try to minimize this problem our initial aim was to interview a previous employee at DNB, as he or she perhaps could be more prone to provide us with a more objective view of the relationship. This, however, turned out to be too time consuming in relation to the limited time we had to write this thesis.

An important part of the preparation for the data collection was the preparation to conduct interviews with respondents from different cultures. It was fundamental to be familiar with the respondents' different cultural backgrounds as well as to be prepared for varying interview interaction between the respondents in regards to for example directness and modes of questioning (Kvale & Brinkmann, 2009). It came as a positive surprise that the Polish employees showed great willingness to talk about the relationship between the HQ and the subsidiary. It was not always necessary to ask all questions from the template document since the respondents thoroughly presented their opinions on all the themes. Moreover, we are aware of that many of the top managers are likely to have received media training and we tried to take this aspect into account when conducting these interviews.

### **3.5 SECONDARY DATA**

In this section it is presented how the theoretical material, or secondary data, has been collected and what has been made in order to present the material justly and at the same time avoiding plagiarism.

#### **3.5.1 LITERATURE RESEARCH**

Our literature research phase followed Deane's (2010) advice in order to locate sources and assessing the value of sources in a systematic way before starting to read. Deane further emphasizes the importance of having a critical approach to the sources and to also integrate critique when writing. The major method to find relevant material and sources within our area has been to follow similar studies and to follow up on their reference lists. To illustrate an example of this the review made by Eisenhardt (1989) presents former authors that have examined and studied agency theory. The mentioned authors and findings in Eisenhardt's (1989) review are references that we have followed up and studied further. A more updated literature review that we have used in an equivalently way is the review by Hoenen and Kostova (2015). In their review they examine agency theory applied to HQ-subsidiary

relationships from a broader perspective. Howard (2007) emphasizes that it is important to learn how to avoid plagiarism in order to improve and sharpen your own work and research, based on former findings. In our research we attempt to study DNBs operations in Poland from an agency framework extended with additional factors. We are aware of that there are many previous studies in this area. Our aim is to learn from these studies and to build on their findings with the conclusion from our research.

### **3.5.2 CRITICISM AND ACADEMIC INTEGRITY**

Lunsford (2009) stresses that an author will come across as a more honest writer if he or she is explicit about what sources have been used in the research and if he or she can signal academic integrity. Deane (2010) emphasizes the importance for authors to have a critical mindset throughout the research and to use sources that are *relevant, readily available* and *reliable*. In the literature research we have solely used credible sources, such as scientific journals and articles that strictly retain high academic standards. Google Scholars, Lund University's database 'LOVISA' and LUB Search for instance have been our major literature search databases. To find articles that match our topic we have used search-word such as 'agency theory', 'multinational corporates', 'HQ-subsidiary relationship'. Additionally we have spent many hours at the library, scanning through books on the topic in order to get information from various sources.

### **3.5.3 PLAGIARISM**

Avoiding plagiarism has been important for us. In order to avoid plagiarism we have kept full records of date of publications and noted page numbers for data and quotes throughout the research, as suggested by Deane (2010). We decided upon a method to handle the research in the beginning of the study, where the full information had to be written down straight away when finding new relevant sources. By initiating this, we have avoided the risk of missing out to present proper references. Throughout the thesis the Harvard referencing model has been applied.

### **3.5.4 PEER REVIEW**

Deane (2010) highlights that "*peer reviewing is a process designed to ensure the quality, reliability and originality of published material.*" Two master students peer reviewed the manuscript during a middle term seminar on the 16th of March. This is a way to increase the construct validity of our study (Yin 2009).

### **3.5.5 ADVICE AND GUIDELINES FROM LITERATURE AND SUPERVISOR**

To continuously keep a good track during our research we have read various methodological books to remind ourselves on how to properly write a good thesis and how to present academic research correctly. Rienecker and Jörgensen (2014), Winter (1992) and Andersson (1994) are some examples of relevant literature that has generated recommendations, advice and guidelines.

During the process of writing this master thesis, our supervisor from Lund University, Magnus Johansson, has given us recommendations, guidelines and valuable advice to accomplish a well-written master thesis. We had six meetings during the spring that lasted approximately one hour each. The supervision has been helpful and it has functioned both as smaller deadlines during the progress and as a check that we were working in the right direction.

## **3.6 AUDITING THE MATERIAL**

The data has been gathered and selected following a roadmap by Eisenhardt (1989b) as well as Merriam (1994), describing how to build theories from case study research using methods such as grounded theory, pattern matching and triangulation.

### **3.6.1 TRANSCRIBING THE MATERIAL**

The collected interview material has been transcribed, analyzed and interpreted in accordance with Andersson (1994) and Mason (2002). All the 25 recorded interviews have been transcribed to ensure that all the material could be processed (Kvale & Brinkmann 2009). This process generated 242 (A4) pages with empirical material. This material was thereafter categorized using ‘categorical indexing’ (Mason, 2002). The categorization is based on important aspects raised in the theoretical framework such as path dependency, communication, collaboration between HQ and Subsidiary, trust, etc. This was to systematically establish categories based on a common index from the empirical data. Furthermore, all material concerning one topic, for instance path dependency, was processed and summarized into one chapter that is presented in the empirical material below. This has been done in accordance to Andersson (1994), who emphasize how essential it is to separate

the material into various categories, enabling the possibility to analyze, compare, and find similarities in the interviewees' answers.

As stated by Alvehus (2013) it is important to acknowledge what final conclusions can be made based on what methodology and investigation has been conducted. The empirical material is secluded from the analysis in order to present a separate empirical chapter that stands alone, based only on the empirical data.

### **3.6.2 GROUNDED THEORY & PATTERN MATCHING**

In the process of collecting data, analyzing it and building theory, grounded theory is perceived as the most beneficial and common method (Bryman & Bell, 2011). According to Kendall (1999), there is a controversy between Glaser's (1992) approaches to grounded theory methodology (GTM) in contrast to Strauss and Corbin (1990), which makes it important for us to discuss how we have chosen to apply GTM.

In this thesis, important themes have emerged from the process of data collection, which has been altered with analysis in an iterative process (Saunders, Lewis & Thornhill, 2009). This is argued to be one of two central features within the grounded theory method according to Bryman and Bell (2011). The other feature proposed by Bryman and Bell is that theory has been derived out of data, and this feature is as relevant in this case study as the first one. The extensional 'theories' that we contributed with have been a process of constant comparison and are based on collected empirical data and by doing this; we have applied grounded theory, according to Merriam (1994).

This thesis focuses on factors that affect the relationship between subsidiary and HQ. The process of measuring what factors, or independent variables, that affect the relationship can take the shape of 'axial coding' as suggested by Strauss and Corbin (1990). In order to analyze this, the factors from the theoretical framework have been connected to concepts and expressions found in the empirical material (Saunders et al., 2009.) To be able to do this, some dependent variables of the relationship between subsidiary–HQ needs to be derived. According to the theoretical discussion, goal congruence, goal achievement and goal commitment functions as dependent variables, and the relationship is the overarching dependent variable. The theoretical discussion above presents three independent variables (communication, integration and collaboration) that affect the seven factors (information

asymmetry, risk, control, social and contextual, path-dependency, trust and attention). These factors in turn affect the dependent variables goal congruence, goal commitment, and goal achievement.

In alignment with the social constructionist view that follows an interpretive reasoning we have studied how the three subjective independent variables (communication, collaboration and integration) affect the relationship in this case. As Saunders et al. (2009:111) state: *"it is necessary to explore the subjective meanings motivating the actions of social actors in order for the researcher to be able to understand these actions."* A quantitative researcher would have criticized this method of being too subjective when we have not applied any actual numbers to measure how the factors affect the relationship, but this is being done because we hold the social constructionist view.

When analyzing the empirical material, pattern matching has been applied. This is the most desirable technique for case studies according to Yin (2009). The empirical material has been thoroughly sorted and analyzed and subsequently it has, if possible, been matched with the factors brought up in the theoretical framework. Yin argues that when these 'patterns' match, the internal validity is strengthened. Pattern matching and following, grounded theory, is a process of constant comparison that generates new theories (Yin, 2009; Kendall, 1999).

In Chapter 8.0 below, a discussion reflecting the introductory problematization will be presented in order to widen the understanding of the context in this thesis. As stated by Alvehus (2013) it is important to acknowledge what kind of final conclusions that can be formed based on what methodology and investigation has been made. To create a straightforward dialogue and distinctly indicate the contribution of this thesis (Alvehus, 2013), suggestions for further research studying the relationship between subsidiary-HQ within MNCs will be presented.

### **3.6.3 ABOUT THE AUTHORS**

Both authors study master's degree in Business Strategy and have a 3.5 year background of relevant theories and knowledge within the area of business strategy and economics. Both authors wrote a bachelor thesis in spring 2014 and have therefore earlier experience and understanding of writing an academic thesis. One of the authors have worked part-time at the School of Economics library and therefore withhold information regarding how to find

relevant literature, search in databases et cetera. The other author has previously worked at DNB and has former insight and knowledge about DNB Norway's corporate banking division.

## 4 EMPIRICAL MATERIAL

The following empirical material will first of all illustrate the focal research area; the relationship between DNB's Polish subsidiary – its HQ in Norway, as well as its branch in Sweden. A background, timeline and the legal structure of the Polish unit are featured, followed by an empirical 'story', narrated by the interview material from the various ventures.

### 4.1 FOCUS WITHIN DNB

The hierarchical formation between the three focal ventures is illustrated and explained in Figure 1.

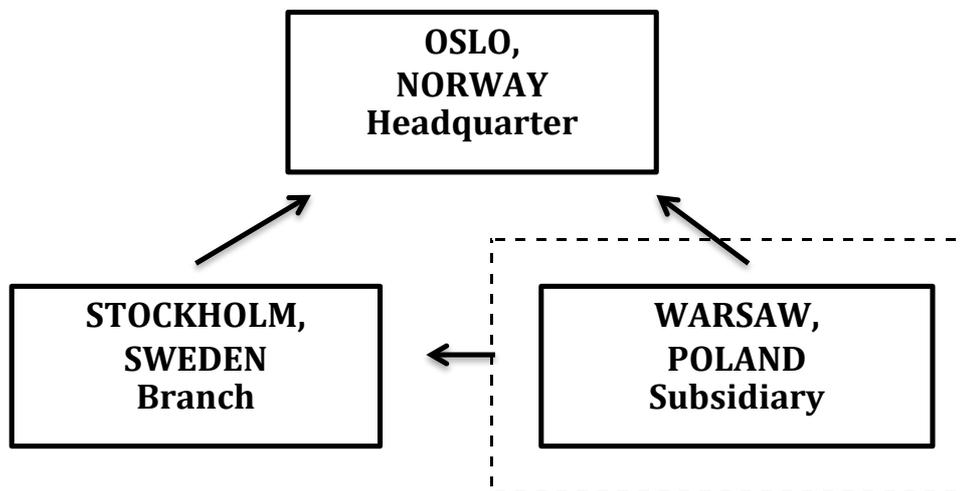


Figure 1, 'Hierarchical formation'.

DNB's HQ is located in Oslo, Norway. Stockholm, Sweden is a branch to DNB Norway and reports to respective industry head at HQ. DNB Poland is a subsidiary to DNB Norway and it reports to respective sector head in either Oslo or Stockholm. DNB Stockholm is head of DNB's general operations in Poland, making DNB Poland an agent for both DNB Norway and DNB Sweden, its principals.

### 4.2 BACKGROUND DNB POLAND

In the years before the financial crisis, DNB wanted to expand further and had an optimistic

outlook. As the Norwegian market could only offer limited growth, DNB started to look for other opportunities to expand. Thomas Tønnessen explains: *“Due to the fact that the market at the time had strong expectations to growth. DNB had limited potential for growth in Norway so we had to look elsewhere. The NORD/LB Joint Venture then looked as a very good option.”* This is the reasoning behind why DNB, ‘DNB NOR’ at that time, engaged in a joint venture with the German bank NORD/LB. The joint venture was established in 2006, 51% owned by DNB and 49% owned by Nord/LB, with the goal to grow in both the Baltic regions and in Poland. Several of the interviewees point out the difficulty in managing a joint venture successfully between two banks with different strategies. One of the employees in DNB Poland stated: *“it was like having two mothers, who neither cared for us.”* The financial crisis reached the banking sector in Poland in 2008, affecting the joint venture negatively. It is suggested by interviewees in Norway that the collaboration was lacking effort, structure and efficient decision-making. The joint venture came to an end in 2010 when DNB bought NORD/LBs 49% shares and became 100% owner. After the acquirement, DNB tried to sell the Polish operations, but did not receive satisfying enough offers from potential buyers. Eventually, DNB decided to sell the retail operation to an external buyer, ending up with only corporate banking operations in Poland in 2012. A timeline of the most significant historical events is introduced below in Figure 2.



Figure 2, Historical Timeline DNB Poland

#### **4.2.1 INDEPENDENT SUBSIDIARY OF DNB**

DNB headquarter is located in Oslo, Norway. The banking group constitutes of 18 worldwide branches (DNB Annual Report, 2014). Traditionally DNB grow into new ventures organically, as opposed to by mergers or acquisitions, as was the case in Poland. DNB's operations in Poland differ as well due to the subsidiary structure instead of the branch structure adopted at other international ventures. As suggested in the interviews, DNB Poland is independent, it withhold its own jurisdictional unit, balance sheet, and separate capital lending limits. The legal structure of subsidiary affects how DNB Poland can operate. Alistair De Villiers points out that PFSA (Polish Financial Supervisory Authority) protect the polish companies and the Polish economy from foreign capital by setting up strict requirements for international banks operating on it.

Øivind Tønnessen, Head of TMT industry sector in Poland, notes that revenues from Poland are reported separately and that this is problematic. He explains: *“we get revenues from New York and London, but not Poland. Because they are their own bank and have their own system.”* Rokas Bancevičius, Analyst in DNB Oslo comments that because of this, some work is being done simultaneously, requiring lots of coordination between Oslo and Poland. Furthermore, being an independent subsidiary, Poland is not connected to DNB's intranet, making them excluded from the internal information and contact lists. Olga Plewicka and Maria Skogeryd among other employees in Poland, suggest that the information sharing could be improved if this was changed.

### 4.2.2 COMPETITIVE MARKET

Table 3 below presents facts on the different market contexts that respective venture operate in.

| Facts, Market Context                      |        |             |            |
|--|--------|-------------|------------|
| Country                                    | Norway | Sweden      | Poland     |
| Concentration of banks <sup>*</sup>        | High   | Medium/High | Low        |
| Foreign banks <sup>1</sup>                 | 33%    | > 10 %      | 70%        |
| Regulations, reporting <sup>*</sup>        | Yearly | Yearly      | Quarterly  |
| DNB corporate banking ranking <sup>*</sup> | No 1   | No 6        | No 20      |
| Market position <sup>*</sup>               | Leader | Challenger  | Challenger |

Table 3, Market Context

The Polish banking sector is known for its competitiveness and the majority of the interviewed persons underline the complexity of this. Marcin Prusak points out:

*The Polish banking industry has always been too crowded. There were too many banks wanting to do business in Poland, resulting that the competition has been very fierce during the last 15-20 years and it has always been stated that there are too many banks in Poland, basically.*

Artur Tomaszewski agrees on this and points out that DNB is competing with at least 20 other banks in the market. Olof Seidel, CFO in Poland, remarks: "in some areas in Poland there are more retail bank offices than grocery stores!" Foreign banking groups own more than two thirds of the banking sector assets in Poland (Capital Strategy, 2012), see Table 1 for comparison to the other market contexts.

### 4.2.3 POLISH FINANCIAL SUPERVISORY AUTHORITY (PFSA)

The interviewees suggest it is difficult to compete on the Polish market because of the strict regulations set by PFSA. Olof Seidel states: "PFSA is known to be a demanding financial regulator in Europe. The Polish banking sector was the only banking sector that hasn't had any mayor difficulties during the financial crisis." Eline Skramstad and Anders Grevstad conclude that PFSA are rather strict, bureaucratic and time consuming.

\* Based on the empirical material

<sup>1</sup> European Commission (2014)

Many of the interviewees emphasize an importance for DNB to accept international rules and regulations when conducting banking operations outside Norway. David Palmér remarks that the Polish FSA has a very detailed insight in the banks and requires quarterly reporting on key figures for all clients as opposed to annual reporting in Sweden and Norway. Norway is not part of the EU and therefore not in all areas subjected to similar regulatory requirements, as explained by Olof Seidel:

*It's always a conflict between being a customer oriented and efficient bank and at the same time being exposed to PFSA, who has significant regulatory needs. And it's not only PFSA but also the European supervisory governments such as EBA and ECB and I know that Norwegian regulator has very demanding Capital solvency requirement but the reporting needs for a smaller subsidiary like DNB Poland are challenging.*

### **4.3 CHALLENGER VERSUS MARKET LEADER**

Anders Grevstad and several other interviewees state that DNB is one of the world's most solid banks. An important aspect Peter Carlsson among others point out, is that DNB is the largest bank in Norway, but not in other countries it operate in. To challenge, he states, is completely different to being dominant. Anders Grevstad observes this as well, and admires employees who are brave and skilled enough, choosing to work for a small, niched bank abroad, instead of remaining in Norway, where DNB holds the market leader position. Marcin Prusak agrees, and comments that in Poland they have to fight to be able to grow and establish a strong position on the market, because they are a challenger. Adam Źelezik points out that banks need to be proactive and approach clients due to the tough competitiveness in the Polish banking sector and subsequently, companies do not need to look for a financier.

Being part of the largest banking group in Norway is a key argument to show the clients that its subsidiary in Poland is reliable and stable by executing the same large Corporate Strategy as its parent bank, according to Szymon Adamczyk. Olof Seidel additionally emphasizes:

*DNB's value proposition is very successful in defined global industries. And Norway has got a very positive image as well as DNB. What we actually do is be an ambassador for the global LCI (Large Corporates and International Division) by marketing the brand DNB, to attract the clients.*

Marcin Prusak suggests that being part of the DNB group is helpful when approaching potential clients; there is a financial aspect to this relationship. By showing large transactions made on group level, their attractiveness increases. Adam Železik underlines that it is preferable to work together with the colleagues from Oslo who hold knowledge and expertise to a higher extent, especially when approaching clients within industries they are not as well experienced within.

The Swedish interviewees confirm that DNB is a challenger in Sweden just like in Poland. Olof Seidel explains that he thinks that Stockholm and Poland in the long run have a similar strategy due to this, and also because both are in a competitive market. Maria Skogeryd further explains that it is a challenge that the Swedish market differs from the Norwegian market and that her Norwegian colleagues sometimes lack understanding for this. In Norway DNB is market leader and the number one choice while in Sweden DNB is a challenger on a market with fierce competition. She furthermore explains that due to DNB's position and the fierce competition DNB Sweden need to be more service-minded and offer better products and services than the competitors to win deals. Ulf Strandberg believes it to be good for the cooperation that there exist a historical link between Swedish subcontractors and manufacturing companies in Poland. Moreover, Maria Skogeryd states that there are similarities but there are also differences. In Sweden the employees complain about hard competition, competing against 5 or 6 banks, but in Poland the number of active banks are 10 times as large and the shape of the market is completely different.

#### **4.4 NORTHERN EUROPE DIVISION**

Poland was formerly part of the M&A division internally in DNB but has been incorporated into the Northern Europe Division. As Sweden has more subcontractors in Poland than Norway due to the industry formation and focus of the Swedish industry. Therefore it was a natural decision to match DNB Poland in the Northern Europe division, Peter Carlsson, responsible for operations in Poland and positioned in Sweden, argues. He remarks that:

*Well, they feel they have gotten a home. Earlier they were under the M&A sector, and you can tell by the name that it is not a long-term strategic possession but something that can be bought and sold any day.*

Artur Tomaszewski state: *"I think we were happy that we were merged into the Northern*

*Europe division of DNB last year. So we are not left alone, we are part of the bigger group, which is supervised from Sweden”.* He further comments that Peter Carlsson help him to represent their interests in Norway, and that this helps because Peter has a stronger influence on HQ.

Olof Seidel remarks that DNB Poland is far away from the headquarters in Oslo, but ever since they became part of the Northern Europe division Poland has become more strategically important for DNB as an integrated part of the division and thereby offering financial services to important cross-border customers in the relation between Northern Europe and Poland. Ulf Strandberg agrees and adds that the credit analysis reporting from Poland became more globally integrated with DNB: *“We are much more ONE bank now when talking about credits, we involve both Poland and Norway.”*

## **4.5 STRATEGY AND GOAL CONGRUENCE**

Eline Skramstad underlines that because of the historical development and some bad deals that were made in 2009-2011, the quality of the portfolio in Poland is not considered to be good enough yet. Eline Skramstad suggests: *“there are many reasons as to why we had a misfortunate launch in Poland.”* David Palmér agrees and further explains: *“The portfolio was rather mixed and there were some pretty bad engagements. A lot was out of strategy and there were many small clients.”*

Marcin Prusak comments:

*The whole process and complicated history made an impact on me that you know, being aware that nothing should be taken for granted, times change, conditions change, regardless of what you do and how you do you will always face some situations like that when you are to be made redundant. Sometimes it is basically not because it is your fault, because of some other issues at a much higher level.*

Wojciech Dyk identifies that employees in Poland previously were skeptical about the various strategies that have been implemented over the last 10 years and because of this quite a few employees left DNB. He emphasize that in times of changes it takes persistence and consistency in convincing people that they are a part of a greater strategy. He argues: *“We*

*need to prove that we are valuable for the organization, that we can deliver the targets and deliver results.”*

To execute the strategy, it is a must to attract and retain talented and motivated employees in line with the values of DNB. Olof Seidel continues, that the bank in the past has been experiencing larger restructuring measures by re-focusing its strategy: Therefore it is crucial that employees believe that DNB is a stable employer with an integrated culture and values. Recent employee and customer satisfaction surveys show that DNB Poland is aligned with other DNB entities— so we are on a good path.

#### **4.5.1 IMPLEMENTING NEW STRATEGIES**

It is suggested by the interviewees that when DNB fully acquired the operations in Poland and becoming the sole stakeholder, there was a wide and universal strategy employed for Polish operations. It was not always perfectly clear what the long-term strategic objectives were. Piotr Kaczmarek states that DNB at the time was “*everywhere in the market*”. After completing the acquisition of the Polish venture, a new strategy was implemented focusing on limited, sector oriented corporate banking, and this is the strategy at DNB Poland that prevails today. Artur Tomaszewski explains that the implementation of the new direction for Poland was a fair process, based on the objectives provided by the HQ. The Polish operations, portfolio and local peculiarities were recognized and taken into consideration when implementing the corporate banking strategy.

DNB agreed to set less strict boundaries regarding the industry strategies in Poland in order to enable an improvement of the portfolio DNB Poland had at the time. Alistair de Villiers explains that every 2-3 years the management board in Poland proposes a strategy to be approved by the HQ, which functions like a roadmap for the operations in Poland. The interviewees note that implementing a new strategy is time-consuming. This is because the application of the strategy needs to be approved by both HQ and PFSA before it can be taken into action. The management board in Poland was allowed to develop a suitable and local strategy to be aligned with DNB and HQ’s expectations in the long run. Wojciech Dyk describes that a lot of effort has been made to align the structure as much as possible to the structure that exists in the group, after the corporate banking strategy was put into action in Poland. In 2014, HQ accepted the new LCI strategy for the Polish venture, and from now on it has a larger resemblance of a ‘normal bank’ (Olof Seidel).

## 4.6 POLAND ALIGNED WITH HQ STRUCTURE

Large Corporates and International (LCI) focus on different industry sector strategies. The sectors in Poland that are examined in this context are TMT, MI, HC and SF. The interviewees identifies that TMT is an industry sector that has been growing in a successful manner during the past two years in Poland. The Polish and Norwegian ventures have to a larger extent collaborated when approaching certain clients within TMT compared to other sectors. The MI industry sector is large, working with many Swedish subcontractors. The MI strategy and its range of potential clients is not as strictly defined as the HC industry sector, that has strict and well-defined strategic guidelines. The fourth industry; SF, has limited operations in Poland and is subsequently not overly represented in the empirical chapter.

The target lists are brought forward by each Polish industry sector and thereafter, respective sector head in Sweden or Norway check and evaluate the list of top targets from the target list together with Polish counterparties. After this process, employees in Poland can begin to approach the selected clients. Due to the set-up based on core targets and a detailed strategic objective, the strategy is found as clearly aligned with DNB's guidelines. Adam Železik describes:

*We established industrial desks covering the structure of what we have in the HQ, and we are following the particular sub strategies for some industrial sectors. We are fully aligned in this context, or in 90 percent aligned, because the threshold is still a little bit lower. But we will increase it gradually in next year.*

Anders Grevstad emphasizes that the client portfolio in Poland to a large extent is in line with DNB's industry focused strategy, but notes that numerous clients in the portfolio would not have been there if it was not for the joint venture. Further he states that within 4-5 years there will be no difference between Poland and the rest of DNB's international hubs that are totally industry driven.

The interviewees in Stockholm indicate a different point of view regarding the strategic alignment with DNB Poland. Johan Sjögren mention that his Polish colleagues from time to time work outside the Nordic MI strategy, yet further he proposes that this may be due to the fact that MI Poland has a broader target list and thereby is harder to strategically define. Ulf Strandberg and Johan Sjögren identifies that the TMT and HC sector have been more successful in communicating the business strategy, and its directives. They have more or less

established a common understanding within the sector teams. An important aspect that Ulf Strandberg and Johan Sjögren point out is that employees from Poland from time to time request a ‘desk opinion’ that possibly can be resource demanding.

David Palmér points out that DNB’s strategy may suit some markets better than others since it is based on the Norwegian market and its business mindset. Olof Seidel states: *“the strategy only based on Norwegian companies in Poland is too narrow. Therefore our strategy is not a Norwegian strategy only, but to base on a selected sector strategy where the parent bank has a proven track-record.”* Additionally, Peter Carlsson indicates that it is important to honor the individuality of the local environment and that the customer behavior differ between markets, explaining: *“the essence is the customer behavior and it is primarily a Polish customer behavior. It’s not a Norwegian customer behavior, and it is not a Norwegian customer behavior in Sweden either.”*

#### **4.6.1 CLEAR STRATEGY**

The management in Poland suggests that it is helpful to have a clear strategy towards the employees. Wojciech Dyk remarks: *“it was a difficult task and a big change but we see the result of this already.”* Piotr Kaczmarek points out that it was demotivating when there were large misunderstandings regarding what the new strategy implied. He put a lot of effort into a certain engagement but found out half a year later that the HQ did not approve it, since it was not in line with the strategy. Due to this misunderstanding, Piotr Kaczmarek ended up having difficulties reaching the annual targets, which was frustrating. After applying the new strategy towards corporate and sector desks Tony Samuelson finds that the atmosphere amongst the employees within the group has improved. Additionally Wojciech Dyk suggests that the level of trust has increased after the new clear strategy was implemented,

*I think it took more or less these two years to build trust. And I think now we are at the stage where people also trust the strategy of the group, and they trust that this is the long-term strategy.*

The increased level of trust has grown into a curiosity about how DNB Poland can leverage as well as contribute with knowledge to the group, Wojciech Dyk argues.

#### **4.6.2 KPI AND BALANCED SCORECARD**

In the end of 2013, DNB initiated balanced scorecards for the entire bank, cascaded down to each department with KPIs and goals to be fulfilled. Each of the KPI’s are linked to the top

level of the organization, making everyone aware of what is expected from every department. The results were assessed for the first time in 2014, and in 2015 the balanced scorecards will be updated accordingly. Wojciech Dyk comments: “*we want to do this every year, so that everybody knows what is expected from them and how it corresponds with the targets of the entire organization.*”

Piotr Kaczmarek points out that the values and goals are straightforward and understandable, and that everyone is aware of how to fulfill the goals in accordance to the objectives from HQ. Piotr Kaczmarek explains:

*If it is out of our strategy, full stop, we don't go further with analysis. We don't spend time on that, we don't spend time on considerations like 'maybe I will convince someone, maybe we can because in this strategy it is not clearly written that...' No. Our strategy is clear. No waste of time, no waste of resources.*

Regarding making the final decision when approaching clients Ewa Banasiuk states that she and her colleagues would never proceed with a client that sector head (Øivind Tønnessen) says no to, and that they respect his view as he represents the HQ and that this is natural. Marcin Prusak on the other hand finds that it depends on the size of the financing and the client:

*Well, you know I would say that it a little bit depend on size. Because obviously if it is large client and involves large financing client, you definitely need to call the guys in Oslo and ask what they think about it. If this is a smaller client and we know that it fits the strategy, and we went through the strategy a number of times from Oslo, we don't always make a call, we just know that this client fits well to DNB.*

#### **4.6.3 ALIGNING PROCESSES TO DNB STANDARDS**

DNB has an internal credit analysis paper, which is a template of about two pages, used for evaluation of companies and clients all over the DNB group. DNB Poland has historically not used this template. Øivind Tønnessen explains that this was a challenge in the beginning:

*In the beginning there was a tendency to write a lot of details, I think that the head of credits in Poland may want more detailed information into the credit papers, and we in HQ have a slightly different approach.. Keep the information short and say the most*

*important first and not loads of details. But lately it has gotten better and better, and that is clearly an improvement.*

David Palmér, who worked in Warsaw for three months, remarks that initially many credit papers were written in Polish and not in English, which made it more complex. He comments that the detail orientation might be because Poland is rather hierarchical, and that all responsibility was not delegated. The analysts included a lot of detailed information in credit papers because managers wanted to look at it themselves, rather than having it analyzed before it reached them.

According to the interviewees there is a different career-path in DNB Poland than in DNB Stockholm and DNB Oslo, which affects how the work regarding credit papers is constituted. David Palmér observes:

*It was very mixed amongst the relationship managers, whether they had an understanding of credit risk or not. Many of them were very focused on selling, in Norway it is more based on that the relationship manager owns the credit risk and should have an understanding of what is regarded as acceptable structures and what is possible to do. It's not always like that in Poland.*

It is identified by the interviewees that the quality of the credit papers requires improvement in Poland. The credit analysis needs to be more concise, critical, well thought through and straight to the point. Maria Skogeryd indicates that the many details in the credit paper might be from fear of missing something when the case is assigned to a higher decision level. She argues that this pattern sometimes also can be found in Sweden.

Johan Sjögren, argues that there is an information asymmetry between Poland and Oslo and Stockholm in the credit analysis process. In Poland, he points out, there may be a need to balance a strong relationship unit with a more senior CAS [Credit analysts] unit, which is in line with current development in Norway and Sweden. Regarding information sharing and learning, Rokas Bancevičius analyst in Oslo, on the other hand, points out that the layout is the same on the credit papers due to the internal writing-system named the 'pyramid principles', and that employees in the same teams collaborate on establishing the credit papers.

The Swedish interviewees comment that DNB Sweden was tied to the customer perspective

in the past, just like Poland is now. The sector focus has made the Swedish operations more tied to the Norwegian organizational set-up and the two ventures are well integrated today. The operations in Poland are holding a customer perspective, but are structurally organized similar to Norway and Sweden. Johan Sjögren argues that the expatriate in Poland, Alistair de Villiers, holds a balanced perspective of what works and not according to the strategy. According to Johan Sjögren, everyone in Poland is eager to do business, which to a large extent is a good thing but it is essential to have an understanding for DNB's industry strategies and above all understand that DNB is a bank that values credit and risk handling.

## 4.7 EXPATRIATE

DNB Poland together with the DNB group assigned an expatriate from the HQ to work with the integration and communication between HQ and the subsidiary in Poland. This was an initiative made by DNB Poland. Adam Źelezik explains:

*We need someone who will help us to align with the group or make this closer contact with the right people. And we were looking at this specific person, and Alistair was the best candidate for this mission, and Artur agreed with Alistair that he joined the polish team for two years, or this mid-term period, and will help us much faster to become part of the group than if we will do it alone.*

It has been suggested in all the interviews that the expatriate has functioned as an integral link between HQ and DNB Poland. Johan Sjögren points out: *"it is his job to increase the activity and communication between Poland and both Sweden and Norway."*

### 4.7.1 BEFORE EXPATRIATE

The Polish employees have stated connecting with the right counterpart from another unit within DNB difficult. Szymon Adamczyk, having worked 9 years at DNB, comments:

*We didn't have, we couldn't identify contact persons. So you can imagine this inefficiency, that you are trying to call your colleague in the organization and you don't know whom to approach, so it was like a 'black hole'.*

The same confusion has been stated amongst Swedish and Norwegian employees, regarding whom to contact in Poland. Erik Engström argues: *"Since Alistair came to Poland, the*

*operations have become more centralized [...] previously you weren't always sure who you would get in contact with." Johan Sjögren continues: "we can call Alistair to find out who the person in question is and what role they have. I don't think our cooperation with Poland was that extensive before Alistair came to Poland."*

#### **4.7.2 EXPATRIATE KEY IN ORGANIZATIONAL CHANGE**

Anders Grevstad emphasizes the importance of the expatriate that he knows DNB's strategy by heart and is very loyal both to Oslo and Poland. Peter Carlsson additionally states:

*He has done a remarkable job, and transmitted a lot of the DNB way of thinking, but he has also added an international perspective, since he is Scottish, and in that way got more perspectives on things. He is really an energetic guy that has helped us get through to the Polish market through his strong relations with the 'mothership'*

Anders Grevstad states that the expatriate is key in the internal collaboration in DNB. Ewa Banasiuk reflects on his presence in Poland:

*I personally think it is positive, it's great with new fresh air and also it makes the bond much stronger and then we kind of can find our place there and that we are not a completely separate unit that they only look at results and "ok, they are not really that good" and so, well just become an integral part.*

#### **4.7.3 INVOLVING DNB POLAND WITH THE GROUP**

Adam Źelezik points out that the best way of sharing information about the Polish market is by being present, and accordingly employees from the HQ have been invited for gatherings, forums, sector conferences and client meetings. The interviewees emphasize that the communicational exchange between HQ and DNB Warsaw has increased. Weekly meetings, phone-calls, and increased integration by arranging more frequent face-to-face meetings has led to increased knowledge sharing of the DNB strategy and atmosphere.

From a governance perspective on the relation between the parent bank and its subsidiary, it was emphasized that there are by-weekly visits from senior DNB staff in Poland as it is very important that the supervisory council and HQ are regularly updated and made aware of what risks and future plans Poland are or may be encountering. Szymon Adamczyk comments:

*Since we are a part of DNB, 'we are DNB'. We need to understand the culture, the*

*Scandinavian and DNB culture. And in this case it is really important to have face-to-face meetings. And to build trust between people. So we have been flying to Oslo, we have been inviting people from Oslo to Poland, to show them how banking sector looks like, who we are, how we are working. And also, after the takeover by DNB there was a large project to show the potential of the Polish market.*

Maria Skogeryd explains that the expatriate has been working hard with involving Poland in gatherings and meetings:

*I think people in Norway are positive towards doing new transactions in Poland. And it gives them a feeling of safety that they already know somebody in Poland, when they are building new relation and are doing transactions there. I really think Alistair has succeeded with his work and has put Poland on the map in a different way than it was before. He is incredibly driven and energetic.*

Both Alistair and Szymon Adamczyk suggest a way they handle the information asymmetry in using examples from the Norwegian market. For instance that Allegro in Poland is similar to Schibsted in Norway. This is in order to inform the counterpart in DNB what the client is like. Ulf Strandberg (Sweden) and Øivind Tønnessen (Norway) frequently participate in client meetings in Poland. Olga Plewicka, Relationship Manager in Warsaw, states that this adds value. Artur Tomaszewski explains that work is facilitated when they visit Poland, showing interest in the operations and the Polish market. He comments:

*I hope it will change also across the organization because now of course everybody want to go to London and New York, maybe to Singapore, but Warsaw? No, not necessarily, not necessarily. But as people come here it changes.*

#### **4.7.4 VISIBILITY ON THE POLISH MARKET**

DNB is a relatively small and niched corporate bank in Poland (Olof Seidel). Several interviewees indicate that DNB lacks recognition in Poland and the difficulty of being a small corporate bank in the Polish banking sector. Szymon Adamczyk states that companies were uncertain about the stability of the bank when it had been out for sale. He continues remarking:

*But right now it is changing. We are present in large transactions and we cooperate with many banks in the bank syndicates so it creates a lot of visibility of DNB on the*

*market. And when we started doing certain transactions and actually steal clients from other banks we have been more responsive, flexible and faster and it also created some visibility.*

Adam Źelezik confirms: *“our targets know the DNB brand and the name DNB, what we are and what we do on the polish market, and this is enough I think and the brand recognition is not a problem anymore.”*

Olga finds that attention from HQ has increased significantly during the last years, with help from the expatriate in connecting Poland to people in Oslo: *“Now we are in Poland and we are small, so we have to jump and say ‘here we are! Don’t forget about us!’ But I can understand that they sometimes are very busy.”*

Artur Tomaszewski describes that receiving salience from the shareholders is tough as well as convincing HQ to find time, resources and support for them. He states that on the business side immediate successes are more visible, but on the operations side it is not as straightforward, and subsequently more difficult to attract HQ’s attention. Artur Tomaszewski suggests: *”so therefore we are trying to knock to the doors of the Oslo office, to convince them that Poland is important for the group.”* Szymon Adamczyk explains that it is not easy for several reasons getting a person from the HQ responsible for the Polish operations, because it means a lot of hard and additional work for the respective person and consequently that they have less time to work on their own home market portfolio. Artur Tomaszewski remarks a bias towards Poland. Many people regard Poland to be an underdeveloped market with a lot of risk. This affects the involvement received from Oslo. Artur Tomaszewski explains: *“when the people started to come to Warsaw, see the clients, see the marketplace, see that it is ok, they get convinced. They buy in and they tend to return and they get involved.”*

David Palmér comments that working in Stockholm is almost like working at HQ, because it is close. This is the common understanding of the interviewees from the Stockholm office. Working on a deal in Poland that nobody feels responsible for in Oslo or Stockholm makes it difficult to get attention, he argues. The cases are smaller in Poland and maybe not always as profitable. It is natural that a larger effort is made on bigger deals, since they are more important for the groups’ results. Johan Sjögren remarks that Norwegians are more comfortable with having Sweden as a counterpart, since they are more familiar with the Swedish market, similar business culture, and the companies are well-known and they more

or less speak the same language: *“We have been here for a while, and actually built up the trust”*, he concludes.

#### **4.7.5 KNOWLEDGE GAP**

Many interviewees express that trust is an important aspect for the relationship between Poland and Oslo. Anders Grevstad comments: *“corporate banking is a lot about getting to know people. You need to know who you can trust and not, and “who is all right and who is not?”* Interviewees suggest that DNB had limited information about the Polish market in the beginning, with difficulties in determining if clients were good enough. Alistair de Villiers observes that there is a knowledge gap, and therefore it is important to build trust that goes both ways: *“So it's been a lot about trying to market DNB internally, so this has been some of the key things in trying to address that challenge.”* Alistair de Villiers remarks that the trust and the knowledge sharing have increased during the last 2-3 years between HQ and DNB Poland, because of joint efforts from the different sector industries. Wojciech Dyk emphasizes the importance for employees in Poland to understand that DNB group should be used as a knowledge resource:

*Once people see it as an opportunity rather than a problem, I think it changes the approach, and then it becomes more about curiosity and thinking about how we can best leverage the knowledge, the know-how, the experience that we have and the relationships that we have on the group level, to succeed in Poland as well. And I think we are at this stage at the moment, but it was definitely not the case from the beginning.*

Knowledge gaps are suggested often being the reason for misunderstandings between the units. According to Magdalena Prusak there still is a discrepancy between the office in Poland and HQ regarding customers and transactions on the Polish market.

Several interviewees emphasize the significance of having an expatriate in Poland, convincing responsible people at HQ about particular transactions. Anne Hvistendahl from Norway confirms that Alistair de Villiers functions as a driving force to get credit papers and business proposals approved. Marcin Prusak argues:

*Ah. The first thing is that in order to collaborate properly with the guys in Oslo you need to have some sort of recognition and trust. And once we build the trust,*

*cooperation is just very good. But it takes time to build that trust.*

Marcin Prusak also argues that you need to be franc, modest and not present the situation in an excessively optimistic way. Regarding the information asymmetry between HQ the Polish market, Marcin Prusak comments:

*And in this way, that's why the trust is so important. Because if they don't trust you, how can you explain to them that this really works locally? Because they don't know if it works or not, they don't have access to all the details, they have never been here, they have not spent so many years here to observe the market. So they need to trust you. Otherwise, you would never convince people to approach a client, which is a little bit borderline.*

Eline Skramstad remarks that HQ trust Poland regarding their market situation, and that they, just like everybody else needs to discuss with the experts and the sector heads in specific issues. Marcin Prusak mentions that HQ often underlines this: “*you are the local guys, you know locally how it works.*” Tony Samuelson emphasizes that it takes time to build up and improve the collaboration:

*The collaboration works better and better. It is necessary in the beginning of this kind of strategies that people get to know each other. It is crucial that the Polish employees travel to Sweden and Norway, and also that the Norwegian employees travel locally, so that they get to know each other. It is a natural process that proceeds over time, and the more time you use the better the collaboration gets.*

Ulf Strandberg (Stockholm office) points out that trust decreases the friction between different sectors and units. A strong trust based relationship exists between Stockholm and Oslo, but perhaps there is still room for improvement in the trust relationship between Poland and Oslo. Johan Sjögren agrees and comments that when you are not familiar in working together, it is more natural to ask controlling questions. He finds that the bilateral communication is important and a major step to increase the trustworthiness for Poland.

#### **4.7.6 SECONDMENT**

DNB implemented a 1-3 month exchange opportunity for employees within DNB, referred as the “secondment”. The idea of the secondment was to encourage face-to-face meetings between employees, expand their networks, integrate the structures, build trust, create

visibility, and becoming more familiar with rating tools and financial analysis. Szymon Adamczyk explains:

*On certain parts it was about knowledge sharing. Educating in both ways about the Polish market and the Norwegian market, and also on the other hand it was to learn about and identify differences in our analytical tools.*

Most interviewees agree about having a positive view of the secondment. They argue that the secondment resulted in a larger understanding of each other's competences by sharing knowledge and building trust. This makes it easier to proceed with transactions afterwards. Maria Skogeryd comments that the secondment was very valuable. Poland gave her perspectives on DNB Sweden's situation and on her own function and role at DNB. Some managers at DNB Stockholm do not fully agree. They state that the secondment has not been the best solution to align DNB employees. Arguments emphasized that the exchange needs to have a certain purpose and not just moving around employees. Including international employees in gatherings, meetings and discussions is regarded enough.

#### **4.7.7 CULTURAL DIFFERENCES**

Marcin Prusak emphasize a major challenge in the collaboration:

*Still, the culture issue is probably one of the biggest ones. Sometimes you know, people here locally just want to do business quickly, they want to have the answer the next day, whereas the people from HQ they want to first understand, and discuss, preferably meet, so it's a little bit different pace of process I would say.*

He adds that it is important for new people in the bank to learn how to deal with 'the guys in Oslo or Stockholm', to build a good relation: "once you understand it and build good relations it's ok. But probably this is kind of the major challenge."

Magdalena Prusak gives a more personal insight of how the difficult history of Poland has affected the mindset of the Polish population:

*I think that Polish people are generally very hard working; probably the difficult history of Poland has influenced us significantly. Partitions of Poland, which eliminated sovereign Poland for 123 years, and then communism taught people to count on themselves and to work hard to achieve something.*

Øivind Tønnessen and Magdalena Prusak emphasize that Polish employees are very committed to work, that they will work all night to complete job assignments, eager to undertake new business. It is mentioned that the Norwegian work-mentality sometimes differ from this, and that it is not too common that employees from Poland can get hold of someone in Oslo after 5pm.

#### **4.7.8 REPLACEMENT OF EXPATRIATE**

Interviewees are skeptical toward the event that the expatriate from Norway would not be replaced with a successor. How it will turn out, depends on whether the bonds made so far between HQ and Poland are strong enough, they argue. Maria Skogeryd and Ewa Banasiuk points out that hopefully people have managed to grow their own networks, once Alistair has introduced them to a counterpart in Oslo.

Erik Engström argues it to be necessary for a future successor of Alistair to have just as much strength in Norway and Sweden, as well as being able to use tools such as the DNB intranet and Lync. Johan Sjögren comments: *I think it is important to have locally strong people, and I believe that there may be a need for an 'outsider' to continue at least for an additional time-period, in order to continue to build the DNB culture.*

He adds that it would be positive for this person to be someone from who knows the DNB strategies well and can make sure they are properly followed throughout the industry sectors. Magda agrees that it is very valuable to have someone from the Group in Warsaw, and explains: *"I think that having someone from the Group brings a lot of value to our organization and makes contact with other branches much easier. It also helps to understand point of views of both sides.*

Peter Carlsson on the other hand finds it to be more appropriate to assign the role to a polish employee:

*Of course he will be replaced, but I am not convinced whether this will be an international or Polish person. The best would be a Polish person, to be quite frank. Alistair has done a lot of the 'ice-breaking', so what remains now is to understand the Polish market.*

## 5 ANALYSIS

*In the following chapter a comparison of the empirical findings with the theoretical framework will be presented and analyzed. The analysis will follow the same order as the theoretical framework presented above. First the narrow perspective of the agency theory will be introduced, followed by the broader agency theory perspective and the three additional factors: trust, attention and path dependency. This chapter will round off with an introduction of a revised theoretical framework, representing the contribution to theory of this thesis.*

### 5.1 AGENCY THEORY

The empirical material indicates that DNB's subsidiary in Poland is granted authority to act in its owner's name and is delegated work from the HQ in Oslo as well as the branch Stockholm. This implies that the relationship between them can be viewed from the agency theory perspective (Eisenhardt, 1989).

Implied by agency theory, the principal and the agent may have different objectives and preferences, which imply that individuals make rational choices that maximize their own utility. This suggest that the subsidiary of Poland always would make choices to maximize its own utility, whereas HQ is trying to align Poland to their goals. Agency theory argues that there exists goal incongruence between the two units (Tasoluk et al., 2006). The most common perception in the empirical material is that there does exist goal congruence, since the goals and the strategy is clear even though the processes are not fully aligned. The empirical material does not indicate that DNB Poland is working to maximize its own utility. It could be argued that this was not always the case historically during the reorganizations and change of banking profile, but today the empirical data indicate eagerness from the polish employees to learn from DNB and become more co-aligned with the HQ. Critique towards agency theory imply that it is not only goal congruence that is of interest whilst studying the relationship between subsidiary and HQ, but also additional factors.

To conclude, it seems beneficial to view the relationship between HQ and Poland from the agency perspective, but it is also indicated that more aspects within the agency theory need to be taken into consideration.

### **5.1.1 INFORMATION ASYMMETRY**

An information asymmetry is suggested by the empirical data to exist, as the employees in Poland have a larger understanding and knowledge about the Polish market in comparison to their colleagues in Norway and Sweden. Due to the fact that the intraorganizational relationship in this context have lasted during a relatively short time-period, the three ventures have not yet had time to become co-aligned with the HQ's incentives. DNB Poland is secluded from the DNB intranet, has limited access to contact lists that hinders the email exchange and information sharing across the group. The empirical data further indicate a discrepancy that DNB Poland varies from DNB Sweden and DNB Norway in their work processes, and there is consensus that the Polish credit papers and communication patterns are not fully aligned. The empirical material also suggests that HQ has limited insight in the Polish subsidiary since it has its own balance sheet. The fact that DNB Poland does not have full access to all information existing at HQ, makes it more difficult for information to be shared. Moreover, it is essential to underline that there is an asymmetry in governmental regulations between Norway and Poland. The empirical material indicates that the PFSA is a demanding financial regulator requesting time-consuming reporting, which makes DNB Poland rather inflexible. As DNB Norway is not exposed to the same regulatory setting, it could be argued to be difficult for them to have full understanding of this.

The broader stream of agency theory, taking into account the 'social and contextual' factors, find that monitoring and control is not always the best way to solve the agency problem, where HQ in this case wants to align Poland to its goals. These authors argue instead that the root cause of the agency problem is the subsidiary's lack of understanding of what is expected from them, the desires of HQ, and the means to reach them. This information asymmetry can be reduced through joint cooperative efforts and by integrating the communication channels, as suggested by theory. It is proposed by the interviewees that it is important that there exists a mutual understanding that both of the parties can generate knowledge to one another. The DNB group has begun to reduce the information asymmetry by communicating through the common tongue for DNB; the 'Pyramid Principles', as well as including DNB Poland to the DNB credit analysis template. The employees in Poland present arguments to emphasize the importance of receiving feedback and approval of the credit papers from the sector heads in Oslo respectively Stockholm. As suggested by theory, information systems can be used in order to control the problem of hidden information (Eisenhardt, 1989). The organizational structure in the Polish subsidiary has been organized similarly to the same set-up in HQ and

this has increased the integration between the two. As a consequence to this, also the collaboration has increased, and has reduced the information asymmetry.

By decreasing information asymmetry goal congruence should be achievable. The empirical data imply that it is improving but it takes time to completely delimit information asymmetry and to achieve goal congruence. Shapiro (2005) argues that relationships are sustained over time and the principal and the agent will eventually learn about each other. Furthermore theory states that a long-term relationship can reduce the information asymmetry because the incentives will become co-aligned and the principal will get a more complete assessment of the performance of the agent. By including DNB Poland to the DNB standards and aligning the organizational structures, a larger understanding and communicational exchange has begun to take place and therefore an improvement of the relationship between HQ and its subsidiary has been identified.

To conclude, the empirical material suggests coherence with the theoretical framework regarding information asymmetry. Increased communication and integration affect the information asymmetry positively. Decreasing or increasing information asymmetry directly affects goal congruence and by this it affects the subsidiary-HQ relationship.

### **5.1.2 RISK**

Due to the contextual difference between the subsidiary being in a challenger position, and HQ being in market leading position, a contradiction how to approach clients has been highlighted in the empirical material. What has been observed in the empirical material is that it is frequently argued that HQ is more risk averse and more prudent when it comes to credit and risk. At HQ, relationship managers are responsible for the risk, but in Poland the relationship managers tend to function more as salesmen – eager to approach clients, improve their portfolio and grow. It could be argued that this makes the subsidiary less averse to risk, as suggested by theory. It has been stated by certain interviewees that it is essential to maintain credibility and trustworthiness in this process avoiding the risk of generating a too positive perception. The organizational structure in DNB Poland is aligned to HQ but not 100 percent because the relationship managers and credit analysts are working more separately in Poland, in comparison to the HQ. This is identified to add complexity to the information sharing, communicational exchange, collaboration and integration.

The narrow agency perspective assumes that the agent will act in its own interest, in a manner that can be harmful for the principal. As theory underlines, “after all, it is not their money they are risking”. The empirical material imply that the risk of the Polish employees working against the goals of HQ is decreased by the implementation of KPI’s, balance scorecards and the clear industry strategies for the corporate banking operations, whereby the goal awareness is being spread and cascaded down to each department. This implies that DNB employees in Poland are starting to act in the interest of the HQ. The empirical material additionally indicate that the polish subsidiary’s level of trust towards DNB has increased due to more long-term strategies and further imply willingness to work according to the HQ’s objectives.

The theory suggest two reasons as to why the managers would not completely align the subsidiary’s activities towards the goals of the HQ. The first one is that economic incentives are misaligned, and the second one that the goals of the subsidiary and the HQ differ. In this case, the first alternative seems most applicable. In this case it is suggested that economic incentives make the subsidiary take more risk than the HQ desires. This would be a possible explanation as to why Polish relationship managers are more eager to grow the portfolio. The second alternative does not seem applicable as interviewees in Poland state that they nowadays clearly know the goal of the organization, especially after becoming part of the Northern Europe division.

To conclude, the empirical data indicates that the subsidiary and HQ have different risk preferences. The misalignment can be considered to be necessary due to the different markets context that exists in Norway and Poland. DNB’s implementation of KPI’s, balance scorecards and clear strategies can indicate that the goal congruence has improved but is not fully accomplished. Different risk preferences can be argued to have a negative correlation with goal congruence; thereby risk is a factor that affects the relationship.

### **5.1.3 CONTROL**

Theory indicates that differences in key organizational characteristics can make it more difficult to monitor and control and these differences in turn will aggravate the effective communication and knowledge sharing between the units. The empirical material suggests that some key organizational characteristics are different in the Polish subsidiary, such as holding a more detail-oriented mindset and hierarchical business culture, as well as its

historical background. Thus, the different key organizational characteristics can be implied to complicate the monitoring and control by the principal.

The problem of 'dysfunctional variation' can be identified in the empirical material. The process and the maintenance of aligning MNCs to work towards the same goals set by the owners of the organization needs controlling, according to Haberstroh (1965). Theory suggests two ways for the principal to control that the agent is not operating in its own interest; 'direct control' and 'outcome-based contracts'. From the empirical data it can be concluded that the HQ has got several ways of 'direct' controlling the operations in Poland (Andersson et al., 2005). For instance, all strategic objectives need to be approved by the HQ, the template for credit papers is prepared by HQ, and representatives from the senior advisory by-weekly visit DNB Poland to receive market updates and control the Polish operations. The theory suggest that this type of direct control can be hampering since the HQ does not have full understanding of the local business environment, which in turn can lead to controlling in an unbeneficial way. As stated by several interviewees, this has on the contrary been an opportunity for knowledge sharing, intraorganizational interaction and co-alignment. Furthermore, the interviewees indicate that they trust the Polish employees to have a better understanding of their local market and in turn, this can support the improvement of the collaboration between HQ and its subsidiary.

The theory further suggests that 'outcome-based contracts' can evaluate the subsidiary's performance by financial performance measures and the empirical data confirms that this is the case. The empirical data suggest the KPI's and the balanced scorecards is a way for Polish employees to know what is expected from them and to understand the goals of the group. The empirical findings indicate that control has had a positive effect on the collaboration and integration because employees in Poland utilize meetings as a knowledge exchange, increasing their understanding on how to reach goal congruence.

The expatriate in place in Poland and the intraorganizational projects such as the secondment has the aim to develop the Polish employees understanding towards DNB, as desired by the HQ. The theory suggest that using corporate level expatriates can cause the local relationships of the subsidiary to become shallow, as this type of placements mostly have a limited duration and focus will be on activities that are easier to learn and understand. The empirical material suggest the contrary, that it has been most beneficial to have an expatriate placed in Poland,

and during the time that he has been present in Poland, the integration, communicational exchange and corporate alignment has increased.

To conclude, DNB Poland is working towards a co-alignment with the HQ, the principal, in accordance to what is suggested by agency theory. The monitoring and control is visible in the empirical data, as well as integrating the desires of the HQ to reach a co-alignment and improve the relationship between subsidiary and HQ. Control seems to be positively correlated with goal congruence, affecting the relationship beneficially.

#### **5.1.4 ORGANIZATIONAL CULTURE**

Meyer et al. (2011) explain that there is a need to balance the subsidiary's local identity, the 'external embeddedness', with the subsidiary's strategic role within the MNC, the 'internal embeddedness'. It is suggested that the business culture at DNB Poland historically has been unfamiliar with the Scandinavian business culture and holds a more hierarchical and detail oriented approach, compared to DNB Sweden and DNB Norway. Furthermore the interviewees suggest that the Swedish and Norwegian business cultures are more co-aligned, arguably due to a long-term collaboration and both being Scandinavian countries. These cultural differences or 'internal embeddedness' is suggested by theory to make it complex in combining Poland's strategic role with the MNC. The empirical material points out that many differences needs to be explained and understood in order to integrate the three ventures. DNB Poland has previously not been used to the HQ's business procedures, information networks (such as Pyramid Principals) and Scandinavian customer preferences. The Polish market is characterized of being locally embedded and the empirical material suggests that it is difficult to entirely emerge from this business culture and adapt to DNB and the Scandinavian culture.

The empirical material underlines the significance of different market contexts. With a lower market share and lack of recognition, DNB is struggling on the Polish market. The interviewees suggest that being a challenger is completely different from being dominant on the market. This goes hand in hand with the 'external embeddedness' suggested by theory. The interviewees suggest that it is essential to honor the individuality of the local environment when implementing new strategies, in correspondence with theory. The broader perspective of the agency theory enlightens environmental factors, but the empirical data emphasize specifically that the market context has a great significance, that is not completely captured

within the theory. The empirical material states that it is vital for MNC's to understand that different market contexts are characterized by local customer behaviors, culture, laws and regulations. It can thereby be implied that HQ in this case is lacking knowledge about the Polish market in order to set up appropriate goals for its subsidiary that are achievable.

Moreover, there is a strong consensus in the empirical material about the positive aspect of having an expatriate positioned locally in Poland, who understands the differing market contexts, the DNB strategy and the different cultures. This is exactly what Hofstede (1991) in theory refers to as 'corporate diplomats' that are necessary to make multinational structures work, functioning as an intermediary between the various ventures. According to Lewis (2006), the international manager who is unaware of different cultural behaviors will find it most difficult to motivate and cooperate with the foreign staff and managers. The empirical material indicate that the expatriate have functioned as a link to build bridges within DNB, enlightening the three ventures, creating a better understanding about the cultural differences and increased communication, collaboration and integration between them.

The empirical material suggests that persons that are key to the relationship, such as expatriates, arguably restrict the agency problem raised by the organizational cultural differences. According to this it can be stated that differences in organizational culture has a negative correlation with goal achievement. These persons should be additionally highlighted in the literature than what is suggested by Hoenen and Kostova (2015).

To conclude, both internal and external embeddedness makes it more complex to handle the relationship and to achieve the goals set by a general DNB strategy. The different market contexts, and persons that are key to the relationships within organizations, have a great significance in the empirical material, and we suggest this to have larger recognition in the broader view of the agency theory. It can be argued that differences in organizational culture elevates the agency problem, and therefore organizational culture affects the subsidiary-HQ relationship by making the goals of the organization more difficult to achieve.

### **5.1.5 TRUST**

The Polish interviewees find the goal and the strategy to be clear, but there seems to exist a discrepancy in how the Polish employees are working towards reaching these goals and to what the HQ expects. This discrepancy can be connected to the theory of means incongruence established by Tasoluk et al. (2006), where different local contexts and a lack of trust in each

other's capabilities is claimed to be the major reason for the incongruence in the means of working towards the same goals (Tasoluk et al., 2006). For instance, it has been suggested that the industry sectors sometimes do not agree upon which clients to approach to reach the set goals and targets. This could be due to the different and much more competitive context that DNB Poland is working within, and as mentioned by the empirical material, a lack of personal contact previously between the subsidiary and HQ, resulting in lack of trust in each other's capabilities.

Trust is frequently commented upon in the empirical data. Especially it is stated that corporate banking is a lot about knowing your colleagues and who to cooperate with and not. Employees in DNB Poland argue that the interaction increases over time with HQ and also the level of trust once having met people face-to-face instead of simply sending e-mails. It is argued that the personal contact has increased between HQ and the subsidiary, just as theory implies to be very important for high-trust relationships (Beccerra & Gupta, 1999). This personal contact consequently encourages collaboration and integration between the three ventures, and subsequently the Polish employees become more committed to the goals of the HQ.

The majority of the interviewees underline the importance of the Polish CEO and CFO's engagement and future belief in DNB in that they have remained at the company during all the historical reorganizations. This is in turn stated to be increasing the trust and engagement of the employees. This is brought up in the theory of Kim and Mauborgne (1993), stating the importance of foreign subsidiary managers to be engaged in the organization and to be committed to its goals. Several desirable social effects such as individual and group performance, commitment, cooperation and conflict handling are suggested to improve if commitment is shown by managers and by that trust is gained (Kim & Mauborgne, 1993). On the other hand, the HQ's lack of commitment and trust in the operations shown historically when the Polish venture was out for sale can be argued as having negatively affected the trust within the relationship.

To conclude, the empirical data suggests that trust is a key factor to the relationship between HQ and subsidiary as well as the goal commitment. Personal contact and managerial commitment can be argued to build trust and further increase the commitment between the subsidiary and the HQ.

### **5.1.6 ATTENTION**

From the empirical material it is obvious that the Polish employees find the attention from the HQ to be vital, as a way of leveraging knowledge that already exist internally in the organization. It is also stated that attention has been almost non-existing historically. This could be considered natural as the DNB corporate and retail units were up for sale at the time. When decided to keep the Polish corporate banking unit within DNB, the attention started to increase due to increased communication and integration the organizational structures of the ventures. It was not until the expatriate came to Poland that the Polish subsidiary began to gain attention, it is argued. Integrating the Polish venture into the Northern Europe division has been stated to give Poland more attention, and the empirical material indicate that they now are and feel more part of the group. Attention and legitimacy from the HQ, is stated by the theory to be vital for the subsidiary performance. In agreement to theory, attention and legitimacy is important for the subsidiary to gain knowledge that is spread out in the organization.

To conclude, by increasing the integration and communication more knowledge has been shared from the HQ, and subsequently the subsidiary has gained more attention and a better understanding of the ways to achieve the goals of the HQ.

### **5.1.7 PATH DEPENDENCY**

From the empirical material it is clear that DNB Poland to a high extent is affected by historical internal events, such as originating from a joint venture, acquiring a large retail bank as well as having large reorganizations and changes in the strategic directives. Theory suggests that it is essential to understand the long-term implications of the agency theory performance outcome. Vergne and Durand (2010) describe the phenomena of path dependency as created by a lock-in due to former decisions the organization has made, which in turn creates inflexibility. This can clearly be illustrated in the empirical material as DNB Poland is 'marked' by carrying a legacy of a portfolio that partly lies outside the DNB corporate banking industry-focused strategies, due to decisions made in the past. It could be argued that the memories from the time when DNB was part of the joint venture, describing it as: "it was like having two mothers, but neither one cared for us" still influences the employees in DNB today. Due to this lock-in caused by the past, the alignment with HQ has been affected negatively. The perception was that Poland did not receive much attention, communicational exchange or integration with HQ during the joint venture era.

The theory implies that firms cannot overlook its past, which makes it hard for the firm to fundamentally change its operations and routines. As suggested in the empirical material, adapting to changes takes time, and this is also the case when becoming accustomed to new strategies and structures. The empirical material indicates that the history of DNB Poland, its path dependency, can be considered to affect all of the above-presented factors. It increased the information asymmetry, as it could be argued that the HQ lacked effort and care for the Polish venture until it became clear that the Polish banking operations were not going to be sold. Path dependency has further increased the differences in risk preferences, as DNB Poland previously did not have the same LCI industry-focused strategies as the rest of the group. The HQ's control over the subsidiary has been affected by path dependency as well. It is suggested to be more difficult for the HQ to control its subsidiary because of the wide spread in strategy to enable improvement of the portfolio and due to the historically differing organizational structures between the two ventures. Further, the organizational culture is affected, because the integration and networking between the Polish subsidiary and HQ has only recently begun to be established properly. As mentioned, the joint venture gave the Polish subsidiary little attention from HQ and it could be argued that there is a financial aspect to the joint venture as well that limited the attention given from HQ. Due to the same reason, that integration, communication and collaboration had not begun until recently, trust has not had time to be built-up between the ventures, yet.

To conclude, DNB Poland is an example of a lock-in where the historical development and former decisions have set boundaries and limits on the subsidiary's operations today. Path dependency has affected the relationship between DNB Poland and HQ in a longitudinal way, and above all it has influenced all of the above-mentioned factors. This implies path dependency to be an embedding factor that has an extensive influence indirectly and directly on the subsidiary-HQ relationship.

### **5.1.8 CONCLUDING THE ANALYSIS**

DNB Poland is working towards a co-alignment with the HQ, the principal, in accordance to what is suggested by both the narrower stream and broader stream of agency theory. The empirical case study, examining the relationship between DNB's subsidiary in Poland and its HQ, identified that information asymmetry, risk and control were indicated to affect whether goal congruence will be reached. DNB's implementation of KPI's, balanced scorecards and

clear strategies indicated that the goal congruence has improved but is not fully accomplished. The most common perception in the empirical material is that goal congruence has been reached because the goals and the strategy is clear, but this is contradictory since all information systems and working processes are not fully aligned. The agency problem can be reduced by control and in this thesis we find that control is positive to a certain extent and in this case control is being used as a source of knowledge exchange to reach goal congruence. Due to the different market contexts that the three ventures are operating in; a difference in risk preferences and a lack of mutual understanding for one another has been identified.

Arguably, not only goal congruence affect the relationship within an MNC, but a wider perspective with other factors including the subsidiary's perspective also needs to be taken into consideration. Therefore, the specific unit of analysis in this thesis; the subsidiary-HQ relationship, was furthermore argued to be successfully viewed from Hoenen and Kostova's (2015) broader agency perspective. This is because the additional social and contextual factors suggested by Hoenen and Kosova (2015), named 'organizational culture' were confirmed to be affecting the goal achievement of the subsidiary and in turn affect the relationship. DNB is in a market leading position in Norway but a challenger in Poland and Sweden and a difference regarding the financial regulatory setting has been identified. The different market contexts are outlined to be notably important in the empirical material and indicate that the market context has a greater significance than stated by theory. Both internal and external embeddedness make it more complex to handle the relationship and for a subsidiary to align to a general DNB strategy. It can be argued that differences in organizational culture elevates the agency problem, and therefore organizational culture affects the subsidiary-HQ relationship by making the goals of the organization more difficult to achieve. Furthermore the empirical data indicate that persons that are key to the organization will improve the relationship between the ventures by increasing communication, integration and collaboration. To highlight the importance of expatriates and key persons who understands the different ventures markets and business cultures has been declared influential by both theory and the empirical data and we suggest this to be significant when studying the relationship between subsidiary and HQ.

Moreover, we suggest an extension of the broader agency perspective, which focus on embedding factors such as path dependency, as well as additional social factors; trust and attention. This extensional agency perspective needs to be taken into account when studying

the affecting factors of a subsidiary-HQ relationship to enable further perspectives on how the subsidiary is committed to and can achieve the goals. The empirical data suggests that trust is a key factor to improve the relationship between HQ and subsidiary because increased personal contact and managerial commitment was argued to improve trust and further increase the goal commitment between the subsidiary and the HQ. Trust was also argued to be a beneficial complement to monitoring and control. Attention was argued vital for the survival of the subsidiary to grow an understanding in how to achieve the goals set up by HQ. By increasing the integration and communication more knowledge has been shared from the HQ, and subsequently the subsidiary has gained more attention and a better understanding of the ways to achieve the goals of the HQ.

DNB Poland is an example of a lock-in where the historical development and former decisions have set boundaries and limits on the subsidiary's operations today. Path dependency has affected the relationship between DNB Poland and HQ in a longitudinal way, and above all it has influenced all of the above-mentioned factors. This implies path dependency to be an embedding factor that has an extensive influence indirectly and directly on the subsidiary-HQ relationship.

## 5.2 REVISED THEORETICAL FRAMEWORK

In Figure 3 below, the revised theoretical framework is illustrated. Six factors: information asymmetry, risk, control, organizational culture, trust, attention affect three different aspects of the subsidiary-HQ relationship: goal congruence, goal achievement and goal commitment, in a direct or indirect manner. Information asymmetry, risk and control affect the goal congruence. Organizational culture and attention affect the goal achievement. Trust affects the goal commitment. Path dependency affects all three aspects of the relationship, as well as all the factors, as it is regarded to be a longitudinal and embedding factor. Moreover, goal congruence, goal achievement and goal commitment are aspects of the relationship between subsidiary and HQ.

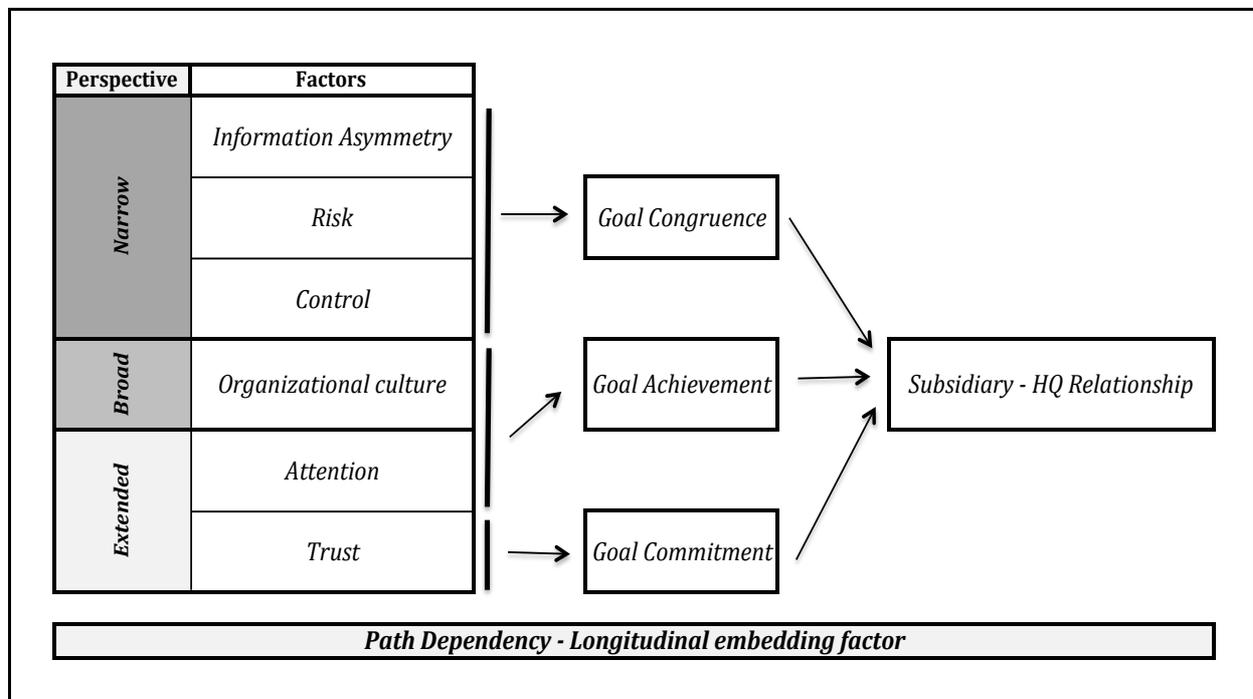


Figure 3, Revised Theoretical Framework

## **6 RESULTS**

The factors identified to affect the relationship between subsidiary and HQ when trying to align the HQ's goals with the subsidiary, are information asymmetry, risk, control, organizational culture, path dependency, trust and attention. The factors were identified to affect different aspects of the relationship between the subsidiary and HQ. These aspects were in addition to the already established goal congruence, identified to additionally include goal achievement and goal commitment.

## 7 CONCLUSION

*This thesis has focused on the area of MNCs within the area of business studies and in particular it looked closer at the relationship between headquarters and subsidiaries. In studying this relationship from an agency perspective the thesis followed earlier research in this area, but importantly it took the literature a step further as it introduced three new variables to this context. In the following chapter, a conclusion of the findings is presented.*

In this thesis the subsidiary-HQ relationship was applied to an agency perspective, and it was also argued why this is beneficial. It was indicated that more aspects within the agency theory should be taken into consideration than what is suggested by the traditional narrower stream of agency theory.

The empirical case study, examining the relationship between DNB's subsidiary in Poland and its HQ, identified that information asymmetry, risk and control were indicated to affect whether goal congruence will be reached, and by that it was argued that these factors affect the subsidiary-HQ relationship.

It was furthermore suggested that not only goal congruence is an important aspect of the relationship within an MNC, but that the subsidiary's perspective also needs to be taken into consideration. Therefore, the subsidiary-HQ relationship from Hoenen and Kostova's (2015) broader agency perspective was proved as a successful application. The additional social and contextual factors suggested by Hoenen and Kosova (2015) named 'organizational culture' in this thesis, were confirmed to be affecting the goal achievement of the subsidiary, and by that it was argued to affect the subsidiary-HQ relationship. The different market contexts were argued to be of great significance for the relationship, as well as it was proved important to have persons within the organization that understand both cultures, functioning as mediators. It was suggested that these should have larger recognition than what was indicated by theory.

Moreover and most importantly, an extension of the broader agency perspective was suggested, where the factors argued to be affecting the subsidiary-HQ relationship were path dependency, trust and attention. An extension of the agency perspective it was argued is needed since it enables further perspectives on the agency problem and how to solve it, not only the perspective of the HQ and the goal congruence. Goal achievement and goal

commitment were proved to be important aspects of the subsidiary-HQ relationship as well. We showed that further adding complementary social and contextual perspectives to the agency perspective can be highly enriching, just as suggested by various scholars (Eisenhardt, 1989, Hoenen & Kostova, 2015).

## 8 DISCUSSION

In studying the subsidiary-HQ relationship from an agency perspective this thesis has followed earlier research in the area, but importantly it has taken the literature a step further as it introduced three new variables that have never before been added to this context. What these three additional factors; path dependency, trust and attention, mean in a broader context and how they can generate new research questions is further discussed below. Firstly, a paragraph discussing the consequences of delimitations made in the thesis is presented.

Due to the delimitations and methodological choices made in this thesis several areas of interest were not within the scope of this study. For instance, the basis for economic incentives within DNB was not taken into consideration. As economic incentives is an important tool for aligning the subsidiaries' and its employees' interests with the strategy from HQ, this delimitation generate consequences. It was implied in the analysis that a misalignment in the economic incentives can be one reason as to why DNB's subsidiary has an interest of approaching clients, even though the client may be out of the general DNB strategy. To provide further understanding of how the economic incentives are established in Poland, Norway and Sweden could have given an implication of compensation bases, and if they differed between the ventures, it could be proved whether they were the cause for misalignment of interests and goals. To further compare if the misalignment was due to the fact that the Polish market is more competitive, or due to misleading economic incentives could be of further interest.

Regarding further research, it would first of all be of uttermost relevance to do a similar case study on a different MNC to see if the same factors would unfold or if further elements would prove to affect the relationship between HQ and its subsidiary. A practical relevance of this thesis for DNB and other MNC's is to recognize that every venture within an MNC has its own unique history, which will affect the relationship and the ventures' alignment towards the general strategy within the group accordingly. Many decisions are made within MNC's every day, which may have wider implications than first accounted for. The choice to enter a joint venture and acquiring another bank in Poland resulted in lock-ins for DNB's venture in Poland, causing it to have difficulties to act in a flexible manner when suddenly the strategy and the direction of the unit is decided from top management to change. To conclude the discussion of the importance of path dependency, it is essential for every organization to take

into consideration its own and its ventures' unique history. This historical 'backpack' can either offer opportunities or constraints, why careful considerations of strategic decisions needs to be made, and likely consequences of them in the future since it apparently affects the relationship between HQ and its subsidiary more than maybe first anticipated. In the case of DNB Poland, path dependency has had negative consequences but it is interesting to speculate whether DNB in Norway on the contrary has had a positive path dependency and due to this holds a market leading position today.

When it comes to the practical relevance for trust within MNC relationships, it seems to be important to recognize that trust is gained over time. For trust to be established, and especially to work as a control mechanism instead of applying monitoring and direct control, personal contact and familiarity needs to take place. If no trust exist in a relationship between HQ and the subsidiary, it can seem very likely that the costs for monitoring, controlling, and the justification for decisions etcetera would be a lot more extensive than what it costs to build trust through incorporating face-to-face meetings and visits across units. It may seem abstract to measure the level of trust in an objective manner since trust can be regarded to be very subjective. If possible, it would be interesting for future research to measure the cost of establishing and maintaining a trust relationship, as opposed to what the costs for direct monitoring and control are.

Roth and O'Donnell (1996) suggest that expatriates can affect the agency problem and goal congruence and the empirical findings in this thesis indicate that persons that are key to the organization, (the expatriate among others) are influencing the relationship between HQ and its subsidiary. To research further how much an expatriate influence the relationship and its significance for the intraorganizational relationship, as well as closer investigating the internal managerial rotation that is taking place in the studied context as well as it is suggested by theory, would be of utter interest.

Attention is a limited resource and the HQ strategically decides how to distribute this resource. For a subsidiary to feel valuable and belonging to the MNC, attention was proved vital in the empirical material. One can speculate whether the HQ are aware of how scares and sought after attention is for a subsidiary, as suggested by theory, or not. A suggestion for further research would be to provide further understanding about what is defined as attention,

and to establish a common definition of it to clearly see if attention is argued to be equally important from both the HQ's and subsidiary's perspective.

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# 10 APPENDIX

## 10.1 APPENDIX A – INTERVIEW GUIDE FOR SUBSIDIARY

### Introducing background questions

- Please tell us how long you have worked for DNB and what your position is?
- Have you previously had any other position within DNB? Or background before DNB?

### Motivation

- What is motivation to you?
- What motivates you at DNB?
- There are many banks in Poland and the market is characterized by high competition, why is DNB your choice of employer?

### Leadership

- How would you define a good leader?
- What characterizes the leaders that you have had within DNB?

### Leadership and change in owner and structure: Reorganizations

- Please tell us how DNBs past few years with reorganizations has affected you and your work/position?
- Have you had leaders from both DNB Poland and DNB Norway/Sweden?
- What were the differences in leadership, if any?

### DNB Poland as subsidiary to DNB

- What is the first thing that comes to mind when you think about the collaboration between DNB Poland and DNB Norway?
- Why?

### Strategy & Goals

- From your perspective what is DNB Strategy in Poland? What is your view of the present strategy for DNB Polska?
- What are the main goals for DNB Poland?
- What challenges do you encounter working to achieve these goals?
- Mayor challenges in the restructuring
- Clear directives from Norway and top management, how do you handle this situation?

- Recognize contributions – team spirit?

### **Control (an aspect of the relationship of the corporate versus subsidiary)**

- You work closely to the Polish Market and have good contact with clients and companies in Poland. How does the information sharing work in practice with head office?
- In what way does the headquarters in Norway make sure that you are on the same track? (Regarding the way you work/strategies)
- Do you report directly to the headquarters?
- If yes, how often? How detailed should they be?
- Does the headquarters send employees from there to DnB Polska to make sure you work according to their strategy/way of working?

### **The exchange program**

- Have you been to the headquarters in this purpose?
- Can you describe the “procedure”?
- On what basis is this decision made on who should go there?
- Expectations?

### **Incentives**

- When someone closes a good deal with a client, how is that published (and maybe celebrated) internally?
- Are you compensated by performance? (Reward system? Bonuses?)
- How bonus driven is the organization?

### **Decision-making**

- What are the corporate characterizing features that you select upon when approaching potential customer?
- Who makes the final decision whether you will or will not approach this potential new client?
- When do you call the Sector Head’s in Norway or Sweden?
- What is normally the reason to your different opinions? why do you think differently?
- Which factors is it (most frequently) that is the reason for you and Norway thinking differently?
- How does this hold you back? (Hinder and make you feel limited?)
- How often can you take own initiatives?
- How often does this occur?

- How does this motivate you?

**Future**

- What are your thoughts on the future of DNB Poland?
- Do you consider the future as secure or insecure?
- Do you believe DNB will gain market shares or lose market shares in Poland?

## **10.2 APPENDIX B – INTERVIEW QUESTIONS FOR EMPLOYEES IN DNB STOCKHOLM**

**Introduction**

- What is your position and background?
- What motivates you to work for DNB?

**Relations**

- Can you describe how the relationship between DNB Norway and Sweden looks, structurally?
- Can you describe how the relationship looks in the daily operations?
- How do you notice the relationship with HQ in Norway in your daily work?
- Do you have frequent contact with the HQ?
- Has this always been the case?

**Secondment**

- Can you please describe the 'secondment' and what it is for?
- What are your thoughts upon it?

**Control**

- How does the HQ make sure you work towards the same goals?
- Are there any controlling mechanisms from Norway?
- Has the HQ sent any 'expatriates' to the Stockholm office?
- 

**Collaboration**

- What do you think about the collaboration with Poland?
- Are there any differences from the relationship with Norway?

**Strategy**

- What is the strategy for DNB Sweden?

- What is your thoughts on this?
- There have been some structural changes within the branch in Sweden, how do you think you have handled these?
- How do you handle new clients on the Swedish market, who has the last word of say?

**Risk**

- To what level do you think that there is trust established between the HQ and the branch in Stockholm?
- Has this always been the case?

**Future**

- What is your thoughts on the future on DNB? In Sweden respectively on Poland?

## 10.3 APPENDIX C – ARTICLE



By Marit Halvorsen June 3. 2015

# A Brighter Future is a Fact in Poland

**Even though** it has been a bumpy ride, a brighter future of the Polish venture is a fact. The Norwegian bank DNB has invested a lot of time and resources into the high growth market.

Ever since DNB, the number one bank in Norway, decided to join the battle of gaining market shares on the highly competitive Polish financial market, they have had many ups and downs. Today, the success is within reach. A recently published paper written by two master students from Lund University, have drilled deep down into the very heart of the MNC with branches all over the world, to find their key to success.

- We got a golden opportunity, and were allowed to interview 25 employees who are highly important within the organization.

This is one of Astrid Lindesvärd's commentary on the material for her and her partner, Sara Ahlberg's, paper. We meet the two students in the Swedish student capital, Lund. The paper they published in May 2015 has been of great inspiration to many entrepreneurial minds who want to

expand their business in the east of Europe.

- The major result we found does not come as a surprise. An adaption into a new market and a new country with different culture does not take one day, it takes time, Sara Ahlberg states.



The result of the study, that focused on the relationship between DNB's Headquarter and its subsidiary in Poland, showed that above all, seven factors are important to take into consideration. These are information asymmetry, risk, control, organizational culture, trust, attention and path

dependency. These factors were in the paper applied to the agency theory, suggesting that the three factors trust, attention and path dependency were added to the narrow and the broad streams of agency theory that already exists.

- By increasing the collaboration, communication and integration between the ventures, Astrid Lindesvärd mentions, we identified knowledge sharing as a vital resource within the organization, something that the Polish venture previously partly has been secluded from. The HQ has broad knowledge about the different industries that the bank focuses on, and this knowledge needs to be accessible for everyone.

One of the most remarkable findings, was that path dependency, first thought to be a factor only partly affecting the relationship, was actually found to be affecting every single part of the relationship between subsidiary-HQ, as well as the other factors studied. In the case of DNB's subsidiary in Poland, the path dependency, or historical events that happened in the past still have an effect on the operations today. The subsidiary was established by a joint venture with a German bank. Initially the bank focused on corporate banking, but in 2007 it acquired a retail bank, turning into a universal bank. In 2011 it was time for another restructuring, when the retail operations were sold off and 75 percent of the workforce made redundant.

- This is what the Polish venture has in its backback, and the effects are still visible until this day. Both positive aspects can be connected to what has happened in the past, such as having large flexibility today, but also negative.

It was difficult to regain the trust of the employees and on the market after the time that followed the sales of the retail operations, Sara Ahlberg comments.

”

*In some areas in Poland there are more retail bank offices than grocery stores*”

Trust was one of the findings of the paper. Another finding was that organizational culture is of great significance, and that it is a matter of balancing the different cultures, both the business culture within the group, as well as the national cultures existing as an embedding blanket around the ventures. The master students found that whilst trying to create a mutual understanding for the differing business cultures, an expatriate who knew both cultures and could give the subsidiary a stronger voice towards the HQ was considered essential for enabling a future success. Another finding the paper made regarding embeddedness, is the contextual embeddedness. The Polish banking market is highly competitive, and it can be suggested to be the straight opposite of the Norwegian market. The CFO in DNB Poland argued that there are in some areas in Poland more retail bank offices than grocery stores.

- The contextual embeddedness is truly an important aspect of a MNC. The market contexts and business cultures can differ across nations, and,

once again, it is most important with communication, personal contact and integration.

Astrid Lindesvärd sums the results of the paper up. As stated, seven factors affect the relationship. DNB has been working with them all, proving that it is important to take social and contextual considerations seriously, when establishing a venture in a new country. DNB has integrated its Polish venture more to the DNB standards, the Scandinavian business culture and

DNB atmosphere. The communicational exchange and the personal contacts, has increased. By building up a long-term relationship the trust and attention given to the subsidiary has clearly showed a decrease of the impact of the less fortunate backpack that the Polish venture carries.

Today, the Polish venture is on the right track, competing against the top rated banks in Poland, and we thank the girls for sharing their findings.