CONTROL SYSTEMS, INCENTIVES, AND STRATEGY

There are 4 main types of control systems in multinational firms.

- **Personal control**, characterized by direct supervision and personal contact, is prevalent in small firms and multinational enterprises
- **Bureaucratic control** in multinational firms is enforced through budgets and capital spending rules set by headquarters, influencing subunits' behavior and resource allocation.
- **Output controls** in multinational firms involve setting performance goals and metrics, rewarding subunit managers for goal achievement, and intervening if goals are not met, fostering a system of "management by exception" to ensure operational efficiency.
- **Cultural controls** in firms foster employee self-regulation through shared norms and values, reducing the need for direct supervision and enhancing organizational commitment.

Incentives, such as annual bonus pay, are closely tied to performance metrics and vary based on employee roles; cooperation between subunits in multinational firms is encouraged through linking incentives to higher-level organizational performance, however little adjustments are needed for national differences in institutions and culture to avoid unintended consequences like prioritizing quantity over quality.

Performance ambiguity arises when a subunit's poor performance is unclear due to interdependence with other subunits; resolving such ambiguity requires thorough investigation to discern the root cause, which can be resource-intensive and divert attention from other priorities.In localization strategies, performance ambiguity is low due to stand-alone national operations, while global standardization and transnational firms face higher ambiguity levels due to increased interdependence. This can eventually lead to poor performance and finger-pointing.

To mitigate these costs, multinational firms emphasize cultural controls and incentive systems aligned with higher hierarchical levels, essential for fostering cooperation. Multinational firms all use output and bureaucratic controls while global or transnational firms rely on cultural controls for optimal performance of subunits.

CREATING AND MAINTAINING ORGANIZATIONAL CULTURE

An organization's culture is influenced by founders or key leaders who imprint their values. Culture is sustained through hiring, promotions, rewards aligned with values and performance. Strong culture in a firm is characterized by consistent values and norms that influence work practices, with new employees quickly adopting these values. However, a strong culture isn't inherently positive; it can be detrimental if it discourages initiative and risks, leading to low performance. Therefore studies show that firms with sustained high performance typically have strong yet adaptive cultures, valuing customers, shareholders, and employees, while embracing change.